CHAPTER 2
Managing Interdependence

Social Responsibility and Ethics

Outline

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Opening Profile: In Enron Case, a Verdict on an Era

Guilty of crimes—and a whole lot more.
Regardless of whether the jury verdict against Kenneth L. Lay and Jeffrey K. Skilling is upheld, testimony from 56 days of trial has sealed what is sure to be history’s judgment—one that is unlikely to be vulnerable to appeal. (Note: Subsequent to this report, Ken Lay died of heart failure before imprisonment.)

The Enron case will forever stand as the ultimate reflection of an era of near madness in finance, a time in the late 1990s when self-certitude and spin became a substitute for financial analysis and coherent business models. Controls broke down and management deteriorated as arrogance overrode careful judgment, allowing senior executives to blithely push aside their critics.

Indeed, it could be argued that the most significant lesson from the trial had nothing to do with whether the defendants, both former Enron chief executives, committed the crimes charged in their indictments. Instead, the testimony and the documents admitted during the case painted a broad and disturbing portrait of a corporate culture poisoned by hubris, leading ultimately to a recklessness that placed the business’s survival at risk.

“Enron is one of the great frauds in American business history,” said James Post, a professor of management at Boston University. “But it is also a symbol of
a particular era of management practice. The excesses of Enron point pretty clearly to what was going on in mainstream companies across the business landscape in the 1990s.”

That may go a long way toward explaining how corporate America became infused in the late 1990s by what appeared to be a near endless amount of greed and criminality, leading to scandal at an array of corporate giants, from Enron to WorldCom, and from Adelphia to HealthSouth.

It was not simply that the ethics of the corporate world changed overnight; the ever-rising bubble of market prices created a sense of invincibility among corporate executives, who read market delusions as proof of their own genius. Arrogance gave way to recklessness, which in turn opened the door to criminality.

That message was repeated throughout the trial of Mr. Skilling and Mr. Lay. Paula Rieker, an executive with the company’s investor relations group, testified to her fear of correcting Mr. Skilling when he made what she considered to be false statements to investors. Vince Kaminski, a top risk analyst, spoke of how Mr. Skilling became increasingly difficult to contradict as Enron won plaudits from the marketplace. And Ben F. Glisan Jr., the treasurer, portrayed an “Emperor’s New Clothes” culture, where no one was willing to challenge the rule-bending and recklessness as the company’s executives charged into one ill-considered business line after another.

“I would think that most observers of this trial would be shocked and surprised that Enron was such a poorly run company for so long,” said Stephen Meagher, a former federal prosecutor who now represents corporate whistle-blowers. “But as long as the checks kept coming in and the stock price kept going up, it was easy to look the other way and ignore the obvious clues that there were deep problems there.”

Attention to the mundane details of business—debt maturity schedules, available cash, company-wide risk—appeared to be almost second thoughts among the senior ranks of the company, if thought about at all. Instead, the focus was centered on marketing the image, not only of the company, but also of its senior executives. It was an approach that met widespread success and was emulated throughout corporate America.

“This was the era of the story, the shtick, the celebrity,” said Mr. Post of Boston University. “Lay and Skilling delighted in that, they loved becoming business and civic celebrities. They created the model for that kind of superexecutive C.E.O. in the 1990s. Meanwhile, they left all the details to people who were being driven by a troubled culture.”

In the end, although many in the public seem to believe this was a case about the collapse of Enron, that had little to do with the criminal charges. In the closing arguments, the government made sure to separate allegations of criminality from responsibility for Enron’s collapse.

The testimony suggested that the bankruptcy was much more about a company gone out of control, with executives pushing to the financial edge on deals that received little attention and supervision once the transactions closed. But as that recklessness rotted the company from the inside, the jury found, Mr. Skilling and Mr. Lay falsely portrayed a corporate ship where everything remained steady.

The testimony and evidence suggested that Enron executives could not even agree on what the company’s business was. There was no doubt that Enron made the bulk of its profits from trading natural gas contracts. But trading companies rarely win stratospheric stock prices; the risks and requirements for credit in such businesses temper potential market enthusiasm. So some executives argued that Enron was not a trading company, but a logistics business—one involved in every step of the production and delivery of commodities—and therefore deserved its once-lofty stock price.
Putting new labels on the old wine didn’t change the financial underpinnings of the business. Most trading companies, because of the knowledge that a sudden market bump can cause available cash to disappear, maintain credit ratings of A and above to protect them in the downdrafts. Enron chose instead to maintain a credit rating just notches above junk, apparently in the belief that a bad day would never arrive.

That freed capital and allowed for borrowings that otherwise would not have been available, driving Enron’s supposed “growth” strategy into new business lines, which almost all proved to be debacles. Throughout the trial, there was repeated testimony about Enron’s disastrous forays into international power plants and water operations, which led to the company’s acquiring billions of dollars in assets that lost huge value, becoming a financial albatross.

A result, when Enron finally faced a crisis, was that it was financially unable to weather the storm. Credit lines were largely tapped out, few assets had the equity necessary for additional borrowings and the liquidity needed for the trading business rapidly dried up. Those factors combined to push Enron toward collapse.

The trial underscores that neither defendant fully accepted what happened at the company. Mr. Lay testified that the collapse was largely caused by short sellers, critical articles in the *Wall Street Journal*, and a resulting panic in the marketplace. But short selling, negative press and market concerns are issues that scores of companies deal with every year, without collapsing. Indeed, to some degree, Mr. Lay’s argument was a bit like blaming a match for igniting a basement filled with gasoline. In this case, the accelerant was the poor condition of Enron’s financial structure.

Those lessons about the importance of quality management and strong finances in avoiding scandal, experts said, have not been lost on the audiences that perhaps matter most: the managers of corporate America and the government regulators who keep an eye on them.

“Some people say this is the end of an era, but I don’t think it is,” said George A. Stamboulidis, a partner with Baker & Hostetler who was appointed a monitor at Merrill Lynch as part of that firm’s settlement of an Enron-related case. “This fuels the government and boards and investors to continue to push for more accountability, more transparency and better management.”

Those continued efforts, coupled with the changes of the past, should mean that the kind of troubles that emerged at Enron are less likely to appear on the corporate landscape.

“Hopefully,” Mr. Stamboulidis said, “the ways businesses are run in 2006 are very different from the ways the businesses were run in the 1990s.”

But others expressed fear that as long as huge sums of money can be earned by executives for cutting corners and being dishonest, collapses and scandals like Enron will continue to be part of corporate America.

“One of the things we know from social psychology is that incentives and greed really blind corporate executives,” said Arthur P. Brief, a professor at the A. B. Freeman School of Business at Tulane University. “And those incentives are still with us.”


Global interdependence is a compelling factor in the global business environment, creating demands on international managers to take a positive stance on issues of social responsibility and ethical behavior, economic development in host countries, and ecological protection around the world.

Managers today are usually quite sensitive to issues of social responsibility and ethical behavior because of pressures from the public, from interest groups, from legal and governmental concerns, and from media coverage. In August 2003, for example, the
United Nations published draft guidelines for the responsibilities of transnational corporations and called for companies to be subject to monitoring, verification, and censure. Though many companies agree with the guidelines, they resist the notion that corporate responsibility should be regulated and question where to draw the line between socially responsible behavior and the concerns of the corporation’s other stakeholders. In the domestic arena, managers are faced with numerous ethical complexities. In the international arena, such concerns are compounded by the larger numbers of stakeholders involved, including customers, communities, allies, and owners in various countries.

This chapter’s discussion focuses separately on issues of social responsibility and ethical behavior, though considerable overlap can be observed. The difference between the two is a matter of scope and degree. Whereas ethics deals with decisions and interactions on an individual level, decisions about social responsibility are broader in scope, tend to be made at a higher level, affect more people, and reflect a general stance taken by a company or a number of decision makers.

THE SOCIAL RESPONSIBILITY OF MNCs

Multinational corporations (MNCs) have been and—to a lesser extent—continue to be at the center of debate regarding corporate social responsibility (CSR), particularly the benefits versus harm wrought by their operations around the world, especially in less developed countries. The criticisms of MNCs have been lessened in recent years by the decreasing economic differences among countries, by the emergence of less developed countries’ (LDCs) multinationals, and by the greater emphasis on social responsibility by MNCs.

Issues of social responsibility continue to center on the poverty and lack of equal opportunity around the world, the environment, consumer concerns, and employee safety and welfare. Many argue that, since MNCs operate in a global context, they should use their capital, skills, and power to play proactive roles in handling worldwide social and economic problems and that, at the least, they should be concerned with host-country welfare. Others argue that MNCs already have a positive impact on LDCs by providing managerial training, investment capital, and new technology, as well as by creating jobs and improving infrastructure. Certainly, multinational corporations constitute a powerful presence in the world economy and often have a greater capacity than local governments to induce change. The sales, debts, and resources of the largest multinationals exceed the gross national product, the public and private debt, and the resources, respectively, of some nations.

The concept of international social responsibility includes the expectation that MNCs concern themselves with the social and economic effects of their decisions. The issue is how far that concern should go and what level of planning and control that concern should take. Such dilemmas are common for MNC managers. Del Monte managers, for example, realize that growing pineapples in the rich coastal lands of Kenya brings mixed results there. Although badly needed foreign-exchange earnings are generated for Kenya, poor Kenyans living in the region experience adverse effects because less land is available for subsistence agriculture to support them.

Opinions on the level of social responsibility that a domestic firm should demonstrate range from one extreme—the only responsibility of a business is to make a profit, within the confines of the law, in order to produce goods and services and serve its shareholders’ interests—to another extreme—companies should anticipate and try to solve problems in society. Between these extremes are varying positions described as socially reactive, in which companies respond, to some degree of currently prevailing social expectations, to the environmental and social costs of their actions.

The stance toward social responsibility that a firm should take in its international operations, however, is much more complex—ranging perhaps from assuming some responsibility for economic development in a subsidiary’s host country to taking an active role in identifying and solving world problems. The increased complexity regarding the social responsibility and ethical behavior of firms across borders is brought about by the additional stakeholders in the firm’s activities through operating overseas. As illustrated in Exhibit 2-1, managers are faced with not only considering stakeholders in the host country but also with weighing their rights against the rights of their domestic stakeholders. Most
managerial decisions will have a trade-off of the rights of these stakeholders—at least in the short term. For example, a decision to discontinue using children in Pakistan to sew soccer balls means the company will pay more for adult employees and will, therefore, reduce the profitability to its owners. That same decision—while taking a stand for human rights according to the social and ethical expectations in the home country and bowing to consumers’ demands—may mean that those children and their families go hungry or are forced into worse working situations. Another decision to keep jobs at home to satisfy local employees and unions will mean higher prices for consumers and less profit for stakeholders. In addition, if competitors take their jobs to cheaper overseas factories, a company may go out of business, which will mean no jobs at all for the domestic employees and a loss for the owners. In spite of conflicting agendas, there is some consensus about what CSR means at a basic level—that “corporate activity should be motivated in part by a concern for the welfare of some non-owners, and by an underlying commitment to basic principles such as integrity, fairness and respect for persons.”

**CSR: Global Consensus or Regional Variation?**

With the growing awareness of the world’s socioeconomic interdependence, global organizations are beginning to recognize the need to reach a consensus on what should constitute moral and ethical behavior. Some think that such a consensus is emerging because of the development of a global corporate culture—an integration of the business environments in which firms currently operate. This integration results from the gradual dissolution of traditional boundaries and from the many intricate interconnections among MNCs, internationally linked securities markets, and communication networks. Nevertheless, there are commonly acknowledged regional variations in how companies respond to corporate social responsibility (CSR):

*The U.S. and Europe adopt strikingly different positions that can be traced largely to history and culture. In the U.S., CSR is weighted more towards “doing business right” by following basic business obligations; . . . in Europe, CSR is weighted more towards serving—or at least not conflicting with—broader social aims, such as environmental sustainability.*

**The Financial Times,** *June 3, 2005*
While making good faith efforts to implement CSR, companies operating abroad face confusion about the cross-cultural dilemmas it creates, especially how to behave in host countries, which have their own differing expectations and agendas. Recommendations about how to deal with such dilemmas include:

- Engaging stakeholders (and sometimes nongovernmental organizations, or NGOs) in a dialogue.
- Establishing principles and procedures for addressing difficult issues such as labor standards for suppliers, environmental reporting, and human rights.
- Adjusting reward systems to reflect the company’s commitment to CSR.  

Although it is very difficult to implement a generalized code of morality and ethics in individual countries, such guidelines do provide a basis of judgment regarding specific situations. Bowie uses the term *moral universalism* to address the need for a moral standard that is accepted by all cultures. Although, in practice, it seems unlikely that a universal code of ethics will ever be a reality, Bowie says that this approach to doing business across cultures is far preferable to other approaches, such as ethnocentrism or ethical relativism. With an *ethnocentric approach*, a company applies the morality used in its home country—regardless of the host country’s system of ethics.

A company subscribing to *ethical relativism*, on the other hand, simply adopts the local moral code of whatever country in which it is operating. With this approach, companies run into value conflicts, such as continuing to do business in China despite home-country objections to China’s continued violation of human rights. In addition, public pressure in the home country often forces the MNC to act in accordance with ethnocentric value systems anyway. In one instance, public outcry in the United States and most of the world resulted in major companies (IBM, General Motors, Coca-Cola, and Eastman Kodak) either selling or discontinuing their operations in South Africa during the 1980s to protest that country’s apartheid policies. More recently, the Food and Drug Administration (FDA) has been pressuring U.S. manufacturers of silicone-filled breast implants (prohibited in the United States for cosmetic surgery because of health hazards) to adopt a voluntary moratorium on exports. While Dow Corning has ceased its foreign sales—citing its responsibility to apply the same standards internationally as it does domestically—other major manufacturers continue to export the implants, often from their factories in other countries.

The difficulty, even in adopting a stance of moral universalism, is in deciding where to draw the line: Which kinds of conflicts of values, asks Wicks, are “conversation stoppers” or “cooperation enders”? Individual managers must at some point decide, based on their own morality, when they feel a situation is simply not right and to withdraw their involvement. There are practical limitations on our ability to act in the modern world, but a systematic infringement of basic personal rights is generally grounds for ending cooperation. Less blatant violations, or practices that are not abhorrent to our basic values, are treated as items that are negotiable. One fact is inescapable, however, and that is that, in a globalized market economy, CSR is part of modern business.

**MNC Responsibility Toward Human Rights**

*With almost all tech products now made by contract manufacturers in low-wage nations where sweatshops are common, . . . Hewlett Packard, Dell, IBM, Intel, and twelve other tech companies decided to unite to create the Electronic Industry Code of Conduct (EICC)*

**BUSINESS WEEK,**

*June 19, 2006*

Whereas many situations regarding the morality of the MNC’s presence or activities in a country are quite clear, other situations are not, especially when dealing with human rights. The role of MNCs in pulling out of South Africa in the 1980s as part of the movement against apartheid has now played out, and many are cautiously returning to the now multiracial democracy. In many other areas of the world, the question of what role MNCs should play
regarding human rights is at the forefront. So loud has been the cry about products coming from so-called sweatshops around the world that (former) President Clinton established an Anti-Sweatshop Code of Conduct, which includes a ban on forced labor, abuse, and discrimination, and it requires companies to provide a healthy and safe work environment and to pay at least the prevailing local minimum wage, among other requirements. A group has been named to monitor compliance; enforcement is difficult, of course, but publicity helps. The Department of Labor publishes the names of companies that comply with the code, including Nike, Reebok, Liz Claiborne, Wal-Mart, and Phillips-Van Heusen. Nike’s efforts to address its problems include publishing its entire list of contract manufacturers on the Internet in order to gain transparency. The company admits that it is difficult to keep track of what goes on at its 800 plus contracted factories around the world. (See the case at the end of this chapter for a review of Nike’s approach to human rights in its factories.)

What constitutes “human rights” is clouded by the perceptions and priorities of people in different countries. While the United States often takes the lead in the charge against what it considers human rights violations around the world, other countries point to the homelessness and high crime statistics in the United States. Often the discussion of human rights centers around Asia because many of the products in the West are imported from Asia by Western companies using manufacturing facilities located there. It is commonly held in the West that the best chance to gain some ground on human rights issues is for large MNCs and governments around the world to take a unified stance; many global players now question the morality of trading for goods that have been produced by forced labor or child labor. Although laws in the United States ban prison imports, shady deals between the manufacturers and companies acting as intermediaries make it difficult to determine the origin of many products—and make it easy for companies wanting access to cheap products or materials to ignore the law. However, under pressure from their labor unions (and perhaps their consciences), a number of large image-conscious companies, such as Reebok and Levi Strauss, have established corporate codes of conduct for their buyers, suppliers, and contractors and have instituted strict procedures for auditing their imports. In addition, some companies are uniting with others in their industry to form their own code for responsible action. One of these is the Electronic Industry Code of Conduct (EICC), which comprises Hewlett-Packard, Dell, IBM, Intel, and 12 other tech companies who have agreed on the following policies:

- The EICC bans forced and child labor and excessive overtime.
- The EICC requires contract manufacturers to follow some basic environmental requirements.
- The EICC requires each company to audit its overseas suppliers to ensure compliance, following a common factory inspection system for all members.

**Codes of Conduct**

A considerable number of organizations have developed their own codes of conduct; some have gone further to group together with others around the world to establish standards to improve the quality of life for workers around the world. Companies such as Avon, Sainsbury Plc., Toys “R” Us, and Otto Versand have joined with the Council on Economic Priorities (CEP) to establish SA8000 (Social Accountability 8000, on the lines of the manufacturing quality standard ISO9000). Their proposed global labor standards would be monitored by outside organizations to certify whether plants are meeting those standards, among which are the following:

- Do not use child or forced labor.
- Provide a safe working environment.
- Respect workers’ rights to unionize.
- Do not regularly require more than 48-hour work weeks.
- Pay wages sufficient to meet workers’ basic needs.

In addition, four **international codes of conduct** provide some consistent guidelines for multinational enterprises (MNEs). These codes were developed by the International Chamber of Commerce, the Organization for Economic Cooperation and Development, the International Labor Organization, and the United Nations
Comparative Management in Focus

Doing Business in China—The Human Rights Challenge

It’s easy to be mesmerized by China: the double-digit growth, the ambitious space program, the shining new cities along its teeming shore, the prospect of selling to the largest and one day perhaps the richest market on earth.

THE ECONOMIST,
April 22, 2006

It seems that China’s high-speed economic train has left the station, but left many of its people and their basic rights largely behind. As discussed in Chapter 1, China retains a strong appeal, in particular for manufacturers, with its cheap labor rates and an expanding market of over one billion people. It is now the world’s third biggest manufacturer after the United States and Japan, with that part of its economy having quadrupled in size since 1990—a rate ten times faster than for the whole of global industry. Growth in higher skilled jobs and in services is now well under way. However, there is a swelling tide among MNCs about the pitfalls of operating in China—among them the uncertain legal climate; the difficulty of protecting intellectual property there; the repression of free speech; and the difficulty of monitoring, let alone correcting, human rights violations in factories. As discussed in detail in the Nike case at the end of this chapter, the company found rampant violations of workers’ rights in many of its factories throughout Asia, including making workers work 60 hours a week, forcing overtime, and ignoring laws on minimum wages and child labor. MNCs like Nike face considerable pressure in their home markets to address human rights in China and elsewhere.
Consumers boycott their products, and trade unions in the United States, for example, complain that repression of workers’ rights has enabled Chinese companies to push down labor costs, causing considerable loss of manufacturing jobs at home.19

In 2006, the crackdown over what President Hu Jintao’s government calls “propaganda” escalated with reporters being jailed, editorial staffs fired, and publications closed.20 The PRC Communist Party “exerts near complete control over China’s 358 television stations and 2,119 newspapers, according to the nonprofit group Freedom House.”21 In 2005, China ranked 159th out of 167 countries in a survey of press freedom, according to Reporters Without Borders, the Paris-based international rights group.22

...a vast security network and compliant multinationals keep the mainland’s Net under Beijing’s thumb.

Freedom of information took a particularly hard hit with the news that Google had agreed to China’s demands to apply censors’ blacklists to its search engine there. In spite of Google’s founding principle “Don’t be evil,” their business interests apparently clashed with their principles, leading many to conclude that Google is putting its own freedoms at risk in China; however, that is also occurring with Microsoft and Yahoo! in China.24 (The Google case is discussed in detail in the Part I ending cases.)

While Internet and technology executives were called to Capitol Hill in February 2006 to defend their companies’ practices in China, it was clear that the future of American corporations and foreign policy interests would prevail.25 Rather, the debate continues over how Internet companies can engage more effectively with Beijing on human rights issues. But, in a blow to the industry, in July 2006, Amnesty International accused Yahoo! Microsoft, and Google of overlooking their human rights obligations in order to tap into China’s dynamic online market, stating that “all three companies have in different ways facilitated or participated in the practice of government censorship in China.”26

Commission on Transnational Corporations. Getz has integrated these four codes and organized their common underlying principles, thereby establishing MNE behavior toward governments, publics, and people, as shown in Exhibit 2-2 (the originating

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**EXHIBIT 2-2** International Codes of Conduct for MNEs

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<thead>
<tr>
<th>MNE and Host Governments</th>
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<tr>
<td><strong>Economic and developmental policies</strong></td>
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<tr>
<td>- MNEs should consult with governmental authorities and national employers’ and workers’ organizations to ensure that their investments conform to the economic and social development policies of the host country. (ICC; OECD; ILO; UN/CTC)</td>
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<tr>
<td>- MNEs should not adversely disturb the balance-of-payments or currency exchange rates of the countries in which they operate. They should try, in consultation with the government, to resolve balance-of-payments and exchange rate difficulties when possible. (ICC; OECD; UN/CTC)</td>
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<tr>
<td>- MNEs should cooperate with governmental policies regarding local equity participation. (ICC; UN/CTC)</td>
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<td>- MNEs should not dominate the capital markets of the countries in which they operate. (ICC; UN/CTC)</td>
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<tr>
<td>- MNEs should provide the information necessary for correctly assessing taxes to be paid to host government authorities. (ICC; OECD)</td>
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<tr>
<td><strong>Laws and regulations</strong></td>
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<td>- MNEs should not engage in transfer pricing policies that modify the tax base on which their entities are assessed. (OECD; UN/CTC)</td>
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<td>- MNEs should give preference to local sources for components and raw materials if prices and quality are competitive. (ICC; ILO)</td>
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<td>- MNEs should reinvest some profits in the countries in which they operate. (ICC)</td>
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(continued)
EXHIBIT 2-2  (cont.)

**Employment practices**
- MNEs should cooperate with host governments’ efforts to create employment opportunities in particular localities. (ICC)
- MNEs should support representative employers’ organizations. (ICC; ILO)
- MNEs should try to increase employment opportunities and standards in the countries in which they operate. (ILO)
- MNEs should provide stable employment for their employees. (ILO)
- MNEs should establish nondiscriminatory employment policies and promote equal employment opportunities. (OECD; ILO)
- MNEs should give priority to the employment and promotion of nationals of the countries in which they operate. (ILO)
- MNEs should ensure that adequate training is provided to all employees. (ILO)
- MNEs should contribute to the managerial and technical training of nationals of the countries in which they operate, and should employ qualified nationals in managerial and professional capacities. (ICC; OECD; UN/CTC)
- MNEs should respect the right of employees to organize for the purpose of collective bargaining. (OECD; ILO)
- MNEs should provide workers’ representatives with information necessary to assist in the development of collective agreements. (OECD; ILO)
- MNEs should consult with workers’ representatives in all matters directly affecting the interests of labor. (ICC)
- MNEs, in the context of negotiations with workers’ representatives, should not threaten to transfer the operating unit to another country. (OECD; ILO)
- MNEs should give advance notice of plant closures and mitigate the resultant adverse effects. (ICC; OECD; ILO)
- MNEs should cooperate with governments in providing income protection for workers whose employment has been terminated. (ILO)
- MNEs should provide standards of employment equal to or better than those of comparable employers in the countries in which they operate. (ICC; OECD; ILO)
- MNEs should pay, at minimum, basic living wages. (ILO)
- MNEs should maintain the highest standards of safety and health, and should provide adequate information about work-related health hazards. (ILO)

**Human rights**
- MNEs should respect human rights and fundamental freedoms in the countries in which they operate. (UN/CTC)
- MNEs should not discriminate on the basis of race, color, sex, religion, language, social, national and ethnic origin, or political or other opinion. (UN/CTC)
- MNEs should respect the social and cultural objectives, values, and traditions of the countries in which they operate. (UN/CTC)

**MNEs and Persons**

**Consumer protection**
- MNEs should respect the laws and regulations of the countries in which they operate with regard to consumer protection. (OECD; UN/CTC)
- MNEs should preserve the safety and health of consumers by disclosure of appropriate information, proper labeling, and accurate advertising. (UN/CTC)

**MNEs and the Public**

**Technology transfer**
- MNEs should cooperate with governmental authorities in assessing the impact of transfers of technology to developing countries and should enhance the technological capacities of developing countries. (OECD; UN/CTC)
- MNEs should develop and adapt technologies to the needs and characteristics of the countries in which they operate. (ICC; OECD; ILO)
- MNEs should conduct research and development activities in developing countries, using local resources and personnel to the greatest extent possible. (ICC; UN/CTC)
- When granting licenses for the use of industrial property rights, MNEs should do so on reasonable terms and conditions. (ICC; OECD)
- MNEs should not require payment for the use of technologies of no real value to the enterprise. (ICC)

**Environmental protection**
- MNEs should respect the laws and regulations concerning environmental protection of the countries in which they operate. (OECD; UN/CTC)
- MNEs should cooperate with host governments and with international organizations in the development of national and international environmental protection standards. (ICC; UN/CTC)
- MNEs should supply to appropriate host governmental authorities information concerning the environmental impact of the products and processes of their entities. (ICC; UN/CTC)

**Political involvement**
- MNEs should refrain from improper or illegal involvement in local political activities. (OECD; UN/CTC)
- MNEs should not pay bribes or render improper benefits to any public servant. (OECD; UN/CTC)
- MNEs should not interfere in intergovernmental relations. (UN/CTC)

International agency sources:
OECD: The Organization for Economic Cooperation and Development Guidelines for Multinational Enterprises
ILO: The International Labor Office Tripartite Declarations of Principles Concerning Multinational Enterprises and Social Policy
ICC: The International Chamber of Commerce Guidelines for International Investment
UN/CTC: The United Nations Universal Declaration of Human Rights
The UN Code of Conduct on Transnational Corps.
institutions are in parentheses). Getz concludes, “As international organizations and institutions (including MNEs themselves) continue to refine the codes, the underlying moral issues will be better identified, and appropriate MNE behavior will be more readily apparent.”

**ETHICS IN GLOBAL MANAGEMENT**

National, as well as corporate, cultures need to be taken into account if multinationals are to enforce their codes across different regions.

*FINANCIAL TIMES, March 7, 2005*

Globalization has multiplied the ethical problems facing organizations. However, business ethics have not yet been globalized. Attitudes toward ethics are rooted in culture and business practices. Swee Hoon Ang found, for example, that while East Asians tended to be less ethical than their expatriate counterparts from the United States and Britain, it was because they considered deception as amoral and acceptable if it has a positive effect on larger issues such as the company, the extended family, or the state. For an MNC, it is difficult to reconcile consistent and acceptable behavior around the world with home-country standards. One question, in fact, is whether it should be reconciled. It seems that, while the United States has been the driving force to legislate moral business conduct overseas, perhaps more scrutiny should have been applied to those global MNCs headquartered in the United States, such as Enron and WorldCom, that so greatly defrauded their investors, employees, and all who had business with them.

The term *international business ethics* refers to the business conduct or morals of MNCs in their relationships with individuals and entities. Such behavior is based largely on the cultural value system and the generally accepted ways of doing business in each country or society, as we have discussed throughout this book. Those norms, in turn, are based on broadly accepted guidelines from religion, philosophy, professional organizations, and the legal system. The complexity of the combination of various national and cultural factors in a particular host environment that combine to determine ethical or unethical societal norms is illustrated in Exhibit 2-3. The authors, Robertson and Crittenden, note,

> Varying legal and cultural constraints across borders have made integrating an ethical component into international strategic decisions quite challenging.

Should managers of MNC subsidiaries, then, base their ethical standards on those of the host country or those of the home country—or can the two be reconciled? What is the moral responsibility of expatriates regarding ethical behavior, and how do these issues affect business objectives? How do expatriates simultaneously balance their responsibility to various stakeholders—to owners, creditors, consumers, employees, suppliers, governments, and societies? The often conflicting objectives of host and home governments and societies also must be balanced.

The approach to these dilemmas varies among MNCs from different countries. While the American approach is to treat everyone the same by making moral judgments based on general rules, managers in Japan and Europe tend to make such decisions based on shared values, social ties, and their perceptions of their obligations. According to many U.S. executives, there is little difference in ethical practices among the United States, Canada, and Northern Europe. According to Bruce Smart, former U.S. Undersecretary of Commerce for International Trade, the highest ethical standards seem to be practiced by the Canadians, British, Australians, and Germans. As he says, “a kind of noblesse oblige still exists among the business classes in those countries”—compared with the prevailing attitude among many U.S. managers that...
condones “making it” whatever way one can.32 Another who experienced few problems with ethical practices in Europe is Donald Petersen, former CEO of Ford Motor Company. However, he warns us about underdeveloped countries, in particular those under a dictatorship where bribery is a generally accepted practice.33 Petersen’s experience has been borne out by research, which draws on 14 surveys from seven independent institutions, by Transparency International, a German nongovernmental organization (NGO) that fights corruption. The organization’s year 2005 Global Corruption Barometer (selections are shown in Exhibit 2-4) shows results of research into the extent that business and other sectors of their society are affected by corruption, as perceived by businesspeople, academics, and risk analysts in 69 countries. The survey was conducted for Transparency International (TI) by Gallup International, with 54,260 respondents. As part of their conclusions, TI states that:

*In terms of the impact of corruption on different spheres of life, respondents clearly stated that the political spheres in their countries are affected by corruption. However, a high percentage of people also thought that the business sector was similarly affected. This was particularly the case for citizens in Africa and Western Europe. Conversely, fewer people in Latin America had this opinion.*

**Transparency International,**

December 9, 200534

By following the column marked “Business/private sector,” we can see some average scores for different regions—the “worst” being Central and Eastern Europe, with 3.7 out of 4, and the lowest being Africa, with 3.1. We can also look at individual countries—for example, Canada has a score of 3.0, and Turkey has the highest (worst) score of 4.0.35

The biggest single problem for MNCs in their attempt to define a corporate-wide ethical posture is the great variation of ethical standards around the world. Many practices that are considered unethical or even illegal in some countries are accepted ways of doing...
### EXHIBIT 2-4  Global Corruption Barometer 2005 Full Country Tables

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<th>Parliament/ legislature</th>
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### Exhibit 2-4 (cont.)

To what extent do you perceive the following sectors in this country/territory to be affected by corruption? (1: not at all corrupt, ... 5: extremely corrupt)

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<th>Police</th>
<th>Legal system judiciary</th>
<th>Tax revenues</th>
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Note: The results presented here rely on data from the TI Corruption perceptions Index, 2005, provided by Transparency International—the global coalition against corruption. Used with permission.
business in others. More recently, this dilemma has taken on new forms because of the varied understandings of the ethical use of technology around the world, as illustrated by the electronic data privacy laws in Europe. The EU Directive on Data Protection guarantees European citizens absolute control over data concerning them. A U.S. company wanting personal information must get permission from that person and explain what the information will be used for; the company must also guarantee that the information won’t be used for anything else without the person’s consent.

**Bribery**

There are few other areas where a single employee can, with one instance of misjudgment, create huge embarrassment [for the company].

Financial Times, February 2, 2006

The computer is on the dock, it's raining, and you have to pay $100 [bribe] to get it picked up.

William C. Norris, Control Data Corporation

MNCs are often caught between being placed at a disadvantage by refusing to go along with a country’s accepted practices, such as bribery, or being subject to criticism at home for using “unethical” tactics to get the job done. Large companies that have refused to participate have led the way in taking a moral stand because of their visibility, their potential impact on the local economy, and, after all, their ability to afford such a stance. Whereas the upper limits of ethical standards for international activities are set by the individual standards of certain leading companies—or, more realistically, by the moral values of their top managers—it is more difficult to set the lower limits of those standards; that limit gets set by whether the laws are actually enforced in that location.

The bribery of officials is prohibited by law in all countries, but it still goes on as an accepted practice; often, it is the only way to get anything done. In such cases, the MNC managers have to decide which standard of behavior they will follow. What about the $100 bribe to get the computer off the rainy dock? William Norris says he told his managers to pay the $100 because to refuse would be taking things too far. Generally, Control Data did not yield to such pressure, though it said sales were lost as a result.

A specific ethical issue for managers in the international arena is that of **questionable payments**. These are business payments that raise significant questions of appropriate moral behavior either in the host nation or in other nations. Such questions arise out of differences in laws, customs, and ethics in various countries, whether the payments in question are political payments, extortion, bribes, sales commissions, or “grease money”—payments to expedite routine transactions. Other common types of payments are made to speed the clearance of goods at ports of entry and to obtain required certifications. They are called different names in different countries: tokens of appreciation, la mordida (the bite, in Mexico), bastarella (“little envelope” in Italy), pot-de-vin (jug of wine in France). For the sake of simplicity, all these different types of questionable payments are categorized in this text as some form of bribery. In Mexico, for example, companies make monthly payments to the mail carriers or their mail gets “lost.”

Most managers perceive bribery as “endemic in business and government in parts of Africa and south and east Asia. Corruption and bribery are considered to be part of the culture and environment of certain markets, and will not simply go away.” In some parts of Latin America, for example, customs officers are paid poorly and so are encouraged to take bribes to supplement their incomes. However, developed countries are not immune to bribery—as demonstrated in 2002 when several members of the International Olympic
Committee were expelled for accepting bribes during Salt Lake City’s campaign to host the 2002 Winter Olympics.

The dilemma for Americans operating abroad is how much to adhere to their own ethical standards in the face of foreign customs or how much to follow local ways to be competitive. Certainly, in some societies, gift giving is common to bind social and familial ties, and such gifts incur obligation. Nevertheless, a bribe is different from a gift or other reciprocation, and those involved know that by whether it has a covert nature. According to Noonan:

\[
\text{Bribery is universally shameful. Not a country in the world that does not treat bribery as criminal on its books. . . . In no country do bribe-takers speak publicly of their bribes, nor do bribe-givers announce the bribes they pay. No newspaper lists them. No one advertises that he can arrange a bribe. No one is honored precisely because he is a big briber or bribee. No one writes an autobiography in which he recalls the bribes he has taken or paid. . . . Not merely the criminal law—for the transaction could have happened long ago and prosecution be barred by time—but an innate fear of being considered disgusting restrains briber and bribee from parading their exchange. Significantly, it is often the Westerner with ethnocentric prejudice who supposes that a modern Asian or African society does not regard the act of bribery as shameful in the way Westerners regard it.}\]

However, Americans must be able to distinguish between harmless practices and actual bribery, between genuine relationships and those used as a cover-up. To help them distinguish, the Foreign Corrupt Practices Act (FCPA) of 1977 was established, which prohibits U.S. companies from making illegal payments, other gifts, or political contributions to foreign government officials for the purposes of influencing them in business transactions. The goal was to stop MNCs from contributing to corruption in foreign government and to upgrade the image of the United States and its companies operating overseas. The penalties include severe fines and sometimes imprisonment. Many managers feel the law has given them a more even playing field, and so they have been more willing to do business in certain countries where it seemed impossible to do business without bribery and kickbacks.

Since then, in 1997 the Organisation for Economic Co-operation and Development Convention on Bribery was signed by 36 countries in an attempt to combat corruption. However, evidential problems continue to hinder prosecution. Unless there is a complaint or whistle-blowing, there are few avenues for regulators to ferret out incidents in bribery in corporations. Unfortunately, bribery continues, mostly on a small scale, where it often goes undetected. In any event, it is prudent (and hopefully honorable) for companies to set in place processes to minimize the risk of prosecution, including:

- Having a global compliance system which shows that employees have understood, and signed off on, the legal obligations regarding bribery and corruption in the countries where they do business.
- Making employees aware of the penalties and ramifications for lone actions, such as criminal sanctions.
- Having a system in place to investigate any foreign agents and overseas partners who will be negotiating contracts.
- Keeping an effective whistle-blowing system in place.

As far as the actions that individual managers take when doing business overseas, if we agree with Carson that “accepting a bribe involves the violation of an implicit or explicit promise or understanding associated with one’s office or role, and that, therefore, accepting (or giving) a bribe is always prima facie wrong,” then our decisions as managers, salespersons, and so on are always clear, no matter where we are.

If, however, we acknowledge that in some cases—in “morally corrupt contexts,” as Philips calls them—there may be no prima facie duty to adhere to the agreements implicit in one’s role or position,” then the issue becomes situational and a matter of judgment, with few consistent guidelines. If our perspective, continues Philips, is that “the
CHAPTER 2  Managing Interdependence

action purchased from the relevant official does not count as a violation of his [or her] duty.” Then the U.S. managers or other foreign managers involved are actually victims of extortion rather than guilty of bribery.43 That is the position taken by Gene Laczniak of Marquette Company, who says that it is just part of the cost of doing business in many countries to pay small bribes to get people simply to do their jobs. However, he is against paying bribes to persuade people to make decisions that they otherwise would not have made.44

Whatever their professed beliefs, many businesspeople are willing to engage in bribery as an everyday part of meeting their business objectives. Many corporate officials, in fact, avoid any moral issue by simply “turning a blind eye” to what goes on in subsidiaries. Some companies avoid these issues by hiring a local agent who takes care of the paperwork and pays all the so-called fees in return for a salary or consultant’s fee.45 However, while the FCPA does allow “grease” payments to facilitate business in a foreign country, if those payments are lawful there, other payments prohibited by the FCPA remain subject to prosecution even if the company says it did not know that its agents or subsidiaries were making such payments—the so-called “reason to know” provision.46

Critics of the FCPA contend that the law represents an ethnocentric attempt to impose U.S. standards on the rest of the world and puts U.S. firms at a competitive disadvantage. In any event, many feel that business activities that cannot stand scrutiny are clearly unethical, corrupt, and, in the long run, corrupting. Bribery fails three important tests of ethical corporate actions: (1) Is it legal? (2) Does it work (in the long run)? (3) Can it be talked about?47

Many MNCs have decided to confront concerns about ethical behavior and social responsibility by developing worldwide practices that represent the company’s posture. Among those policies are the following:

- Develop worldwide codes of ethics.
- Consider ethical issues in strategy development.
- Develop periodic “ethical impact” statements.
- Given major, unsolvable, ethical problems, consider withdrawal from the problem market.48

Making the Right Decision

How is a manager operating abroad to know what is the “right” decision when faced with questionable or unfamiliar circumstances of doing business? The first line of defense is to consult the laws of both the home and the host countries—such as the FCPA. If any of those laws would be violated, then you, the manager, must look to some other way to complete the business transaction, or withdraw altogether.

Second, you could consult the International Codes of Conduct for MNEs (see Exhibit 2-2). These are broad and cover various areas of social responsibility and ethical behavior; even so, many issues are subject to interpretation.

If legal consultation does not provide you with a clear answer about what to do, you should consult the company’s code of ethics (if there is one). You, as the manager, should realize that you are not alone in making these kinds of decisions. It is also the responsibility of the company to provide guidelines for the actions and decisions made by its employees. In addition, you are not the first, and certainly not the last, to be faced with this kind of situation—which also sets up a collective experience in the company about what kinds of decisions your colleagues typically make in various circumstances. Those norms or expectations (assuming they are honorable) can supplement the code of ethics or substitute for the lack of a formal code. If your intended action runs contrary to the norms or the formal code, discontinue that plan.

If you are still unsure of what to do, you have the right and the obligation to consult your superiors. Unfortunately, often the situation is not that cut-clear, or your boss will tell you to “use your own judgment.” Sometimes your superiors in the home office just want you to complete the transaction to the benefit of the company and don’t want to be involved in what you have to do to consummate the deal.
If your dilemma continues, you must fall back upon your own moral code of ethics. One way to consider the dilemma is to ask yourself what the rights of the various stakeholders involved are (see Exhibit 2-1), and how you should weigh those rights. First, does the proposed action (rigged contract bid, bribe, etc.) harm anyone? What are the likely consequences of your decision in both the short run and long run? Who would benefit from your contemplated action? What are the benefits to some versus potential harm to others? In the case of a rigged contract bid through bribery, for example, people are put at a disadvantage, especially over the long term, with a pattern of this behavior. This is because, if competition is unfair, not only are your competitors harmed by losing the bid, but also the consumers of the products or services are harmed because they will pay more to attain them than they would under an efficient market system.

In the end, you have to follow your own conscience and decide where to draw the line in the sand in order to operate with integrity—otherwise the line moves further and further away with each transgression. In addition, what can start with a small bribe or cover-up here—a matter of personal ethics—can, over time, and in the aggregate of many people covering up, result in a situation of a truly negligent, and perhaps criminal, stance toward social responsibility to society, like that revealed by investigations of the tobacco industry in the United States. Indeed, executives are increasingly being held personally and criminally accountable for their decisions; this is true even for people operating on the board of directors of a company. Criminal charges were brought against 15 executives of WorldCom in 2003, for example, and the noose was thrown around the world after the Enron convictions in 2006 (see this chapter’s opening case profile), as international banks such as Citigroup and JP Morgan Chase were charged with taking part in sham deals to disguise Enron’s financial problems.

Richard Rhodes, CEO of Rhodes Architectural Stone, Inc., is one executive who has drawn a line in the sand for himself and his company, and who holds himself and his employees accountable to a high moral standard when it comes to issues of bribery and human rights. He explains how they deal with difficult situations abroad in the accompanying Management Focus, “CEO Speaks Out: Ethics Abroad—Business Fundamentals, Value Judgments.”

Management Focus

CEO Speaks Out: Ethics Abroad—Business Fundamentals, Value Judgments

You’ve just finished negotiating the deal, and it’s time for a celebration, drinks and dinner all around, and you go to bed only to wake up the next morning to learn that the other side wants to start all over again.

Or, you try to buy something—say a collection of antique vessels for resale for decorative uses—and you’re told that the artifacts are yours but only for a price. You wonder, should I agree to pay a bribe just this once?

So it goes sometimes when it comes to the business of doing business abroad, which has been the case for my company, Rhodes Architectural Stone, Inc., ever since its launch (under another name) in 1998. Ours is the business of buying artifacts slated for demolition in areas of the world, such as Africa, China, India, and Indonesia, and, in turn, selling to discriminating clients in the United States.

If there is one thing we’ve learned, it is that the ethical landscape is different in the third world. In the United States—notwithstanding the recent spate of corporate scandals that have set a woefully new low for ethical business behavior—the fact remains that standards do exist against which improprieties can be measured.

Not so in some other countries. The tenets that underlie our U.S. business language—that your word is your bond, that transparency is expected in joint ventures and contractual engagements, that each party walks away from the table getting as well as giving something—are not always understood in all parts of the world.

This inherent conflict between first- and third-world business standards has meant that our journey as a design-driven firm has been at times extremely difficult. A core value of the company, which we call “value in the round,” meaning that value must be created for all parties in the deal, has involved familiarizing ourselves with an alien environment in order to establish business fundamentals. Needing to respect cultural differences must be carefully investigated and evaluated.
while all the time taking care not to cross the line to engage in practices we abhor.

**BUSINESS BLACK AND WHITE**

In short, in the world of grays that characterizes business dealings in countries in which ethics are at best rudimentary by U.S. standards, and at worst nonexistent, we’ve taken the position that we must establish a black and white.

Let me explain. Take the word “transparency,” for example, which in the United States involves a baseline understanding of capitalism, allowing that each party is able to get something in a negotiation without necessarily having cheated another. With that common understanding, negotiators don’t need to resort to taking money out of the game—bribing, to be precise—because all of the money is in the game.

Nor is there a need to have to renegotiate a deal that has already been agreed upon because of a belief that the deal that was struck couldn’t be good—or why would the parties have agreed to it?

In countries whose business laws are nascent, if they exist at all, and whose thinking has been shaped by philosophies vastly different from our own, our first challenge is to take what I call the “entry-level” business players, who disproportionately populate the developing countries in which we do business, and bring them up to speed in the business fundamentals of the U.S.

In the all-too-common instance of being asked that a deal be renegotiated, we see it as our duty to teach the fundamentals that underlie the business practices of the West, such as your word is your bond, and that, while it’s all right to take as much time as you need to negotiate a deal, once you’ve agreed, you stand by it.

In the wake of a request to go back to the table after the celebratory dinner, for example, I begin by outlining what it’s going to take for them to do business with us. We put it down in writing, even though I’ve learned that such documents are unenforceable. And, if they ask again to renegotiate, we walk.

In short, in a world in which business fundamentals are shades of gray, we’ve determined a black-and-white process that is our blueprint for doing business.

**MORAL BLACK AND WHITE**

Back to the bribes: Simply put, we don’t do them. In the case of our wanting to buy the collection of antique vessels, for example, we walked when told we would have to make such a payment. The good news in that case was that we were actually invited back a year later to make the purchase on our terms.

The matter of bribes, however, is more than just shall we or shall we not. It goes to the heart of the other issue underlying doing business in the third world, and that is the need for a way to respect cultural differences without crossing the line to engage in practices that are inappropriate or immoral by Western standards.

Looked at this way, Rhodes Architectural Stone not only draws the line at paying bribes, but also at child labor and the mistreatment of women. The matter of child labor will serve to illustrate the dilemma. Imagine an American entrepreneur, traveling in the bitter cold in the remote countryside dressed in a Gortex parka, thinsulite socks, and the most comfortable and technologically advanced clothing money can buy. We arrive and state that we will not buy anything fabricated or procured with child labor. Now contrast that with the local reality of the labor of the entire family required to put bread on the table and a roof over one’s head.

If my children were starving, I suppose I would do the same. In fact, our own forbearers in the United States did employ children in factories well into the twentieth century, and because of that, we don’t have to do it any more.

Into this moral gray area, we’ve established another black and white: namely, that we cannot and will not do business with entities that engage in the practice of child labor, but we will not go the next step and preach. In other words, we will not tell them they are wrong.

Surely, we bring a powerful lever when it comes to backing up this moral stance. Unlike foreign companies that go into native countries to sell products to people who can’t afford to buy them, we are there to buy what they have to sell. We bring the twin carrots of hard currency and jobs.

That advantage notwithstanding, the decision to establish a moral black and white wasn’t easy. It’s one thing to come to that imperative in the matter of formulating business standards where none exist, for that involves the neutral task of teaching. It’s quite another to tread into territory in which the actions are criminal or immoral by Western standards and, yet, understandable within the context of the foreign culture.

The decision to do so, therefore, is actually a process, one of thought and reflection and, in the final analysis, leadership.

**PUTTING IT ALL TOGETHER**

In coming to the imperatives that Rhodes Architectural Stone has determined for its business dealings overseas, I was fortunate to have the counsel of a member of our board, a former Whirlpool executive, who had extensive business experience throughout the world.
Because multinational firms (or other organizations, such as the Red Cross) represent global interdependency, their managers at all levels must recognize that what they do, in the aggregate, has long-term implications for the socioeconomic interdependence of nations. Simply to describe ethical issues as part of the general environment does not address the fact that managers must control their activities at all levels—from simple, daily business transactions involving local workers, intermediaries, or consumers to global concerns of ecological responsibility—for the future benefit of all concerned. Whatever the situation, the powerful long-term effects of MNC and MNE action (or inaction) should be planned for and controlled—not haphazardly considered part of the side effects of business. The profitability of individual companies depends on a cooperative and constructive attitude toward global interdependence.

**Foreign Subsidiaries in the United States**

Much of the preceding discussion has related to U.S. subsidiaries around the world. However, to globally highlight the growing interdependence and changing balance of business power, foreign subsidiaries in the United States should also be considered. Since much criticism about a lack of responsibility has been directed toward MNCs with headquarters in the United States, we must think of these criticisms from an outsider’s perspective. The number of foreign subsidiaries in the United States has grown and continues to grow dramatically; foreign direct investment (FDI) in the United States by other countries is, in many cases, far more than U.S. investment outward. Americans are thus becoming more sensitive to what they perceive as a lack of control over their own country’s business.

Things look very different from the perspective of Americans employed at a subsidiary of an overseas MNC. Interdependence takes on a new meaning when people “over there” are calling the shots regarding strategy, expectations, products, and personnel. Often, Americans’ resentment about different ways of doing business by “foreign” companies in the United States inhibits cooperation, which gave rise to the companies’ presence in the first place.

Today, managers from all countries must learn new ways, and most MNCs are trying to adapt. Sadahei Kusumoto, president and CEO of Minolta Corporation, says that Japanese managers in the United States must recognize that they are “not in Honshu [Japan’s largest island] anymore” and that one very different aspect of management in the United States is the idea of corporate social responsibility.49

In Japan, corporate social responsibility has traditionally meant that companies take care of their employees, whereas in the United States the public and private sectors are expected to share the responsibility for the community. Part of the explanation for this difference is that U.S. corporations get tax deductions for corporate philanthropy, whereas Japanese firms do not; nor are Japanese managers familiar with community...
needs. For these and other reasons, Japanese subsidiaries in the United States have not been active in U.S. philanthropy. However, Kusumoto pinpoints why they should become more involved in the future:

*In the long run, failure to play an active role in the community will brand these companies as irresponsible outsiders and dim their prospects for the future.*

Whether Kusumoto’s motives for change are humanitarian or just good business sense does not really matter. The point is that he recognizes interdependence in globalization and acts accordingly.

**Managing Subsidiary–Host-Country Interdependence**

When managing interdependence, international managers must go beyond general issues of social responsibility and deal with the specific concerns of the MNC subsidiary–host-country relationship. Outdated MNC attitudes that focus only on profitability and autonomy are shortsighted and usually result in only short-term realization of those goals. MNCs must learn to accommodate the needs of other organizations and countries:

*Interdependence rather than independence, and cooperation rather than confrontation are at the heart of that accommodation... the journey from independence to interdependence managed badly leads to dependence, and that is an unacceptable destination.*

Most of the past criticism levied at MNCs has focused on their activities in LDCs. Their real or perceived lack of responsibility centers on the transfer in of inappropriate technology, causing unemployment, and the transfer out of scarce financial and other resources, reducing the capital available for internal development. In their defense, MNCs help LDCs by contributing new technology and managerial skills, improving the infrastructure, creating jobs, and bringing in investment capital from other countries by exporting products. The infusion of outside capital provides foreign-exchange earnings that can be used for further development. The host government’s attitude is often referred to as a love–hate relationship: It wants the economic growth that MNCs can provide, but it does not want the incursions on national sovereignty or the technological dependence that may result. Most criticisms of MNC subsidiary activities, whether in less developed or more developed countries, are along the following lines:

1. MNCs locally raise their needed capital, contributing to a rise in interest rates in host countries.
2. The majority (sometimes even 100 percent) of the stock of most subsidiaries is owned by the parent company. Consequently, host-country people do not have much control over the operations of corporations within their borders.
3. MNCs usually reserve the key managerial and technical positions for expatriates. As a result, they do not contribute to the development of host-country personnel.
4. MNCs do not adapt their technology to the conditions that exist in host countries.
5. MNCs concentrate their research and development activities at home, restricting the transfer of modern technology and know-how to host countries.
6. MNCs give rise to the demand for luxury goods in host countries at the expense of essential consumer goods.
7. MNCs start their foreign operations by purchasing existing firms rather than by developing new productive facilities in host countries.
8. MNCs dominate major industrial sectors, thus contributing to inflation, by stimulating demand for scarce resources and earning excessively high profits and fees.
9. MNCs are not accountable to their host nations but only respond to home-country governments; they are not concerned with host-country plans for development.

Specific MNCs have been charged with tax evasion, union busting, and interference in host-country politics. Of course, MNCs have both positive and negative effects on different economies. For every complaint about MNC activities (whether about capital
markets, technology transfer, or employment practices), we can identify potential benefits (see Exhibit 2-5).

Numerous conflicts arise between MNC companies or subsidiaries and host countries, including conflicting goals (both economic and noneconomic) and conflicting concerns, such as the security of proprietary technology, patents, or information. Overall, the resulting trade-offs create an interdependent relationship between the subsidiary and the host government, based on relative bargaining power. The power of MNCs is based on their large-scale, worldwide economies, their strategic flexibility, and their control over technology and production location. The bargaining chips of the host governments include their control of raw materials and market access and their ability to set the rules regarding the role of private enterprise, the operation of state-owned firms, and the specific regulations regarding taxes, permissions, and so forth.

MNCs run the risk of their assets becoming hostage to host control, which may take the form of nationalism, protectionism, or governmentalism. Under nationalism, for example, public opinion is rallied in favor of national goals and against foreign influences. Under protectionism, the host institutes a partial or complete closing of borders to withstand competitive foreign products, using tariff and nontariff barriers, such as those used by Japan. Under governmentalism, the government uses its policy-setting role to favor national interests, rather than relying on market forces. An example is Britain’s decision to privatize its telephone system.53

The intricacies of the relationship and the relative power of an MNC subsidiary and a host-country government are situation specific. Clearly, such a relationship should be managed for mutual benefit; a long-term, constructive relationship based on the MNC’s
socially responsive stance should result in progressive strategic success for the MNC and economic progress for the host country. The effective management of subsidiary–host-country interdependence must have a long-term perspective. Although temporary strategies to reduce interdependence via controls on the transnational flows by firms (for example, transfer-pricing tactics) or by governments (such as new residency requirements for skilled workers) are often successful in the short run, they result in inefficiencies that must be absorbed by one or both parties, with negative long-term results. In setting up and maintaining subsidiaries, managers are wise to consider the long-term trade-offs between strategic plans and operational management. By finding out for themselves the pressing local concerns and understanding the sources of past conflicts, they can learn from mistakes and recognize the consequences of the failure to manage problems. Furthermore, managers should implement policies that reflect corporate social responsibility regarding local economic issues, employee welfare, or natural resources. At the least, the failure to effectively manage interdependence results in constraints on strategy. In the worst case, it results in disastrous consequences for the local area, for the subsidiary, and for the global reputation of the company.

The interdependent nature of developing economies and the MNCs operating there is of particular concern when discussing social responsibility because of the tentative and fragile nature of the economic progression in those countries. MNCs must set a high moral standard and lay the groundwork for future economic development. At the minimum, they should ensure that their actions will do no harm. Some recommendations by De George for MNCs operating in and doing business with developing countries are as follows:

1. Do no intentional harm. This includes respect for the integrity of the ecosystem and consumer safety.
2. Produce more good than harm for the host country.
3. Contribute by their activity to the host country’s development.
4. Respect the human rights of their employees.
5. To the extent that local culture does not violate ethical norms, respect the local culture and work with and not against it.
6. Pay their fair share of taxes.
7. Cooperate with the local government in developing and enforcing just background (infrastructure) institutions (i.e., laws, governmental regulations, unions, and consumer groups, which serve as a means of social control).

Managing Environmental Interdependence

International managers—and all people for that matter—can no longer afford to ignore the impact of their activities on the environment. As Ward and Dubois put it:

*Now that mankind is in the process of completing the colonization of the planet, learning to manage it intelligently is an urgent imperative. [People] must accept responsibility for the stewardship of the earth. The word stewardship implies, of course, management for the sake of someone else. . . . As we enter the global phase of human evolution, it becomes obvious that each [person] has two countries, his [or her] own and the planet earth.*

Effectively managing environmental interdependence includes considering ecological interdependence as well as the economic and social implications of MNC activities. There is an ever-increasing awareness of, and a mounting concern worldwide about, the effects of global industrialization on the natural environment. Government regulations and powerful interest groups are demanding ecological responsibility regarding the use of scarce natural resources and production processes that threaten permanent damage to the planet. MNCs have to deal with each country’s different policies and techniques for environmental and health protection. Such variations in approach reflect different levels of industrialization, living standards, government–business relations, philosophies of collective intervention, patterns of industrial competition, and degrees of sophistication in public policy.
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In recent years, the export of hazardous wastes from developed countries to less developed ones has increased considerably. One instance was the dumping of over 8,000 drums of waste, including drums filled with polychlorinated biphenyl (PCB), a highly toxic compound, in Koko, Nigeria. While not all dumping is illegal, the large international trade in hazardous wastes (as a result of the increasing barriers to domestic disposal) raises disturbing questions regarding social responsibility. Although the importer of waste must take some blame, it is the exporter who shoulders the ultimate responsibility for both generation and disposal. Often, companies choose to dispose of hazardous waste in less developed countries to take advantage of weaker regulations and lower costs. Until we have strict international regulation of trade in hazardous wastes, companies should take it upon themselves to monitor their activities, as Singh and Lakhan demand:

To export these wastes to countries which do not benefit from waste-generating industrial processes or whose citizens do not have lifestyles that generate such wastes is unethical. It is especially unjust to send hazardous wastes to less-developed countries which lack the technology to minimize the deleterious effects of these substances.

The exporting of pesticides poses a similar problem, with the United States and Germany being the main culprits. The United States exports about 200 million pounds of pesticides each year that are prohibited, restricted, or not registered for use in the United States. One MNC, Monsanto Chemical Corporation, for example, sells DDT to many foreign importers, even though its use in the United States has been essentially banned. Apart from the lack of social responsibility toward the people and the environment in the countries that import DDT, this action is also irresponsible to U.S. citizens because many of their fruits and meat products are imported from those countries.

These are only two of the environmental problems facing countries and large corporations today. According to Graedel and Allenby, the path to truly sustainable development is for corporations to broaden their concept of industrial ecology:

The concept of industrial ecology requires that an industrial system be viewed not in isolation from its surrounding systems, but in concert with them. It is a systems view in which one seeks to optimize the total materials cycle from virgin material, to finished material, to component, to product, to obsolete product, and to ultimate disposal.

Essentially, this perspective supports the idea that environmental citizenship is necessary for a firm’s survival as well as responsible social performance. It is clear, then, that MNCs must take the lead in dealing with ecological interdependence by integrating environmental factors into strategic planning. Along with an investment appraisal, a project feasibility study, and operational plans, such planning should include an environmental impact assessment. At the least, MNC managers must deal with the increasing scarcity of natural resources in the next few decades by (1) looking for alternative raw materials, (2) developing new methods of recycling or disposing of used materials, and (3) expanding the use of by-products.

Multinational corporations already have had a tremendous impact on foreign countries, and this impact will continue to grow and bring about long-lasting changes. Even now, U.S. MNCs alone account for about 10 percent of the world’s gross national product (GNP). Because of interdependence at both the local and global level, it is not only moral but also in the best interest of MNCs to establish a single clear posture toward social and ethical responsibilities worldwide and to ensure that it is implemented. In a real sense, foreign firms enter as guests in host countries and must respect the local laws, policies, traditions, and culture as well as those countries’ economic and developmental needs.
CONCLUSION

When research findings and anecdotal evidence indicate differential attitudes toward ethical behavior and social responsibility across cultures, MNCs must take certain steps. For example, they must be careful when placing a foreign manager in a country whose values are incongruent with his or her own because this could lead to conflicts with local managers, governmental bodies, customers, and suppliers. As discussed earlier, expatriates should be oriented to the legal and ethical ramifications of questionable foreign payments, the differences in environmental regulations, and the local expectations of personal integrity. They should also be supported as they attempt to integrate host-country behaviors with the expectations of the company’s headquarters.

Social responsibility, ethical behavior, and interdependence are important concerns to be built into management control—not as afterthoughts but as part of the ongoing process of planning and controlling international operations for the long-term benefit of all.

Part II focuses on the pervasive and powerful influence of culture in the host-country environment in which the international manager operates. Chapter 3 examines the nature of culture—what are its various dimensions and roots? How does culture affect the behavior and expectations of employees, and what are the implications for how managers operating in other countries should behave?

Summary of Key Points

1. The concept of international social responsibility (known in business circles as CSR—corporate social responsibility) includes the expectation that MNCs should be concerned about the social and economic effects of their decisions on activities in other countries, and should build appropriate provisions into their strategic plans to deal with those potential effects.

2. Moral universalism refers to the need for a moral standard that is accepted around the world; however, varying cultural attitudes and business practices make this goal unattainable at this time. A number of groups of corporations within industries have collaborated on sets of policies for CSR both for their companies and those in their supply chains. Such collaborations help to raise the standard in host countries and to level the playing field for managers within those industries.

3. Concerns about MNC social responsibility revolve around issues of human rights in other countries, such as South Africa and China. Many organizations develop codes of conduct that specifically deal with human rights in their operations around the world.

4. International business ethics refers to the conduct of MNCs in their relationships to all individuals and entities with whom they come into contact. Ethical behavior is judged and based largely on the cultural value system and the generally accepted ways of doing business in each country or society. MNC managers must decide whether to base their ethical standards on those of the host country or those of the home country and whether these different standards can be reconciled.

5. MNCs must balance their responsibility to various stakeholders, such as owners, creditors, consumers, employees, suppliers, governments, and societies. Firms with a long-term perspective recognize the need to consider all of their stakeholders in their business plans.

6. Managers operating abroad are often faced with differing attitudes towards bribery or other payments that raise significant questions about appropriate moral behavior in either the host nation or other nations, and yet frequently are demanded to conduct business. The Foreign Corrupt Practices Act prohibits most questionable payments by U.S. companies doing business in other countries.

7. Managers must control their activities relative to interdependent relationships at all levels—from simple, daily business transactions involving local workers, intermediaries, or consumers to global concerns of ecological responsibility.

8. The failure to effectively manage interdependence will result in constraints on strategy, in the least, or in disastrous consequences for the local area, the subsidiary, and the global reputation of the company.

9. Managing environmental interdependence includes the need to consider ecological interdependence as well as the economic and social implications of MNC activities.

10. The MNC–host-country relationship is generally a love–hate relationship from the host country’s viewpoint in that it wants the economic growth that the MNC can provide but does not want the dependency and other problems that result.
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Discussion Questions

1. Discuss the concept of international social responsibility. What role does it play in the relationship between a company and its host country?
2. Discuss the criticisms that have been leveled against MNCs in the past regarding their activities in less developed countries. What counterarguments are there to those criticisms?
3. What does moral universalism mean? Discuss your perspective on this concept. Do you think the goal of moral universalism is possible? Is it advisable?
4. What do you think should be the role of MNCs toward human rights issues in other countries—for example, China or South Africa? What are the major human rights concerns at this time? What ideas do you have for dealing with these problems? What is the role of corporate codes of conduct in dealing with these concerns?
5. What is meant by international business ethics? How does the local culture affect ethical practices? What are the implications of such local norms for ethical decisions by MNC managers?
6. As a manager in a foreign subsidiary, how can you reconcile local expectations of questionable payments with the Foreign Corrupt Practices Act? What is your stance on the problem of “payoffs?” How does the degree of law enforcement in a particular country affect ethical behavior in business?
7. Explain what is meant by managing interdependence in the global business arena. Discuss the love–hate relationship between MNCs and host countries.
8. What do you think are the responsibilities of MNCs toward the global environment? Give some examples of MNC activities that run counter to the concepts of ecological interdependence and environmental responsibility.
9. Discuss the ethical issues that have developed regarding the use of IT in cross-border transactions. What new conflicts have developed since the printing of this book? What solutions can you suggest?

Application Exercise

Do some research to determine the codes of conduct of two MNCs. Compare the issues that they cover and share your findings with the class. After several students have presented their findings, prepare a chart showing the commonalities and differences of content in the codes presented. How do you account for the differences?

Experiential Exercise

Consider the ethical dilemmas in the following situation and decide what you would do. Then meet in small groups of students and come to a group consensus. Discuss your decisions with the class.

I am CEO of an international trading company in Turkey. One state-owned manufacturing company (Company A) in one of the Middle East countries opened a tender for 15,000 tons PVC granule K value 70. Company A makes all its purchases through tenders. For seven years in that market, my company has never been able to do any business with Company A (though we have sold many bulk materials to other state-owned companies in that market). One of our new managers had a connection with the purchasing manager of Company A, who promised to supply us with all of our competitors’ bids if we pay him a 2 percent commission on all of our sales to his company. Our area manager accepted this arrangement. He got the competing bids, made our offer, and we got the tender. I learned of this situation when reviewing our income and expenses chart, which showed the 2 percent commission.

What shall I do, given the following: (1) If I refuse to accept the business without any legitimate reasons (presently there are none) my company will be blacklisted in that country—where we get about 20 percent of our gross yearly profit. (2) If I accept the business and do not pay the 2 percent commission, the purchasing manager will make much trouble for us when he receives our shipment. I am sure that he will not release our 5 percent bank guarantee letter about the quality and quantity of the material. (3) If I accept the business and pay the 2 percent commission, it will go against everything I have achieved in the 30 years of my career.

You have three ethical problems here: First, your company has won a rigged bid. Second, you must pay the person who rigged it or he will make life miserable for you. Third, you have to decide what to do with the area manager who accepted this arrangement.


Internet Resources

Visit the Deresky Companion Website at www.prenhall.com/deresky for this chapter’s Internet resources.
Case Study

Nike’s CSR Challenge

IN 2005 NIKE returned to reporting on its social and environmental practices after a couple of years of silence due to legal concerns. The sports and clothing company is very important to countries such as Vietnam, where it is the largest private-sector employer with more than 50,000 workers producing shoes through subcontractors. (1) Nike’s new report makes sobering reading, as it describes widespread problems in Asian factories. The company said it audited hundreds of factories in 2003 and 2004 and found cases of abusive treatment in more than a quarter of its South Asian plants. For example, between 25% and 50% of the factories in the region restrict access to toilets and drinking water during the workday. The same percentage of factories deny workers at least one day off in seven. In more than half of Nike’s factories employees work more than 60 hours per week. In up to 25%, workers refusing overtime were punished. Wages were below the legal minimum at up to 25% of factories. (2)

For the first time in a major corporate report the details of all the factories were published. The report was significant for this transparency and being so candid about the problems that workers for Nike still face, and therefore the challenges that remain for the management. The NGOs working on these issues know that Nike is not alone in facing such problems. Indeed, they realise that the company has invested more in improving conditions than many of its competitors. Studies of voluntary corporate attempts at improving labor standards in global supply chains have suggested that they are delivering widespread improvements, and instead new approaches are needed that engage governments, NGOs, and local businesses. (3)

This realization has led to a new strategy from Nike. In May Nike’s Vice President of Corporate Responsibility, Hannah Jones, told delegates at the Ethical Trading Initiative (ETI) conference that, whereas the company had previously been looking into how to solve problems for themselves, now they are exploring how to create systemic change in the industry. She explained that “premium brands are in a lonely leadership position” because “consumers are not rewarding us” for investments in improved social performance in supply chains. Like other companies, they have realized that the responsibility of one is to work towards the accountability of all. Consequently, one of Nike’s new corporate citizenship goals is “to effect positive, systemic change in working conditions within the footwear, apparel and equipment industries.” This involves the company engaging labor ministries, civil society and competitors around the world to try to raise the bar so that all companies have to attain better standards of social and environmental performance. One example is its involvement in the Multi-Fibre Agreement (MFA) Forum to help countries, unions and others plan for the consequences of the end of the MFA.

This new strategy is beyond what many consultants, media commentators and academics currently understand. By claiming to be an advance in thinking, an article in The Economist in May, by the worldwide managing director of McKinsey & Company, illustrated the limits of current consulting advice. It suggested that seeking good societal relations should be seen as both good for society and good for profitability. “Profits should not be seen as an end in themselves,” suggested Ian Davis, “but rather as a signal from society that their company is succeeding in its mission of providing something people want.” (4) However, those who have experience working in this field for some years, including Nike realise that, however we may wish to talk about the compatibility of profits with people and planet, the current societal frameworks for business are not making this a reality. The implication is that we have to make this so by changing those frameworks.

The key strategic shift for Nike’s management is that they no longer regard the company as a closed system. Instead, they understand its future depends on the way customers, suppliers, investors, regulators and others relate to it. Their challenge is to reshape the signals being given out by those groups to itself and its competitors, so that the company can operate in a sustainable and just way, which is also financially viable.

Nike’s experience is pertinent to other companies, whose voluntary efforts are failing to address the root causes of the problems associated with their industry. Unilever, for example, was criticised by ActionAid for profiting from worsening conditions for workers on plantations. (5) Falling prices have led to plantations laying off workers and wages going unpaid—a trend that has seen a consequent increase in attacks against owners and managers. Applying a systems view to the situation would suggest that Unilever reconsider how it influences the global political economy that is driving down prices for tea.

The challenge is not only one of strategy but also leadership. Traditionally, analysts and educators on corporate leadership have assumed that it involves leading people towards the goal of their employer, the company. In May an article on leadership in Conference Board Canada’s Organizational Performance Review quoted the thoughts of leaders from World War II and the Korean War. (6) This reflects what Mark Gerzon describes as a focus on “leadership within borders”, when what the world needs is “leaders beyond
borders”. (7) This means people who can see across borders created by others, such as the borders of their job, and reach across such borders to engage others in dialogue and action to address systemic problems. We could call this “transcending leadership”, which was alluded to by James McGregor Burns, in his path-breaking book Leadership. (8) It is a form of leadership that transcends the boundaries of one’s professional role and the limits of one’s own situation to engage people on collective goals. It is a form of leadership that transcends a limited conception of self, as the individual leader identifies with ever-greater wholes. It is a form of leadership that transcends the need for a single leader, by helping people to transcend their limited states of consciousness and concern and inspire them to lead.

Perhaps the best modern example of transcending leadership is Gandhi, who aroused and elevated the hopes and demands of millions of Indians and whose life and personality were enhanced in the process. It is an irony of our times that this anti-imperialist who chose to spin his own cloth could be an inspiration for the future direction of executives in large companies sourcing clothes from factories across Asia. Gandhi called on us to understand our connectedness to “all that lives”, and identify with ever-greater wholes. There is a lesson here for Nike and others. The apparel sector is an open system, and so wider issues of trade flows, governance, media, financial markets and politics impact on the potential of the sector, and thus Nike, to become sustainable and just. Without changes to the financial markets, Nike may find its efforts are in vain.

REFERENCES
5. www.mallenbaker.net/csr/nl/82.html


CASE QUESTIONS
1. What are the challenges regarding corporate social responsibility that companies in the apparel industry face in its supply chains around the world?
2. Discuss the meaning and implications of the statement by a Nike representative that “consumers are not rewarding us for investments in improved social performance in supply chains.”
3. What does it mean to have an industry open-systems approach to social responsibility? What parties are involved? Who are the stakeholders?
4. What is meant by “leadership beyond borders”?
5. Is it possible to have “a compatibility of profits with people and planet”? Whose responsibility is it to achieve that state?

SOURCE: Helen Deresky