



Managing Interdependence

Social Responsibility, Ethics, Sustainability

OUTLINE

Opening Profile: McDonald's CSR Experience in China
The Social Responsibility of MNCs

*Under the Lens: Shareholders Pressure Walmart for
Transparency about How its Suppliers Treat Workers*
CSR: Global Consensus or Regional Variation?
From CSR to Shared Value?
MNC Responsibility Toward Human Rights

Ethics in Global Management

*Comparative Management in Focus: Doing Business in
China—CSR and the Human Rights Challenge*
Ethics in Uses of Technology
Bribery
Making the Right Decision

Managing Interdependence

Foreign Subsidiaries in the United States
Managing Subsidiary–Host Country Interdependence

Managing Environmental Interdependence and
Sustainability

Under the Lens: BP's Sustainability Systems Under Fire
*Management in Action: TerraCycle—Social
Entrepreneurship Goes Global*
Implementing Sustainability Strategies

Conclusion

Summary of Key Points

Discussion Questions

Application Exercise

Experiential Exercise

Internet Resources

Case Study: Nike's CSR Challenge

OBJECTIVES

1. To appreciate the complexities involved in the corporation's obligations toward its various constituencies around the world.
2. To understand the changing perceptions of and demands on corporations doing business in other countries, in particular their responsibilities toward human rights.
3. To acknowledge the strategic role that CSR and codes of ethics must play in global management.
4. To provide guidance to managers to maintain ethical behavior amid the varying standards and practices around the world.
5. To recognize that companies must provide benefits to the host country in which they operate in order to maintain cooperation.
6. To discuss the need for corporations to consider *sustainability* in their long-term plans in order to manage environmental impacts on host locations.
7. To identify the challenges involved in human rights issues when operating around the world.

OPENING PROFILE: MCDONALD'S CSR EXPERIENCE IN CHINA

CKGSB (Cheung Kong Graduate School of Business) interviews Bob Langert, VP of McDonald's for Corporate Social Responsibility

Q: In the 1990s, McDonald's was seen as promoting waste, unhealthy lifestyles, and a uniform global culture. How did McDonald's address this challenge to its reputation?

A: We learnt not to be defensive, because people will keep on attacking you. During the '90s, we defined our own framework for addressing supply chain issues, health and nutrition issues, people issues, and environmental issues. So when activists come to us now, we can say, "Here's how we're training and developing our people. Here's how we're promoting economic development within McDonald's." We will always be criticized because we're so visible, but today, we invite that criticism. We know we're doing good things and we can back them up with a sound strategy.

Q: McDonald's forged its strategy in response to criticism. Why should Chinese companies create CSR strategies before being attacked?

A: If you wait, usually it's too late to do something that makes sense for your business. If you're strategic, you can find something that will help your business grow. We have found that many of our strategies have helped us become more efficient. When it comes to the environment, if we produce less waste and use less packaging, we will save money. If you're smart about it, CSR could be win-win. If you're not, it could be lose-lose. Producing CSR solutions in a crisis won't be practical and may cost you money.

Q: Chinese companies that develop products for an overseas market often suffer from a credibility gap. How can communication help them overcome this?

A: I identify with that feeling. Every survey I see for multinational companies says that the trust factor for McDonald's is not high. We know we're better off having partnerships with third parties, whether NGOs, academics, or other third-party institutions. So if we're developing an environmental scorecard, we work with a large environmental partner. If we're looking at advancing supply chain practices, we'll work with groups like the World Wildlife Fund. And when they partner with us and they see what we do, they help us gain credibility that is tough to achieve in a very critical marketplace.

Q: But why should Chinese companies marketing their products abroad be interested in involving NGOs and non-profits and in publicizing the reports?

A: At the heart of it, it's about consumers' care. You could debate how much they act upon the information, change their behavior, or buy according to corporate responsibility issues. It varies across the world. But look at the upward trends. The global consumer, in practically every part of the world, is going to act upon this more and more. And even if it's only in their hearts and not in their behavior, that still is a big part of gaining the loyalty of your customer base. So I would encourage it for business reasons. It's a good way to grow, a good way to be more relevant, and a good way to bring more innovation and efficiency into your business.

Q: As you said, consumer attitudes vary greatly across the world. What are you seeing in China? What sort of CSR initiatives is McDonald's doing here, in your largest-growing market?

A: For one, we provide a lot of economic development by bringing business into China. This includes a lot of jobs—I think we employ 60,000 people in China—but also a huge supply chain. When we started in China 20 years ago, very little of what we bought came from China. Today, virtually everything comes from China. So we think that's an important contribution to society. We also started a chapter of philanthropy as well: the Ronald McDonald Charities, which helps kids in need, especially with medical needs, is something we started about four years ago. On the environmental end, I'd say that energy is a big issue. We know that China is a place where there's a lot of booming energy technology and innovation, and we want to tap into that. We use a fair amount of energy in our restaurants, and I'd say that that's our #1 environmental impact that we want to minimize.

Q: And how are you seeing Chinese consumers respond to this? Is there increasing loyalty to McDonald's among Chinese consumers as a result of your CSR activities here?

A: I think it's too soon to tell. But I think the way we would measure that is through our trust scores, and our trust scores in China are on a good trend. But it's very hard to pinpoint things related just to

(Continued)

CSR. Certainly, we think that a big part of our brand and a big part of our reputation involves gaining the trust of customers, including those in China. We want them to trust our business, trust that the food we serve comes from high-quality, safe sources; that we treat our people right; that we treat the environment right. It's going to pay off in the end.

Source: Cheung Kong Graduate School of Business, www.cheungkong-gsb.com, 2011. Used with Permission.

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 (as illustrated in the opening profile). The United Nations published 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.¹ 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 mostly 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. Also discussed separately is the topic of sustainability—although it, too, falls under the umbrella of **corporate social responsibility (CSR)**.

THE SOCIAL RESPONSIBILITY OF MNCs

“... advocates of corporate social responsibility consider it a wealth-creating opportunity that will attract new consumers, idealistic employees, and the potential for reduced capital cost; ... critics claim corporate social responsibility is a form of taxation that reduces the value-creation process of capital.”²

HARVARD BUSINESS REVIEW,
JUNE 2011.

“Ikea is investing €125 million, or \$163 million, in social programs to help women and children in India and elsewhere in South Asia.... We're not on the stock exchange, so we can be very long term.”

MIKAEL OHLSSON, IKEA CEO, WWW.NYTIMES.COM,
SEPTEMBER 20, 2010³

Multinational corporations (MNCs) and multinational enterprises (MNEs) 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 developing countries. The criticisms of MNCs have been lessened in recent years by the decreasing economic differences among countries, by the emergence of developing countries' own multinationals, and by the greater emphasis on social responsibility by MNCs.

Issues of social responsibility continue to center on 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



UNDER THE LENS

Shareholders Pressure Walmart for Transparency about How Its Suppliers Treat Workers

Illustrating that shareholders are not always focused only on profits, the New York City Pension Funds, a minority shareholder in Walmart, is pressuring the company to require its suppliers to give annual reports about working conditions in their factories.⁴ The fund owns 5.7 million shares in Walmart; however, that is still only less than 0.2 percent of the total.⁵ Clearly the public is bringing pressure to bear on companies that source great amounts of supplies from developing countries. Kalpona Akter, a Bangladeshi labor organizer who presented the proposal at the Walmart annual shareholders' meeting on May 27, 2011, complained that many of the Bangladesh factories that produced goods for Walmart mistreated their workers.⁶ She said that while many factories have implemented the minimum wage, "we haven't seen any Walmart suppliers giving a living wage to workers; ... when the auditor goes to the factory, the worker is coached by the management to tell lies in front of the auditors—that they are being paid living wages, that they are not being harassed."⁷

Labor activists in China, for example, state that Walmart makes suppliers compete for the company's business on the basis of price. "Walmart pressures the factory to cut its price, and the factory responds with longer hours or lower pay," said a Chinese labor official, who declined to be named for fear of punishment. "And the workers have no options."⁸

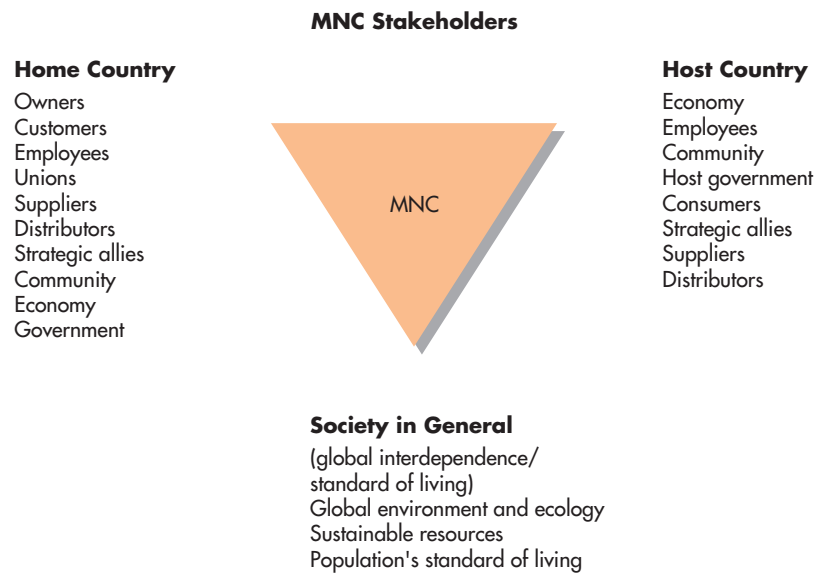
For its part, Walmart contests these claims, saying that suppliers are required to meet Walmart's standards or lose their contracts; and also that it would be very difficult to get suppliers to give comprehensive annual reports on working conditions. In any event, it is generally known that suppliers often do not enforce the law regarding minimum wages, or enforce standards required by the companies.⁹ Walmart is the largest importer of foreign goods in the United States.

have a positive impact on developing economies 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 some 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, as illustrated by the Walmart example in the accompanying Under the Lens section.

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' interests¹⁰—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 and to the environmental and social costs of their actions, as illustrated in the opening profile on McDonald's.

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 not only with 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

EXHIBIT 2-1 MNC Stakeholders

employees and unions will mean higher prices for consumers and less profit for shareholders. 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.

Paul Krugman contends that opposing industrialization based on low wages “means that you are willing to deny desperately poor people the best chance they have of progress for the sake of what amounts to an aesthetic standard—that is, the fact that you don’t like the idea of workers being paid a pittance to supply rich Westerners with fashion items.”¹¹

Clearly, foreign investment in China, for example, has driven spectacular growth, increased wages, and radically lowered the poverty rate. This compares with Bangladesh, with minimal foreign investment, and a population continuing in abject poverty.¹² Nevertheless, the campaigns of anti-sweatshop activists have resulted in some improvements in workers’ lives in other countries, in particular regarding health and safety issues.

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.”¹³

In addition, it is clear that there are long-term competitive benefits deriving from CSR, much of which result from the goodwill, attractiveness, and loyalty of the various stakeholders connected with the company. These may be in the local area, such as government, suppliers, employees, brand reputation, etc., or far-flung, such as consumers. Ikea, quoted previously, is an example of a long-term attitude to CSR. Ikea, the Swedish home retailer with 317 stores worldwide, gave up its plans to open dozens of stores in India after the Indian government would not lift limits on foreign investment in the retail sector. Even so, Ikea plans to double the amount of goods it buys in India, and is investing 125 million euro (about \$163 million) in social programs to help women and children in India and elsewhere in South Asia. These investments make Ikea the largest corporate partner in the world to aid agencies including UNICEF and Save the Children.¹⁴ (As an update, as this book goes to press, Ikea announced in June 2012 that the company had been granted permission to open 25 stores in India under a policy change that allows some retailers to own 100 percent of their units there.¹⁵ It would seem, from this development, that the company’s benevolence did pay off.)

Manuela Weber suggests that the impact of CSR on business benefits, listed below, can increase the firm’s competitiveness and thus economic success.

Business benefits from CSR¹⁶

- Improved access to capital
- Secured license to operate

- Revenue increases
- Cost decreases
- Risk reduction
- Increase in brand value
- Improved customer attraction and retention
- Improved reputation
- Improved employee recruitment, motivation, and retention.

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 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 TIMES¹⁷

While making good faith efforts to implement CSR, companies operating abroad face confusion about the cross-cultural dilemmas it creates, especially in regard to 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.¹⁸

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.¹⁹ 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, 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. And in 2011, “facing pressure from universities and student groups, Nike announced an agreement on Monday in which it pledged to pay \$1.54 million to help 1,800 workers in Honduras who lost their jobs when two subcontractors closed their factories.”²⁰

The difficulty, even in adopting a stance of moral universalism, is in deciding where to draw the line. 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.

One fact, however, is inescapable: in a globalized market economy, CSR has to be part of modern business.

From CSR to Shared Value?

According to Porter and Kramer, the concept of social responsibility in which societal issues are regarded by corporations as legal or image concerns outside of the main business is a short-sighted approach to value creation and therefore to competitiveness.²¹ Creating Shared Value (CSV)—that is, expanding the pool of economic and social value—“leverages the unique resources and expertise of the company to create economic value by creating social value.”²² By viewing the growth, profitability, and sustainability of the corporation as intermeshed with societal and economic progress in the markets in which it operates, companies such as Walmart, Google, and Intel are creating shared value by: “reconceiving products and markets; redefining productivity in the value chain; and enabling local cluster development”²³ (clusters of related business in a local area in which the company operates). Walmart, for example, has reduced its environmental footprint through its revamping of the plastic used in its stores, and by reducing its packaging; it also has cut 100 million miles from its delivery routes, saving \$200 million even as it shipped more products.

In spring 2011, Google announced its plan to go all out to establish the company in Europe “as more of a local player that is investing in jobs, in facilities, our physical presence, and all the ancillary things that come with that.”²⁴ Google clearly has developed this new approach in response to challenges on issues including privacy, copyright disputes, antitrust actions, and taxation. “The company is spending hundreds of millions of euro to try to demonstrate that it is a responsible corporate citizen and a valuable contributor to the local economy.”²⁵ In this case, one questions whether this is truly creating shared value or simply practicing CSR in response to Google’s negative image and lost opportunities.

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)

BUSINESSWEEK²⁶

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. So loud has been the cry about products coming from so-called sweatshops around the world that former President Bill Clinton established an Anti-Sweatshop Code of Conduct, which includes a ban on forced labor, abuse, and discrimination, and requires companies to provide a healthy and safe work environment and to pay at least the prevailing local minimum wage, among other requirements. 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.²⁷ (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 sold in the West are imported from Asia by Western companies using manufacturing facilities located there (see, for example, the accompanying “Comparative Management in Focus” section which focuses on China). 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



COMPARATIVE MANAGEMENT IN FOCUS

Doing Business in China—CSR and the Human Rights Challenge

... the Communist Party's Central Committee called in a report on its annual meeting for an "Internet management system" that would strictly regulate social network and instant-message systems, and punish those who spread "harmful information." The focus of the meeting, held [October 2011], was on culture and ideology.

www.nytimes.com,
October 26, 2011.²⁸

A two-year government "action plan" to protect human rights in China has proved to be "largely a series of unfulfilled promises," a leading international human rights watchdog has found.²⁹

THE CHRISTIAN SCIENCE MONITOR,
January 11, 2011.

China ranks 78th in the Transparency International 2010 Corruption Perceptions Index—down from 72nd in 2007.³⁰

China's growth engine continued to drive the global economy in 2012 (albeit more slowly), propelled by China's \$586 billion economic stimulus plan enacted during the global economic downturn. However, although this growth has lifted millions of Chinese out of poverty, many people and their basic rights remain largely behind, and there has been a heavy cost to the environment as energy usage increases and causes pollution. Growth in higher skilled jobs and in services is now well under way. However, there is continuing concern 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. MNCs such as Walmart face considerable pressure in their home markets to address human rights issues 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.³¹ In

MAP 2.1 China



(Continued)

addition, while the culture of profit has resulted in a market economy in much of China, reducing the number of state-owned enterprises while increasing joint ventures and private ownership, that culture seems to have led to shortcuts in manufacturing, leading to problems with products, such as the toxic toys that Mattel had to recall in 2007, and poor treatment of workers.

Freedom of information took a particularly hard hit in October 2011 when the media reported that “Whether spooked by popular uprisings worldwide, a coming leadership transition at home or their own citizens’ increasingly provocative tastes, Communist leaders are proposing new limits on media and Internet freedoms that include some of the most restrictive measures in years.”³² This included curbs on “Twitter”-style microblogs that had been critical of the government, and severe limits on television programs.

Previously, as is now well known, Google had agreed to China’s demands to apply censors’ black-lists 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.³³

While Internet and technology executives were called to Capitol Hill in February 2006 to defend their companies’ practices in China, it was clear that American corporations and their foreign policy interests would prevail.³⁴ 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.”³⁵

The latest censorship moves come as a disappointment because it had seemed that China was becoming more conscious of the need to improve its image regarding CSR as it takes a larger economic

FIGURE 2-1 Women in Shoe Factory in China Shoe factory of an unnamed company in China, where women work very long hours. If they finish their lunch early, they may rest at their posts until the lunch time is over.



Source: © Michael Wolf/Redux Pictures

role on the world stage; indeed, its membership in the WTO obliges the country to act in concert with the policies and values of a free market.³⁶ Recognition of the UN Social Accountability Code (8000), adopted by over 200 companies worldwide, has helped to establish some norms regarding workers' rights in some provinces and cities in China. Although, as noted by Po Keung Ip, many companies adopted the code because they were forced to do so by their MNC buyers, which were under constant pressure themselves from consumers, investors, NGOs, and government in their home countries. "Major MNCs, like Walmart, Nike, Adidas, Avon, Motorola, Gap, and Carrefour, have been instrumental in transforming the business behaviors of their Chinese contractors through their ethical supply chain management which selects and audits contractors according to ethical codes."³⁷

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.³⁸

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 "Я" 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.³⁹

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 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 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."⁴⁰ The examples shown in Exhibit 2-2 are excerpted from the codes and show how companies can provide a cooperative, long-term relationship with the local people and governments where they operate.

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.⁴¹

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.⁴² 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

EXHIBIT 2-2 International Codes of Conduct for MNEs

MNE and Host Governments

Economic and Developmental Policies

- 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)
- 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)
- MNEs should cooperate with governmental policies regarding local equity participation. (ICC; UN/CTC)
- MNEs should not dominate the capital markets of the countries in which they operate. (ICC; UN/CTC)
- MNEs should provide the information necessary for correctly assessing taxes to be paid to host government authorities. (ICC; OECD)
- MNEs should not engage in transfer pricing policies that modify the tax base on which their entities are assessed. (OECD; UN/CTC)
- MNEs should give preference to local sources for components and raw materials if prices and quality are competitive. (ICC; ILO)
- MNEs should reinvest some profits in the countries in which they operate. (ICC)

Laws and Regulations

- MNEs are subject to the laws, regulations, and jurisdiction of the countries in which they operate. (ICC; OECD; UN/CTC)
- MNEs should respect the right of every country to exercise control over its natural resources, and to regulate the activities of entities operating within its territory. (ICC; OECD; UN/CTC)
- MNEs should use appropriate international dispute settlement mechanisms, including arbitration, to resolve conflicts with the governments of the countries in which they operate. (ICC; OECD)
- MNEs should resolve disputes arising from expropriation by host governments under the domestic law of the host country. (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)

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)

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)

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)

(Continued)

EXHIBIT 2-2 (continued)**Employment Practices (excerpts)**

- MNEs should cooperate with host governments' efforts to create employment opportunities in particular localities. (ICC)
- MNEs should try to increase employment opportunities and standards in the countries in which they operate. (ILO)
- MNEs should give advance notice of plant closures and mitigate the resultant adverse effects. (ICC; OECD; 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)

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 Corporations

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.

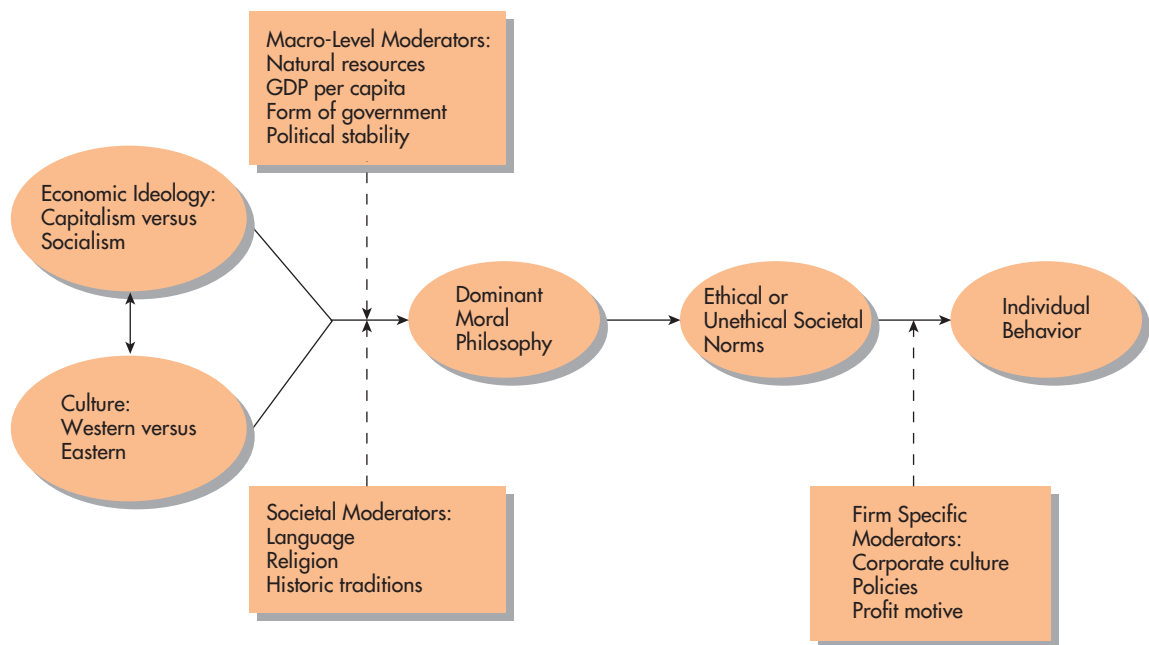
The term **international business ethics** refers to the business conduct or morals of MNCs in their relationships with individuals and entities. Such behavior is based largely on the cultural value system and the generally accepted ways of doing business in each country or society, as we have discussed 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.*⁴³

Should, then, managers of MNC subsidiaries 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.⁴⁴ 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.⁴⁵

Petersen's experience has been borne out by research by Transparency International, a German nongovernmental organization (NGO) that fights corruption. It draws on data from

EXHIBIT 2-3 A Moral Philosophy of Cross-Cultural Societal Ethics

Source: C. J. Robertson and W. F. Crittenden, "Mapping Moral Philosophies: Strategic Implications for Multinational Firms," *Strategic Management Journal* 24: 385–92 (2003). © John Wiley & Sons, Inc. Reproduced with permission.

fourteen different polls and surveys from thirteen independent institutions around the world to rank 180 countries, based on results from 63,199 respondents. The organization's year 2010 Global Corruption Barometer (selections are shown in Exhibit 2-4) shows the 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. A primary focus of the research was the relative prevalence of bribery in various spheres of people's lives, including political and business practices.

The 2010 Corruption Perceptions Index shows that nearly three-quarters of the 178 countries in the index score below five, on a scale from 10 (highly clean) to 0 (highly corrupt). These results indicate a serious corruption problem.

Overall, the data show that those countries in Western Europe, Singapore, New Zealand, Canada, and Australia, were the least corrupt, closely followed by Hong Kong and Japan; the United Kingdom scored 7.6 (dropping from 8.4 in 2007); and the United States scored 7.1, for example, compared with 9.3 for Denmark. South Korea scored 5.4; South Africa 4.5; Brazil and China 3.5; Mexico scored 3.1; and other countries, such as Vietnam, and African countries scored far lower, with Russia scoring 2.1.⁴⁶ Sadly, many scores were lower than previous years:

Notable among decliners over the past year are some of the countries most affected by a financial crisis precipitated by transparency and integrity deficits.⁴⁷

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 business in others.

Ethics in Uses of Technology

*"European citizens care deeply about protecting their privacy and data protection rights," ...
"Any company operating in the E.U. market or any online product that is targeted at E.U. consumers should comply with E.U. rules."*

VIVIENNE REDING, EUROPEAN JUSTICE COMMISSIONER,
MAY 4, 2011.⁴⁸

EXHIBIT 2-4 2010 Corruption Perceptions Index—Selected Scores Each country's score relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).

Rank	Country	Score
1	Denmark	9.3
1	Singapore	9.3
1	New Zealand	9.3
4	Finland	9.2
6	Canada	8.9
8	Australia	8.7
13	Hong Kong	8.4
15	Germany	7.9
17	Japan	7.8
20	UK	7.6
21	Chile	7.2
22	Belgium	7.1
22	USA	7.1
25	France	6.8
33	Taiwan	5.8
39	South Korea	5.4
41	Poland	5.3
56	Greece	4.6
51	South Africa	4.5
56	Turkey	4.4
67	Italy	3.9
72	Brazil	3.5
78	China	3.5
87	India	3.3
98	Mexico	3.1
105	Argentina	2.9
110	Bolivia	2.8
116	Vietnam	2.7
131	Philippines	2.5
143	Indonesia	2.3
154	Russia	2.1

Source: Based on selected data from the TI Corruption Perceptions Index, 2010. www.transparencyinternational.org, accessed June 18, 2011.

The ethical use of technology around the world poses a considerable challenge to have consistent practices because of the varied expectations about the use of technological devices and programs as they intersect with people's private lives. This conflict is 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. It appears that the rules are being set by Europe; in May 2011, for example, regulators in France, Germany, and Italy were focusing on whether Apple's iPhone and iPad violated privacy rules by tracking the location of users. Google, for example, had previously started a firestorm in Germany when it was discovered that it had been gathering information for its street mapping service from people's unsecured wireless networks. Later, Sony acknowledged a breach of data of 77 million users of its PlayStation Network. As a result of such breaches of privacy, Ms. Reding, the European Justice Commissioner, has proposed extending privacy rules to social media and online banking, shopping, and video games, among others.⁴⁹ In the United States there is no agency dedicated to monitoring issues of data privacy as there is in Europe.

Bribery

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

FINANCIAL TIMES⁵⁰

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 CORPORATION⁵¹

MNCs are often caught between being placed at a disadvantage either 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. Some other large companies, however, have not always taken a moral stand. Such was the case in April 2011 when a Justice Department complaint against a Johnson & Johnson subsidiary found internal company emails that stated that . . .

"cash incentives to surgeons is common knowledge in Greece," and that, were the company to stop paying bribes, "we'd lose 95% of our business by the end of the year."

www.nytimes.com,
APRIL 8, 2011.⁵²

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 in each specific situation 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.⁵³

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, and 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), and *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."⁵⁴ 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 building 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. In his book on bribes, Noonan takes the following position:

Bribery is universally shameful. There is not a country in the world that does not treat bribery as criminal on its books.... In no country do bribetakers speak publicly of their bribes, nor do bribegivers 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.⁵⁵

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 purpose of influencing them in business transactions. The goal was to stop MNCs from contributing to corruption in foreign governments and to upgrade the image of the United States and its companies operating overseas. Unfortunately, graft is still pervasive in global business today, and in 2012, the U.S. Justice Department was investigating 78 well-known companies for violation of the FCPA. Those included Walmart, which was being investigated after allegations were made that several executives at Walmart Mexico paid bribes to obtain permits for new stores and that some executives at Walmart headquarters hushed up evidence of the wrongdoing. Subsequently, Mexican government officials began their own investigation into how Walmart gained the permits.⁵⁶ The investigations were ongoing as of the completion of this book.

Questions often surface about who in the corporations should be held responsible for infractions under the FCPA. Indeed, on February 23, 2012, Albert Stanley, former CEO of engineering giant KGB, was sentenced to two and a half years for his role in one of the biggest bribery cases in American history. Stanley, who had spent his career in many countries, pleaded guilty to conspiring to bribe officials in Nigeria in return for \$6 billion in business contracts.⁵⁷ Indeed, the law is not limited to the United States; nine of the ten largest corporate settlements involved companies outside the United States, such as the German giant Siemens, which in 2008 was convicted of bribing officials in several countries. (Amendments in 1998 ruled that the anti-bribery provisions of the FCPA now also apply to foreign firms and their personnel who, directly or indirectly through agents, violate the act within the United States.)⁵⁸ While the penalties for violating the FCPA 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. For others, the law strikes fear in managers and corporations about criminal liability. In 2012, the Chamber of Commerce was working with authorities to provide more clarity and guidelines for corporations and managers to help them stay within the law.⁵⁹

In 1997 the Organisation for Economic Co-operation and Development's Convention on Bribery was signed by 36 countries in an attempt to combat corruption.⁶⁰ The Convention commits signatories to make it a crime to bribe foreign public officials in international business transactions and to set up policies and enforcement procedures. In 2010 there were 38 signatories including non-O.E.C.D. members such as Brazil, South Africa, and Argentina, and there have been 12 prosecutions of individuals and companies under the FCPA. The *New York Times* reported that "148 individuals and 77 entities had been sanctioned under criminal proceedings for foreign bribery in the countries that have been party to the convention from the start, with the greatest number in the United States."⁶¹

In spite of these efforts, evidential problems continue to hinder prosecutions. Unless there is a complaint or whistle-blowing, there are few avenues for regulators to ferret out incidents of 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 that 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.⁶²

As far as the actions that individual managers take when doing business overseas, if we agree that accepting or giving a bribe is always wrong, then our decisions as managers, salespersons, and so on are always clear, no matter where we are.

However, many businesspeople believe that it is just part of the cost of doing business in many countries to pay small bribes to simply get people to do their jobs, and they are willing to engage in bribery as an everyday part of meeting their business objectives. Frequently 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. The FCPA does allow “grease” payments to facilitate business in a foreign country, if in fact those payments are lawful there. However, 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.

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)? and (3) can it be talked about?⁶³

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 a worldwide code of ethics.
- Build ethical policies into strategy development.
- Plan regular assessment of the company’s ethical posture.
- If ethical problems cannot be resolved, withdraw from that market.

As an example, General Electric (GE) decided to take a hard line on corruption, electing to “level up, not down,” and withdrawing from Nigeria and Russia when corruption was especially rife.⁶⁴ In fact, according to GE’s Mr. Rice:

*The firm’s hard line on corruption is actually helping it win business in many developing countries. Increasingly they understand that corruption is a barrier to improving the standard of living of the poorest people and they want to do business more and more with an ethical firm.*⁶⁵

THE ECONOMIST

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? Usually, the manager or salesperson is faced with wanting to make certain decisions which will benefit her company and or her career. That decision, or set of actions, is likely to be profitable for the company and secure new market opportunities. However, there are many other considerations that make it less clear whether to continue to pursue that avenue, in particular in countries or settings that provide less transparency, and often certain pressures, about what to do. If the manager is faced with such a situation, she has a number of steps that can help her clarify the way to proceed.

Steps to an Ethical Decision

1. 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.

FIGURE 2-2 Man Refusing Bribe from a Woman

Source: fuzzbones/Fotolia, LLC

2. 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 there is no apparent conflict on these legal grounds, then proceed with further consultation.
3. Consult the company's code of ethics (if there is one) and established norms. Note that it is the responsibility of the company to provide guidelines for the actions and decisions made by its employees. What kinds of decisions do your colleagues typically make in these kinds of circumstances? If your intended action runs contrary to the norms or the formal code, discontinue that plan.
4. Consult your superiors if you still need clarification. Unfortunately, often the situation is not that clear-cut, 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. Failing clear guidance:
5. Weigh stakeholders' rights (see Exhibit 2-1). To whom are you responsible? What are the priorities of responsibilities to those stakeholders? What is the potential benefit versus harm involved in your decision or set of actions? (For example, 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? Who might be harmed? 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.)
6. Follow your own conscience and moral code. Ask yourself if you can live with the potential decision and also what would be the next step for you if you continue along that path.

It is important to 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 here with a small bribe or cover-up—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 as international banks such as Citigroup and JP Morgan Chase were charged with taking part in sham deals to disguise Enron's financial problems. In 2011 a number of executives of banks and financial institutions were being investigated in the wake of the financial crisis precipitated by the housing mortgage debacle.

MANAGING INTERDEPENDENCE

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—and not haphazardly considered as 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; FDI in the United States by other countries is, in a number of industries, 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 the cooperation that 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. In Japan, corporate social responsibility has traditionally meant that companies take care of their employees, whereas in the United States both the public and private sectors are expected to share 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 usually familiar with community needs. For these and other reasons, Japanese subsidiaries in the United States have not been active in U.S. philanthropy.

Managing Subsidiary–Host Country Interdependence

Nike believes that we are at the beginning of a shift from a service- or knowledge-based economy to a sustainability-based economy, as environmental constraints increasingly influence business choices.

ORGANIZATIONAL DYNAMICS 39,
2010.⁶⁶

When **managing interdependence**, international managers must go beyond general issues of social responsibility and deal with the specific concerns of the MNC subsidiary–hostcountry relationship. Outdated attitudes that focus only on profitability and autonomy are shortsighted and usually result in only short-term realization of those goals. Managers in those companies 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.⁶⁷

Most of the past criticism levied at MNCs has focused on their activities in less developed countries (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, those corporations and NGOs help developing countries 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 foreign investment provides, 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.⁶⁸

Specific MNCs have been charged with tax evasion, union busting, and interference in host-country politics. Of course, corporations 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 large corporations is based on their large-scale, world-wide 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.⁶⁹ This was illustrated by the actions of governments around the world to support their banking systems in 2008 and 2009.

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 corporation's socially responsive stance should result in progressive strategic success for the company 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

EXHIBIT 2-5 Potential Benefits and Costs to Host Countries of MNC Operations There

Benefits	Costs
Capital Market Effects	
• Broader access to outside capital • Economic growth • Foreign-exchange earnings • Import substitution effects allow governments to save foreign exchange for priority projects	• Risk sharing • Increased competition for local scarce capital • Increased interest rates as supply of local capital decreases • Capital service effects of balance of payments
Technology and Production Effects	
• Access to new technology and R&D developments • Employee training in new technology • Infrastructure development and support • Export diversification • Introduction of new management techniques	• Technology is not always appropriate • Plants are often for assembly only and can be dismantled • Government infrastructure investment is higher than expected benefits • Increased pollution
Employment Effects	
• Direct creation of new jobs • Introduction of more humane employment standards • Opportunities for indigenous management development • Income multiplier effects on local community business	• Limited skill development and creation • Competition for scarce skills • Low percentage of managerial jobs for local people • Employment instability because of ability to move production operations freely to other countries

Source: Based on R. H. Mason and R. S. Spich, *Management: An International Perspective*, p. 202 (Homewood, IL: Irwin, 1987).

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 foreign companies operating there is of particular concern when discussing social responsibility because of the tentative and fragile nature of the economic progression in those countries. Corporations (and non-governmental organizations [NGOs]) 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 for MNEs 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).⁷⁰

Managing Environmental Interdependence and Sustainability

Sustainability lies at the intersection of financial, social and environmental health—described sometimes as the “triple bottom line.”⁷¹

International managers can no longer afford to ignore the impact of their activities on the environment and their stakeholders. The demand for corporations to consider **sustainability** in their CSR plans comes from various stakeholders around the world. A generally accepted definition of **sustainable development** for business enterprises is that of. . .

adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today, while protecting, sustaining and enhancing the human and natural resources that will be needed in the future.⁷²

JOURNAL OF SOCIO-ECONOMICS

Existing literature generally agrees on three dimensions of sustainability: (1) economic, (2) social, and (3) environmental. A sustainable business has to take into account “the interests of future generations, biodiversity, animal protection, human rights, life cycle impacts, and principles like equity, accountability, transparency, openness, education and learning, and local action and scale.”⁷³

A study by Mirvis et al. found that, while most executives agree that sustainability is important to the financial success of their companies, less than half of them are making serious commitments to integrate the necessary steps into their business systems. Reasons include a lack of clear view on what sustainability comprises, and the difficulty in allocating responsibility in the company for the vast and overlapping concerns of environmental, social, and governance issues. As a result sustainability often does not get internalized in the culture or systems of the company, and competing priorities such as short-term profits intervene.⁷⁴ However, companies such as General Electric (GE), Nike, and Gap are among the world’s prominent sustainable organizations and are providing leadership in their transparent models for other organizations to resolve the complex issues involved in implementing sustainability. Nike, Inc., for example, believes that business success will increasingly depend on contributing to a sustainable world; and GE’s chairman and chief executive officer (CEO) Jeff Immelt believes that the next decades will be about technologies and economies to address issues of scarcity.

A more positive report in 2011 from a survey by McKinsey consultants of 3,203 executives representing the full range of industries and geographic regions shows that many companies are actively integrating sustainability principles into their businesses, and they are doing so by pursuing goals that go far beyond earlier concern for reputation management. The McKinsey report noted a more mature attitude toward sustainability and its expected benefits than in prior surveys, saying that “More companies are managing sustainability to improve processes, pursue growth, and add value to their companies rather than focusing on reputation alone.”⁷⁵ In addition, 57 percent said their companies have integrated sustainability into their strategic planning. Of the 2,956 executives who responded, the areas that the companies were taking action on included: reducing energy use in operations (63 percent), reducing waste from operations (61 percent), and managing corporate reputation for sustainability (51 percent).⁷⁶

Leaders in the research noted that barriers that prevent further value-capture from sustainability initiatives include the pressure of realizing short-term profitability compared with the long-term value aspects of sustainability initiatives, and the lack of performance incentives tied to sustainability results.⁷⁷

The dilemma for corporations is that they believe they are faced with trying to meet two often contradictory requirements: (1) selling at low prices and (2) being environmentally and socially conscious. However, competitive pressures limit the company’s ability to raise prices in order to cover the cost of socially responsible policies. This is obviously contradictory to the well-being of societies.⁷⁸ However, a long-term view is that sustainability is good for business, and many companies, such as BP and Nike, have learned this the hard way.

One example of the turnaround in a company’s sustainability efforts is The Coca-Cola Company in India. The company is struggling to accommodate the rising concerns and protests from local farmers about the company’s depletion of water resources. As reported on the PBS *Newshour*,⁷⁹

farmers are particularly angry in Kala Dera, in the drought-stricken state of Rajasthan. The Coca-Cola factory there is one of 49 across India. The company has invested over \$1 billion dollars building a market for its products in this country. The plant used about 900,000 liters of water in 2007, about a third of it for the soft drinks, the rest to clean bottles and machinery. It is drawn from wells at the plant but also from aquifers Coca-Cola shares with neighboring farmers. The water is virtually free to all users. The farmers say their problems began after the Coca-Cola factory arrived in 1999. According to the farmers:

Before, the water level was descending by about one foot per year. Now it's 10 feet every year. We have a 3.5-horsepower motor. We cannot cope. They (Coca-Cola) have a 50-horsepower pump.

PBS NEWSHOUR WITH JIM LEHRER,
NOVEMBER 17, 2008.⁸⁰

Coca-Cola agreed to an independent third-party assessment of some of its operations in India, which confirmed that the Rajasthan plant is contributing to a worsening water situation. It recommended that the company bring water in from outside the area or shut the factory down. Coca-Cola rejected that recommendation. For his part, Coca-Cola's India head, Atul Singh, says it would be irresponsible to leave, saying that "walking away is the easiest thing we can do. That's not going to help that community build sustainability."⁸¹ So Coca-Cola, while insisting its impact on the water supply was minimal, said it would stay and help. The company has agreed to subsidize one-third of the cost of water-efficient drip irrigation systems for 15 neighboring farmers. The government pays most of the rest; growers themselves must chip in 10 percent. Coca-Cola has also set up concrete collection systems for rainwater. The farmers remain skeptical. They also are critical of the government locally for attracting Coca-Cola to a water-scarce region and nationally for ignoring water policy in a rush to attract industry and foreign investment.⁸²

The Coca-Cola example makes clear to global managers that effectively managing environmental interdependence and sustainability 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. Clearly, the disastrous effects of the BP oil spill in the Gulf of Mexico in 2010 has exacerbated that concern—as discussed in the accompanying section *Under the Lens: BP's Sustainability Systems Under Fire*. 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.

In recent years, the export of hazardous wastes from developed countries to less-developed ones has increased considerably. E-waste—from electronic components, computers, and cell phones, for example, all of which are full of hazardous materials—has become a major problem for developing economies, producing sickness and death for its handlers there; this continues in spite of laws against such dumping by U.S. companies and others. 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 lesser-developed countries which lack the technology to minimize the deleterious effects of these substances.*⁸³

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. These are only



UNDER THE LENS

BP's Sustainability Systems Under Fire

BP had a compelling vision of going “beyond petroleum.” What it lacked was the institutional will and managerial acumen to translate its commitments into responsible operations....”⁸⁴

British Petroleum (BP) has been blamed and extensively criticized for the worst environmental disaster in U.S. history, caused by the explosion of the “Deepwater Horizon” drilling rig in the Gulf of Mexico on April 20, 2010. The explosion killed eleven workers and injured 17, and resulted in a massive oil spill—an estimated five million barrels of oil—that despoiled the southern U.S. coastline, created lasting ecological damage and health concerns, and threatened industries and livelihoods reliant upon the Gulf waters. BP’s record and intentions regarding sustainability came under intensive scrutiny as a result of its apparent lack of willingness or preparation to take responsibility and to respond effectively—in particular as it became apparent that the company had inadequate control systems in place to prevent such disasters. As the press then reminded the public of previous BP disasters (such as the Prudhoe Bay oil spill in Alaska in March 2006, resulting in over 212,000 gallons of oil being spilled), the company’s environmental record brought into question whether the company was serious in integrating sustainability into its corporate goals, organizational culture, and systems.⁸⁵ In fact, many accused BP of negligence and greed after the presidential oil spill commission issued its report in February 2011 laying considerable blame on BP for the disaster in the Gulf of Mexico. The report also highlighted flaws in Halliburton’s work and errors by rig owner Transocean. BP was accused of being aware of problems with lab tests of Halliburton’s cement for three years, and that “BP decided not to set a lockdown sleeve, an installation deep in the well, during its preparations for temporary abandonment in order to save 5½ days and \$2 million in costs.”⁸⁶

BP has incurred considerable costs for the cleanup of the beaches and waters in the gulf, for the \$20 billion fund to compensate homeowners and workers in the fishing and tourism industries, for penalties for violating the Clean Water Act, and for the loss of value for the shareholders. In addition, BP’s image has suffered a terrible blow; the company had long promoted its sunburst logo and its “Be Green” campaigns, but after the oil spill its reputation was based on what the company did, or did not do—not what it said—and as a result, BP lost firm value of over \$100 billion.⁸⁷ Apart from the moral argument for responsibility to its many stakeholders, and for sustainability of the environment, the consequences to BP clearly make the business case for corporate social responsibility.

The BP disaster has raised deeper concerns about the usefulness of voluntary CSR policies and reports.⁸⁸ Clearly, many corporations need to focus carefully on the implementation of their sustainability strategies—a subject discussed later in this chapter.

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.⁸⁹

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 MNEs must take the lead in dealing with ecological interdependence by integrating goals of sustainability 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, 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.⁹⁰ One company that is doing its part in minimizing waste is TerraCycle, featured in the accompanying Management in Action box.



MANAGEMENT IN ACTION

*TerraCycle—Social Entrepreneurship Goes Global*⁹¹

In his book 'Revolution in a Bottle,' TerraCycle CEO Tom Szaky boldly claims the company is out to render waste a thing of the past—be it through recycling, downcycling or upcycling. "Our goal over the next ten years is to be operating in every country..."

BUSINESS WORLD,
May 31, 2011.⁹²

TerraCycle—a company that owes its start to worm poop—is the story of Tom Szaky, a Hungarian immigrant and college dropout who became CEO of a company that is now solving global waste problems. Tom Szaky, a 20-year-old Princeton University freshman at the time, founded TerraCycle in 2001 by producing organic fertilizer consisting of liquid worm poop packaged in used soda bottles. Now TerraCycle has 50,000 collecting organizations, including schools, churches, and retail outlets, that run numerous collection programs. Through various alliances, TerraCycle now has 20 million people who collect waste in 20 countries. Some of those recycled goods are then turned into other products. In Mexico, Walmart collects toothbrushes and toothpaste tubes, a program sponsored by Colgate. In Sweden, pen-maker Bic runs an in-store program in Staples. TerraCycle's designers and scientists "manipulate waste streams into new raw materials and products."⁹³ The TerraCycle logo is on 20 billion packages around the world.

Szaky's idea for a class assignment at Princeton drew upon his high-school experience of trying to grow marijuana, which only did well when he tried the previously mentioned "special" fertilizer. That fertilizer resulted from feeding people's garbage to the worms.

After some hard times approaching businesses and other institutions, the idea of "upcycling"—recycling waste into usable products with added value—took hold with a number of companies such as Walmart and Home Depot; partnerships came next with companies such as Whole Foods, Target, and Kraft, who were happy to get the publicity for being "green." It is clear that "From cost savings to goodwill, being green is a marketable benchmark."⁹⁴ Non-profits were happy to be involved with a donation from TerraCycle. Other alliances are with Solo Cups, for example, in which their cups will be recreated into playgrounds. The position of Kim Frankovich, Solo vice president of sustainability, is that "Sustainability is becoming a part of everyday life and making sure our cups can be recycled as part of that ongoing activity is a priority for Solo."⁹⁵

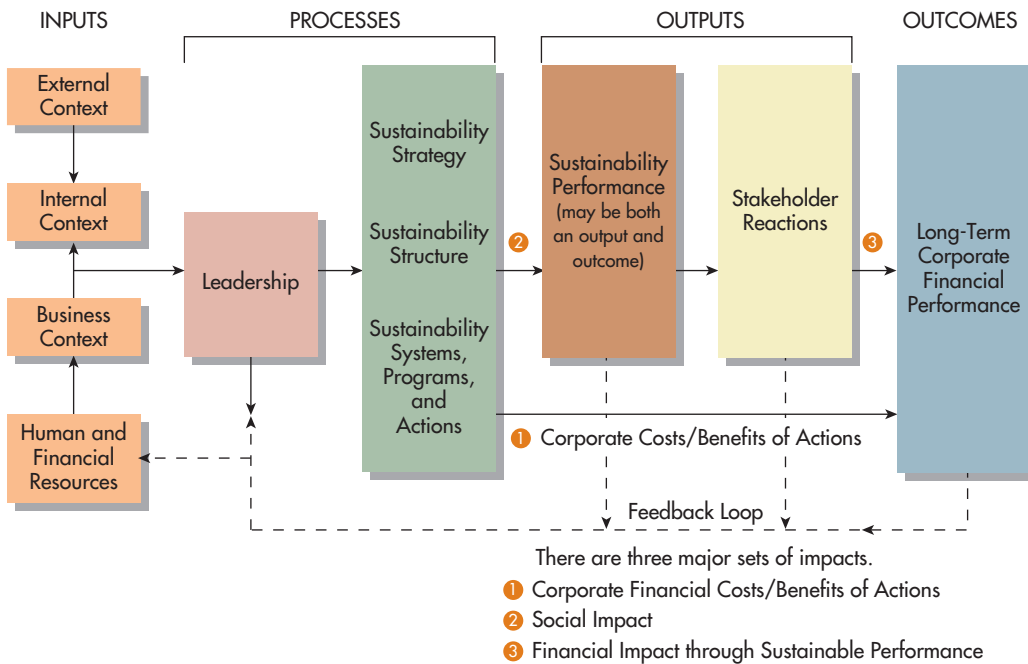
Szaky maintains that people feel good about doing something useful for society. In addition, he says that TerraCycle is fulfilling several needs for society: that corporations have a chance for positive action with the waste created by their processes and that consumers can have a positive feeling about buying eco-friendly products. He maintains that "it is not enough to just offer a green choice at a premium price; the goal is to make green products at a competitive price."⁹⁶

TerraCycle is an example of what Nick et al. call a "social purpose venture." Each exists because of a social, specifically environmental mission, but seeks to achieve profitability and growth.⁹⁷ Regardless of the terminology, it is clear that social entrepreneurs such as Szaky provide "the engine of positive, systemic change that will alter what we do, how we do it, and why it matters."⁹⁸ In addition, by partnering with companies and institutions around the world, TerraCycle is providing a stimulus and outlet for the CSR of those entities and a direct source of initiatives for environmental sustainability.

Implementing Sustainability Strategies

Effective implementation of sustainability strategies, according to Epstein and Buhovac, requires companies to have both formal and informal systems in place: "Companies need the processes, performance measurement, and reward systems (formal systems) to measure success and to provide internal and external accountability. But they also need the leadership, culture, and people (informal systems) to support sustainability implementation. An alignment among the formal and informal systems along with the organizational structure is critical for success."⁹⁹

Epstein's model (Exhibit 2-6) provides a system for examining, measuring, and managing the drivers of corporate sustainability. Essential to success is the commitment of top leadership and the recognition of sustainability as a process that will benefit the company—i.e., that it is a good

EXHIBIT 2-6 Corporate Sustainability Model¹⁰⁰

Source: Marc J. Epstein, "Implementing Corporate Sustainability: Measuring and Managing Social and Environmental Impacts," *Strategic Finance*, January 2008. Copyright 2008 by IMA, Montvale, N.J., www.imanet.org, used with permission.

business idea. Key to understanding the role of corporate sustainability is the relationship between managers' decisions, their impact on the society and its environment, and financial performance. In Epstein's model, the inputs include the external context in which the company operates that are specific to the locations; the internal context of the company's systems and structure; the business context, such as the industry sector, customers, and products; and the human and financial resources available to the corporation for sustainability purposes.¹⁰¹ Output measures of the success of the corporation's sustainability would include, for example, reduction in energy use or hazardous waste, positive change in human rights complaints, etc. These could result, among other factors, in cost savings and in increased sales from improved reputation (as was the case, for example, when Nike turned around its human rights reputation after a student embargo on its 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. 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 corporate actions 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, as well as local employees, 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, interdependence, and sustainability 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 2 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 that they 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. 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 managers 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. 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, yet bribery or other payments are frequently 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. Issues of “sustainability” have come to the forefront as firms consider their long-term relationships with host countries.
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. Implementation of sustainability strategies requires the company to have both formal and informal systems to support the goals. Essential to success is the commitment of top leadership and the recognition of sustainability as a process that will benefit the company—that it is a good business idea.

Discussion Questions

1. Discuss the concept of CSR. 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? 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? Should the local culture affect ethical practices? What are the implications of 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. 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 sustainability.

8. 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

1. Do some research to determine the codes of conduct of two familiar companies. 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.

You are the VP for global sales of a telecommunications equipment company. The accounting manager of your company recently brought to your attention an unusual charge of a 3 percent commission to a purchasing manager in Russia with whom your company had recently started doing business. One state-owned manufacturing company in Russia (for privacy's sake, we will call the company “R”) submitted a bid for a large order of your equipment. You remember being surprised to get the contract with “R” because your company had never been able to do business with them since it started there many years ago. As it turned out, your new sales manager for the region had a relative in “R” who promised to supply him with all of your competitors’ bids if he paid him a 3 percent commission on all of the sales to his company. The area manager accepted this arrangement. He got the competing bids and secured the deal with your company.

What would you do, given the following: (1) If you refuse to accept the business without any legitimate reasons (presently there are none) your company will be blacklisted in that country—which amounts to about 20 percent of gross yearly profit. (2) If you accept the business and do not pay the 3 percent commission, the purchasing manager will make much trouble when he receives your shipment. No doubt he will not release the 5 percent bank guarantee letter about the quality and quantity of the material. (3) If you accept the business and pay the 3 percent commission, you feel that it would malign your company’s reputation and your beliefs.

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.

Source: Based on Delaney and D. Sockell, “Ethics in the Trenches,” *Across the Board* (October 1990): 17.

Internet Resources

Visit the Deresky Companion Website at www.pearsonhighered.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 2005 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 denies 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% of the factories, 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 faced, and therefore the continuing challenges for the management. The NGOs working on these issues know that such problems are common. Indeed, they realize that the company 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 while they are delivering widespread improvements, new approaches are needed that engage governments, NGOs, and local businesses.

This realization led to a new strategy from Nike. In May 2005 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 Nike's involvement in the Multi-Fibre Agreement (MFA) Forum to help countries, unions, and others plan for the consequences of the end of the MFA. (The agreement and the Forum were set up by the World Trade Organization to help developed countries compete in the textile industry. These have both since ended.)

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, 2005, by the worldwide managing director of McKinsey & Company, actually 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."³ However, those who have experience working in this field for some years, including Nike, realize 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 criticized by ActionAid for profiting from worsening conditions for workers on plantations.⁴ 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 toward the goal of their employer, the company. In May, 2005 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.⁵ This reflects what Mark Gerzon describes as a focus on "leadership within borders," when what the world needs is "leaders beyond borders."⁶ This means people are needed 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*.⁷ 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 the 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.

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By Jem Bendell, Auckland University of Technology, Director, Lifeworth. COPYRIGHT 2005
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Case Questions

1. Discuss the challenges regarding corporate social responsibility that companies in the apparel industry face in their 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?
6. Research Nike’s CSR actions since this time frame and why it has earned the reputation as one of the world’s foremost organizations in sustainability.