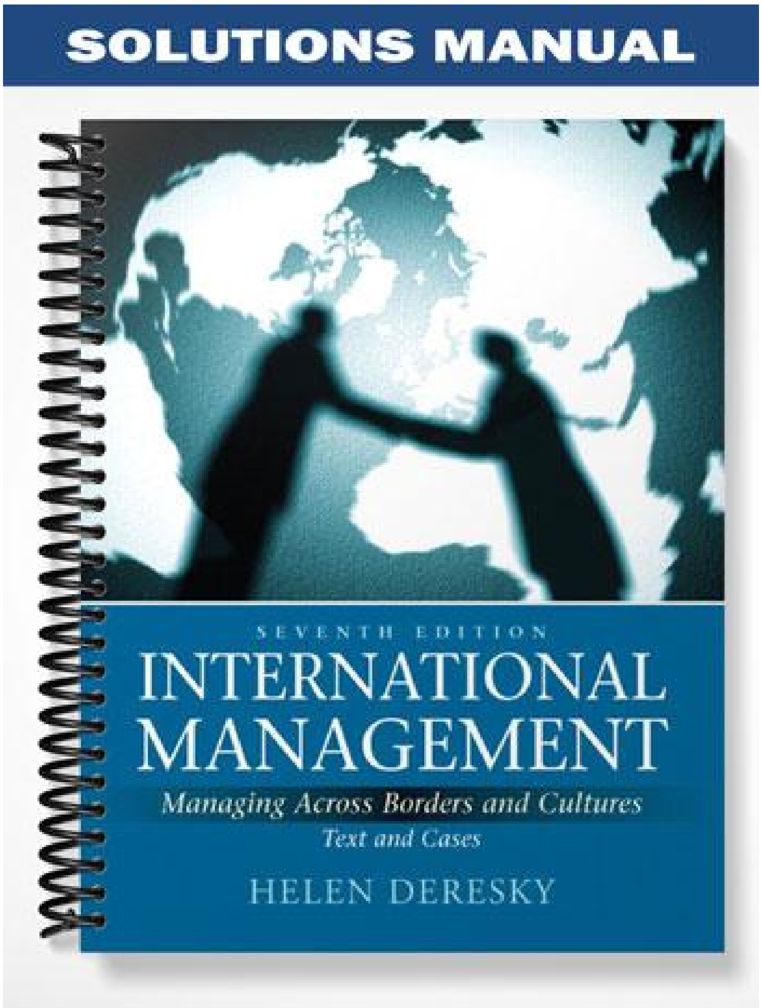
SOLUTIONS MANUAL
SEVENTH EDITION
INTERNATIONAL MANAGEMENT
Managing Across Borders and Cultures
Text and Cases
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CHAPTER 2

MANAGING INTERDEPENDENCE: SOCIAL RESPONSIBILITY AND ETHICS

LECTURE OUTLINE

General Outline
Opening Profile
The Social Responsibility of MNC's
Ethics In Global Management
E-Biz Box
Managing Interdependence
Chapter Discussion Questions
Student Stimulation Questions and Exercises

Opening Profile-AIDS: Nestle's New Moral Dilemma in Africa

Nestle Corporation of Switzerland, in the year 2001, is facing a moral dilemma regarding distribution of its baby formula in Africa. Back in 1981, there was a seven-year boycott of the company's baby products and the United Nations code on selling baby formula in LDCs pressured Nestle to change its marketing strategy for Similac baby formula. Nestle had promoted Similac in LDCs as a replacement for breast milk, giving out free samples of the baby formula without proper instructions for preparing it. Back then, Nestle agreed to a voluntary marketing code and agreed not to distribute free or low-cost formula. Now, in 2001 many think that UNICEF should reconsider that code because of the modern scourge of AIDS in Africa. Many mothers in Africa infected with the AIDS virus are transmitting it to their babies through breastfeeding, with estimates of infected babies over a million. On the one hand, Nestle is willing to donate free formula to HIV-infected women, but on the other hand, UNICEF refuses to endorse the $3 billion infant-formula industry. Nestle doesn't want to go against the code and repeat the same events of 1981.

I. The Social Responsibility of MNCs

Global interdependence is a compelling dimension of 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. It is less clear where to draw the line between socially responsible behavior and the corporation's other concerns, or between the conflicting expectations of ethical behavior among different countries.

As seen in the Nestle opening profile, multinational corporations continue to be the center of debate regarding the benefits versus harm brought by their operations around the world, in particular in less-developed countries. (The criticisms of MNCs have been lessened in recent years by decreasing economic differences between countries, by the emergence of LDC multinationals and by the greater emphasis on social responsibilities by MNCs.)

Issues of social responsibility continue to be those of the poverty and lack of equal opportunity around the world, the environment, consumer concern, and employees' safety and welfare. Multinational corporations constitute a powerful presence in the world economy, and often have more leadership and capacity to induce change than do many governments, and many argue that MNCs should play a proactive role in handling worldwide social and economic problems and at least they should be concerned with host-country welfare.

The concept of international social responsibility is the expectation that MNCs concern themselves about the social and the economic effects of their decisions regarding activities in other countries.

The opinions on the level of social responsibility that a domestic firm should demonstrate range across two extremes — from the only responsibility of a business is to make a profit; to companies should anticipate social needs and try to solve them.

Exhibit 2-1 presents a three-dimensional model of corporate social responsibility (Carroll, 1979). The model presents the interaction between a company's philosophy of responsiveness, social responsibility categories, and the social issues involved.

Exhibit 2-2 displays the stakeholders faced by an MNC. It contrasts home country with host country and general stakeholders.

With the growing awareness of the interdependence of the world's socioeconomic systems, global organizations are beginning to recognize the need to reach a consensus on what should constitute moral and ethical behavior around the world. Some think a consensus is forming due to the development of a global corporate culture —an integration of the business environments in which firms currently operate.

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 used the term "moral universalism" to describe a moral standard that could be accepted by all cultures. Under the ethical approach of ethnocentrism, a company would apply the morality used in its own home country. A company subscribing to ethical relativism would take the local approach to morality appropriate in whatever country it is operating.

A. MNC Responsibility Toward Human Rights

What constitutes "human rights" is clouded by the perceptions and priorities of people in different countries. While the U.S. often takes the lead in the charge against what they consider human rights violations around the world, other countries point to the homelessness and high crime statistics in the U.S.

The best chance to gain some ground on human rights around the world would be for large MNCs and governments around the world to take a unified stance.

A number of large image-conscious companies have established corporate codes of conduct for their buyers, suppliers, and contractors and have instituted strict procedures for auditing their imports. Reebok has audited all its suppliers in Asia. Levi Strauss after sending teams of investigators around the world, announced the following policy: "we should not initiate or renew contractual relationships in countries where there are pervasive violations of basic human rights." Furthermore, the Levi has adopted strict guidelines for its foreign contractors, such as:

- **Suppliers must provide safe and healthy conditions that meet Levi's standards**
- **Suppliers must pay workers no less than prevailing local wages**
- **Company inspectors will make surprise visits to contractors to ensure compliance.**

B. Codes of Conduct

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

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

Teaching Tip: Send your students on an electronic scavenger hunt. Have them email Fortune 100 companies and ask if they can receive a copy of the firms' statements on ethics or their codes of conduct. Ask them to compare what they receive with Exhibit 2-3.

There are four international codes of conduct that provide some consistent guidelines for multinational enterprises (MNEs). The International Chamber of Commerce, the Organization for Economic Cooperation and Development, the International Labor Organization, and the United Nations Commission on Transnational Corporations developed these codes. Getz has integrated these four codes and organized their common underlying principles, thereby establishing MNE behavior toward governments, publics, and people. This synthesis of guidelines is shown in Exhibit 2-3.

Teaching Resource: *Department of Sociology, Boston College site: "Transnational* Corporations and Corporate Codes of Conduct" offers background and examples of principles and codes in action http://www.goodmoney.com/codeshist.html

II. Ethics in Global Management

Globalization has multiplied the ethical problems facing organizations. Yet business ethics have not yet globalized. While domestic American companies may use general guidelines for appropriate behavior based on federal law and the value structure rooted in the nation's Judeo-Christian heritage, such guidelines are not consistently applicable overseas.

International business ethics refers to the business conduct or morals of MNCs in their relationships to all individuals and entities. Such behavior for MNCs is based largely on the cultural value system and the generally accepted ways of doing business in each country or society. Those norms are based on broadly accepted guidelines in religion, philosophy, professions, and the legal system.

Teaching Resource: *Business Ethics Link Page* – provides links to ethics and social responsibility pages on the world wide web, http://www.ethics.bc.ca/papers/business/

The biggest single problem for MNCs in their attempt to define a corporate-wide ethical posture is the great variation of standards of ethical behavior around the world. U.S. companies are often caught between being placed at a disadvantage in doing business in some countries by refusing to go along with accepted practices, or being subject to criticism at home for going along with using bribery to get the job done.

Whereas the upper limits of codes of ethics for international activities are set at any given time by the individual standards of certain leading companies, it is more difficult to set the lower limits of those standards. Laczniak and Naor explain: The laws of economically developed countries generally define the lowest common denominator of acceptable behavior for operations in those domestic markets. In an underdeveloped country or a developing country, it would be the actual degree of enforcement of the law that would, in practice, determine the lower limit of permissible behavior.

Bribery of officials is prohibited by law in many 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 on what standard of behavior they will follow.

A. Questionable Payments

A specific ethical issue for managers in the international arena is that of questionable payments. These are business payments that raise significant questions of appropriate moral behavior either in the host nation or in other nations. Such questions arise out of differences in laws, customs, and ethics in various countries, whether the payments in question are political payments, extortion, bribes, sales commissions, or "grease money"; payments to expedite routine transactions. For the sake of simplicity, the text categorizes all these different types of questionable payments as some form of bribery.

The dilemma for Americans operating abroad is how much to adhere to their ethical standards in the face of foreign customs, or how much to follow local ways in order to be competitive.

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 make this distinction, the Foreign Corrupt Practices Act (FCPA) of 1977 was established, which prohibits U.S. companies from making illegal payments or other gifts or political contributions to foreign government officials for the purposes of influencing them in business transactions. The goal was to stop MNCs from contributing to corruption in foreign government and to upgrade the image of the U.S. and its companies operating overseas. The penalties include severe fines and sometimes imprisonment.

Teaching Tips: Sometimes it helps students learn if they can "personalize" an ethical situation. Consider the following example. Ask one of your students to imagine that the company of their dreams has just offered them an excellent job. The only hold up is that the company needs an official copy of the student's transcript today. The registrar's office says they cannot possibly respond in less than two weeks. A worker in the registrar's office takes you aside and tells you that for $20, she can get you the copy you need. No one has heard your conversation; there is no way the worker will be caught. Will you pay the bribe or forfeit the job?

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:

1. Develop worldwide codes of ethics.
2. Consider ethical issues in strategy development.
3. Given major, unsolvable, ethical problems, consider withdrawal from the problem market.
4. Develop periodic "ethical impact" statements.

B. Making the Right Decision

What is the "right" decision for a manager operating abroad when faced with questionable or unfamiliar circumstances of doing business? The first step would be to consult the laws of both the home and the host countries-such as the FCPA. Secondly, you could consult the International Code of conduct for MNEs, as shown in Exhibit 2-2. If legal consultation does not provide you with a clear answer about what to do, you should consult the company's code of ethics, if it exists. Often, the situation is not that clear-cut, and one way to consider the dilemma is to ask yourself what are the rights of the various stakeholders involved, and how should you weigh those rights. In the end, you have to follow your own conscience and decide where to draw the line in order to operate with integrity.

Chapter 2 E-biz Box: EU Imposes Cross-Border Electronic Data Privacy

Europeans are determined that they won't get on unwanted mailing lists from the US or anywhere else. The EU Directive on Data Protection gives commissioners in Brussels the right to prosecute companies that fail to live up to Europe's standards on data privacy. EU citizens, too, have the right to file suit against a firm if they feel it is abusing their data. US free marketers are worried about the prospect of Europe being able to regulate computer databases and the Internet. At the heart of the standoff is a basic cultural difference: Europeans trust their governments over companies, whereas in the US it is just the opposite. When traveling in Europe, one must still convince authorities in each country that the data obtained while in country was gotten legally and that sufficient provisions for the protection of the data are in place.

III. 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 stress the fact that managers need to control their activities at all levels for the long-term benefit of all concerned. The powerful long-term effects of MNC activities should be considered as an area for managerial planning and control, not as haphazard side effects of business.

A. Foreign Subsidiaries in the USA

Much of the preceding discussion has related to U.S. subsidiaries around the world. However, to highlight the growing interdependence and changing balance of business power globally, we should also consider foreign subsidiaries in America.

The number of foreign subsidiaries in the United States has grown and continues to grow dramatically; foreign direct investment (FDI) in the United States by other countries is in many cases far more than U.S. investment outward. Americans are thus becoming more sensitive to what they perceive as a lack of control over their own country's business.

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

B. Managing Subsidiary-Host Country Interdependence

When managing interdependence, international managers must go beyond general issues of social responsibility and deal with specific concerns of the MNC subsidiary-host country relationship.

Most criticisms of MNC subsidiary activities, whether in less developed or more developed countries, are along these lines:

1. MNCs raise capital locally, crowding out local investment.
2. The majority of the venture's stock is usually held by the parent.
3. MNCs usually reserve key management positions for expatriates.
4. The transfer-in of inappropriate technology.

5. MNCs concentrate their R&D at home.
6. MNCs give rise to demand for luxury goods in economies that are not meeting demand for necessities.
7. MNCs start their operations by purchasing existing firms rather than developing new productive facilities in the host countries.
8. MNCs dominate major industrial sectors.
9. MNCs are not accountable to the host government but respond the home country.

Exhibit 2-4 summarizes the benefits and costs to host countries of MNCs in three areas: Capital market effects, technology and production effects, and employment effects.

Numerous conflicts arise between MNC companies or subsidiaries and host countries, including conflicting goals (both economic and non-economic) and conflicting concerns, such as the security of proprietary technology, patents, or information. Overall, the resulting tradeoffs create an interdependent relationship between the subsidiary and the host government, based on relative bargaining power.

Teaching Tip: Special interest groups often wield more power than individuals. Ask students to consider what special interest groups exist in a particular country and how those interests might conflict with those of the MNC.

Teaching Resource: *The Progressive Directory of the Institute for Global Communications -*
IGC's online communities of activists and special interest organizations: PeaceNet, EcoNet, and WomensNet, among others are gateways to articles, headlines, features, and weblinks on progressive issues. http://www.igc.org/igc/

MNCs run the risk of their assets becoming hostage to host control, which may take the form of nationalism, protectionism, or governmentalism. Under protectionism, the host institutes a partial or complete closing of borders to withstand competitive foreign products by using tariff and non-tariff barriers. In governmentalism, the government uses its policy setting role to favor national interests rather than relying on market forces.

Comparative Management in Focus: Interdependence —The NAFTA Perspectives from the South and the North. It may be too soon to judge the long-run success of the NAFTA, but early results do reinforce the interdependent nature of the agreement, the three economies (Mexico, United States, and Canada), and the relative level of success attained for business firms, environmental issues, and people.

Now, several years since the NAFTA took effect, the Mexican border factories have boomed, with employment there rising to over one million. More importantly, many of those jobs are now high-tech, bringing training and a higher standard of living for many Mexicans (this is described in the "Technology Application" box).

Teaching Tip: Guest opinions on NAFTA—There are a number of organizations that can provide you with information and/or guest speakers to support their view for or against NAFTA. One overlooked source is the local union (usually strongly anti-NAFTA).
Teaching Resource – The U.S. labor unions often have a different view of trade than the business community. You can find their opinions on their web sites, including: www.aflcio.org

There is likely to be increasing interdependence among the Americas in the future as agreements open up further trade with other South American countries such as Chile and Brazil. These countries are tearing down their internal trade barriers, also, in a wave that may eventually form a free-trade zone from Alaska to Tierra del Fuego.

C. Managing Environmental Interdependence

International managers can no longer afford to ignore the impact of their activities on the environment. Effectively managing environmental interdependence includes the need to consider ecological interdependence as well as economic and social implications of MNC activities.

MNCs have to deal with the various approaches of different countries as to their policies and techniques for environmental and health protection.

In recent years, the export of hazardous wastes from developed countries to less-developed ones has increased considerably.

According to Graedel and Allenby, the path to truly sustainable development is for corporations to broaden their concept of industrial ecology: An industrial system must be viewed in concert with surrounding systems so as to optimize the total materials cycle from virgin material to ultimate disposal.

It is clear that MNCs must take the lead in dealing with ecological interdependence by integrating those factors with strategic planning. At least MNC managers must deal with the increasing scarcity of natural resources in the next few decades by (1) looking for alternate raw materials; (2) developing new methods of recycling or disposing of used materials; and (3) expanding the use of by-products.

CHAPTER DISCUSSION QUESTIONS

1. Discuss the concept of international social responsibility. What role does it play in the relationship between a company and its host country? International social responsibility is the expectation that MNCs should concern themselves with the social and the economic effects of their decisions regarding activities in other countries. An MNC's stance on international social responsibility determines how harmonious and productive its long-term relationships with host countries will be.

2. Discuss the criticisms which have been levied against MNCs in the past regarding their activities in less-developed countries. What counter-arguments are there to those criticisms? MNCs have been criticized for disrupting the social, technological, and political climates in host nations. Governments often have a "love-hate" relationship with MNCs, because they want the economic advantages produced by the presence of MNCs, but they regret the negative impacts MNCs often have on the political and social environments. MNCs can defend themselves by pointing out that, without their presence, host nations would not have as many jobs or trade opportunities, as well as opportunities to appropriate technology.

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? Moral universalism is the need to address a moral standard that is accepted by all cultures. Class discussion is likely to be divided on this issue. Some students will argue that there are or should moral absolutes. Others will argue that morals are culturally driven and will, therefore, need to reflect differences in cultures. Some students may note that communication and technology are creating a greater cultural interaction, which may result in a universalism over a long period of time.

4. What do you think should be the role of MNCs toward human rights issues in other countries—for example, Vietnam, Nepal, China or South Africa? What are the major human rights concerns at this time? What ideas do you have for dealing with those problems? What is the role of corporate codes of conduct in dealing with these concerns? MNCs must be very careful not to become instruments of political change or policy making, because they are economic institutions. However, where MNCs can unite with the international community in opposing human rights violations, the legitimate policies of sovereign states can be benefited through MNC cooperation. Current issues will vary from class to class. At the time this book was being developed, Amnesty International had accused the United States of violating human rights by having a repressive and racist prison policy. Students will vary broadly in their prescriptions for corporate involvement.

5. What is meant by "international business ethics"? How does the local culture affect ethical practices? What are the implications of such local norms for ethical

decisions by MNC managers? International business ethics refers to the business conduct or morals of MNCs in their relationships to all individuals and entities with whom they come into contact. Since local business practices differ substantially between regions of the world, it is difficult to find ethical standards subscribed to by all MNCs and their managers. Generally, codes of ethics prescribe only the lower level of limits on ethical behavior; there is widespread disagreement on the upper level limits.

6. As a manager in a foreign subsidiary, how can you reconcile local expectations of "questionable payments" with the corporate code of ethics and 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? Managers must be able to distinguish between harmless practices and actual bribery, between genuine relationships and those used as a cover-up. The fact of the matter is, many business people are willing to engage in bribery as an everyday part of meeting their business objectives. The Foreign Corrupt Practices Act attempts to provide some guidelines for distinguishing between a bribe and facilitating business. Ultimately, it will be up to the local manager to make the call. Students will likely have a range of opinions on the issue of enforcement. Some will note that if the law is not being enforced by the host country, then it is probably less important to the host. They will argue for a broader range of acceptable business activities. Others may note that character and ethics should be independent from enforcement (In the words of one author, character is who you are when no one is looking).

7. Explain what is meant by "managing interdependence" in the global business arena. Discuss the "love-hate" attitude of the host country toward MNCs. Since multinational firms represent global interdependency, managers at all levels must recognize that what they do in the aggregate has long-term implications for the socioeconomic interdependence of nations. Host country governments tend to have a "love-hate" relationship with MNCs because they want the economic benefits (jobs and technology) provided by MNCs, but do not want the social and political disruptions that often accompany the presence of MNC business activity.

8. What do you think are the responsibilities of MNCs toward the global environment? Give some examples of MNC activities, which run counter to the concept of ecological interdependence and environmental responsibility. The management of environmental interdependence includes the need to consider ecological interdependence as well as economic and social implications of MNC activities. Examples of problem areas in environmental interdependence include the export of hazardous wastes from developed countries to less-developed ones and the exporting of pesticides.

STUDENT STIMULATION

Group or Class Learning Activities

1. Greening Campaign (requires Internet access): Work in teams to develop a letter to companies asking them to describe their environmental policies. (Keep the letter simple, asking only a few questions. Companies are not required to answer your questions). After you have developed your questions, compare them with the questions developed by the other teams. Select the three questions about a company's environmental policy that you feel will get to the heart of the issue. Use the Internet to connect to several MNCs and use their E-mail facilities to ask your questions. In a subsequent class period, you may discuss the following questions:
    1. What percentage of the companies had an environmental policy?
    2. What surprises did you find? (If a team chose GM, it might be surprised to receive a copy of GM's annual report on its environmental activities.)
    3. Why do think some companies choose to become involved in industrial ecology while others do not?

2. Code of Ethics**:** Working in teams, develop a code of ethics and social responsibility for your college or university in regard to its foreign students. Your ethics code should cover such areas as recruiting, degree completion times, scholarship availability, work study issues, language, culture, on-site versus off-site instruction and any other issues you feel are important. After each team presents its ethics code, you may wish to ask the following discussion questions:
    1. What ethical issues do you see in cross-border education?
    2. In what ways is a university that is involved in international education different than an MNC that is involved in international business?
    3. In what ways is a university that is involved in international education similar to an MNC that is involved in international business?
    4. How would you change a university to make it more socially responsible?

3. Working in teams compile a list of steps in social responsibility a MNC could take in developed nations, i.e. Germany versus in a LDC, i.e. Bangladesh. Would these steps be the same? Yes/No. Why?

Additional Stimulation Discussion Questions

1. Do you feel profit is a sufficient goal for companies that operate across national borders?

2. To what extent do you feel codes of ethics and social responsibility are culturally derived?

3. Should MNCs have lower standards of ethics and social responsibility in developing nations, given that developing nations need jobs so badly and have lower standards of living? In other words, to what extent do you feel ethical standards are a function of economic development?

4. Given that there are no agreed upon universal codes of ethics in international business, should companies follow the adage, "When in Rome, do as the Romans do"?

5. What do you feel should have the highest priority over the ethical actions of U.S. corporations: U.S. law or the laws of host nations where U.S. subsidiaries operate?