

**SOLUTIONS MANUAL**



**INTERNATIONAL  
MANAGEMENT**



*Managing Across Borders and Cultures*

*Text and Cases*

SIXTH EDITION

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## CHAPTER 2

### MANAGING INTERDEPENDENCE *SOCIAL RESPONSIBILITY AND ETHICS*

#### LECTURE OUTLINE

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##### **Opening Profile: In Enron, a Verdict on an Era**

This opening profile discusses the fall of Enron and the reasons for the company's demise. The profile explains that not only was Enron suffering from questionable ethical behavior, it was also a poorly managed company. The profile also explains that other American companies during the 1990s were behaving badly as well.

##### **I. The Social Responsibility Of MNCs**

- A. *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, interest groups, legal and governmental concerns, and 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.

- B. As seen in the opening profile, multinational corporations continue to be the center of debate regarding the benefits versus harm wrought by their operations around the world. Because of their size and economic power, MNC will be held to a higher standard of performance. Balancing the interests of the varied stakeholders is an important consideration of top managers.
- C. Issues of social responsibility continue to be those of 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. Many argue that MNCs should play a proactive role in handling worldwide social and economic problems and should be concerned with host-country welfare.
- D. 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.
- E. The opinions on the level of social responsibility that a domestic firm should demonstrate range from two extremes — one is that the only responsibility of a business is to make a profit, and the other that companies should anticipate social needs and try to solve them. Exhibit 2-1 shows that managers are faced with not only considering stakeholders in host countries, but also with weighing their rights against the rights of domestic shareholders.
- F. 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.
- G. Corporate Social Responsibility (CSR) – an integration of the business environments in which the firm operates. 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.

## H. MNC Responsibility Toward Human Rights

1. 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.
2. 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 of its suppliers in Asia. Levi announced this corporate policy: “We should not initiate or renew contractual relationships in countries where there are pervasive violations of basic human rights.”

### **Comparative Management Focus: Doing Business in China – the Human Rights Challenges**

China has experienced rapid economic growth in recent years and is fast becoming the manufacturing location of choice for many of the world’s companies. While China has low wage levels and other benefits, workers in China are often treated badly by management. Excessively long work days, forced overtime, and below minimum wages are not uncommon labor practices in China. In addition, other human rights issues such as freedom of speech are currently lacking in China.

Country/Culture – China: An interesting and useful Web site for additional information about China is: <http://www.internationalist.com/business/China.php>.

Teaching Tip: An interesting movie to explore Chinese culture is the Chinese produced *Beijing Bicycle* (2001) directed by Wang Xiaoshuai.

## I. Codes of Conduct

1. 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:

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

*Teaching Tip:* Send your students on an electronic scavenger hunt. Ask students to find firms' statements on ethics or codes of conduct from corporate websites. To make it more interesting for students you may choose companies with operations near your school or those companies that produce your students' favorite brands. Have students assess the codes of conduct given the guidelines in Exhibit 2-2.

*Teaching Resource:* Have students visit the web site of Social Accountability International [www.cepaa.org](http://www.cepaa.org) to learn more about the SA 8000 standards.

2. There are four international codes of conduct that 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. This synthesis of guidelines is shown in Exhibit 2-2.

## II. Ethics in Global Management

- A. Globalization has multiplied the ethical problems facing organizations. 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.
- B. *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.
- C. 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 perception of obligations.

- D. 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 them to get the job done. Exhibit 2-3 provides a conceptual model explaining important elements of this challenge.
- E. Transparency International, a German organization, conducted research on the level of corruption among public officials and politicians in various countries as perceived by business people, academics, and risk analysts. The 2002 Corruption Perceptions Index is provided in Exhibit 2-4.

*Teaching Resource:* Have students visit the web site of Transparency International [www.transparency.org](http://www.transparency.org) and have them find out how the corruption index is determined.

- F. 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. Laczniaak 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.
- G. Questionable Payments
  - 1. 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. Exhibit 2-4 shows the Global Corruption Barometer for 2005. This reports the degree to which businesses and other sectors of a country are seen as being corrupt.

2. 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.
3. 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.
4. There are three questions to ask of ethical corporate actions:
  - a. Is it legal?
  - b. Does it work (in the long run)?
  - c. Can it be talked about?

Bribery fails each test.

5. 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:
  - a. Develop worldwide codes of ethics
  - b. Consider ethical issues in strategy development
  - c. Given major, unsolvable, ethical problems, consider withdrawal from the problem market
  - d. Develop periodic "ethical impact" statements

#### H. Making the Right Decision

1. What is the right decision for a manager operating abroad when faced with questionable circumstances of doing business? The first step would be to consult the laws of both the home and host countries. If legal consultation does not provide you with a clear answer, you should consult the company's code of ethics. When the situation is not clear-cut, ask yourself what are the rights of the various stakeholders involved and how those rights should be weighed. In the end, follow your own conscious and try to operate with integrity.

*Teaching Tip:* Remind students of some of the basic tests for making ethical decisions: Would you be comfortable saying what you did 1) in a widely broadcasted television interview? 2) to colleagues in your company? 3) to your parents or grandparents?

### **Management in Focus – CEO Speaks Out**

Richard Rhodes discusses the ethical issues he has faced with his business, Rhodes Architectural Stone, Inc. as he conducts business in Africa, China, India, and Indonesia. He explains that his business has had to clearly establish “black and white” operating principles and the company will not pay bribes. This sometimes requires walking away from a deal. Rhodes offers the following advice when pondering an ethical situation: 1) Who am I?, 2) How do I feel about this situation, 3) Can I sleep at night if I engage in this behavior?

### III. Managing Interdependence

- A. 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.
- B. Foreign Subsidiaries in the USA
  - 1. 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.
  - 2. 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.
  - 3. 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.

### C. Managing Subsidiary-Host Country Interdependence

1. 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.
2. Most criticisms of MNC subsidiary activities, whether in less developed or more developed countries, are along these lines:
  - a. MNCs raise capital locally.
  - b. The majority of the venture’s stock is usually held by the parent company.
  - c. MNCs usually reserve key management positions for expatriates.
  - d. The transfer-in of inappropriate technology
  - e. MNCs concentrate their R&D at home.
  - f. MNCs give rise to demand for luxury goods in economies that are not meeting demands for necessities.
  - g. MNCs start their operations by purchasing existing firms rather than developing new productive facilities in the host countries.
  - h. MNCs dominate major industrial sectors.
  - i. MNCs are not accountable to the host government but respond the home country.

Exhibit 2-5 summarizes the benefits and costs to host countries of MNCs in three areas: Capital market effects, technology and production effects, and employment effects.

3. 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 five online communities of activists and special interest organizations: PeaceNet, EcoNet, LaborNet, ConflictNet, and WomensNet, are gateways to articles, headlines, features, and weblinks on progressive issues.  
<http://www.igc.org/igc/>

4. 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.
5. There are several recommendations for MNCs operating in, and doing business with, developing countries:
  - a. Do no intentional harm
  - b. Produce more good than harm for the host country
  - c. Contribute by their activity to the host country’s development
  - d. Respect the human rights of the employees
  - e. To the extent that local culture does not violate ethical norms, MNCs should respect the local culture and work with it
  - f. Pay their fair share of taxes
  - g. Cooperate with the local government in developing and enforcing just background institutions

#### E. Managing Environmental Interdependence

1. 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.
3. MNCs have to deal with the various approaches of different countries as to their policies and techniques for environmental and health protection.

*Teaching Resource:* The video, “Bhupal: The Second Tragedy,” provides an excellent overview of the environmental and physical damage caused by the industrial accident at the Union Carbide plant in Bhupal, India as well as the social responsibility of the Indian and American governments in providing for the victims.

3. In recent years, the export of hazardous wastes from developed countries to less-developed ones has increased considerably.
4. 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.
5. 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 concern themselves with the social and the economic effects of their decisions regarding activities in other countries. A MNC's stance on international social responsibility determines how harmonious and productive its long-term relationships with host countries will be. By taking an open-systems perspective on CSR it is more likely that the MNC will be taking the right action relevant to all stakeholders.

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. MNCs have also been accused of destroying local culture through globalization. While MNCs have increased the degree of globalization, and in some cases made some aspects of local culture disappear, differences in culture remain strong and deep.

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?

This means to address the need for 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 be 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. To some extent it is desirable for agreement on what is right and wrong. Enforcement of ethical standards and laws would be enhanced by some convergence of viewpoints. It doesn't seem likely that a high level of moral universalism will prevail anytime soon.

4. What do you think should be the role of MNCs toward human rights issues in other countries—for example, China or South Africa? What are the major human rights concerns at this time? What ideas do you have for dealing with 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. The U.S. has also come under attack for its treatment of prisoners at the military facility in Cuba. Students will vary broadly in their prescriptions for corporate involvement. A corporate code of conduct can be beneficial in guiding multinational managers in these difficult areas. The code of conduct can act as a guide to corporate values concerning human rights issues and reduce much of the ambiguity and uncertainty found in this area.

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. While managers must be sensitive to local customs, they must

also adhere to the values of their organizations. While it may be custom to hire children to work fulltime in some culture, the international manager must be responsive to the ethical orientation of the organization.

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 a 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” relationship between MNCs and host countries.

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. The environmental problems left in Ecuador by Texaco also are an example of ecological interdependence.

9. Discuss the ethical issues that have developed regarding the use of IT in cross-border transactions. What new conflicts have developed since the printing of this book? What solutions can you suggest?

Information technology has increased the ability of firms to engage people throughout the world. While most of this engagement is seen as positive, such as increasing consumer choice, some has been seen by some as negative. Of significant concern to the United States and Western Europe is the issue of off-shoring of jobs. The development of an information technology superhighway has allowed firms to contract out work previously done at home to foreign workers. Many jobs have been off-shored to India, the Philippines, and to Eastern Europe. Students can be encouraged to discuss the ethical issues involved in this off-shoring process.

### **Application Exercises**

This is an interesting and instructive exercise. It would be perhaps most useful if students could select two companies from the same industry for comparison. If this isn't possible, it will still be useful to see the differences in codes of conduct across industries and to have them comment on the usefulness of those codes.

### **Experiential Exercise**

This exercise will require students to address a difficult and relevant situation concerning questionable payments. Since this is not an American company, the Foreign Corrupt Practices Act (FCPA) does not apply. Even if it was an American company, it is unclear if the purchasing manager is really a government official. If he is not, then the FCPA also will not apply. The exercise highlights the cultural differences in the perception of the legitimacy of bribe paying. In many cultures it is a normal and acceptable practice. The exercise should cause a discussion of the differing views of ethics and which is most appropriate in this situation. If the CEO wants to avoid this situation from occurring again, he must institute a policy against such behavior, inform employees in the policy, and have penalties for violation of the policy.

### **End-of-Chapter Case: Nike's CSR Challenge**

#### **Discussion Questions**

1. What are the challenges regarding corporate social responsibility that companies in the apparel industry face in its supply chains around the world?

The apparel industry is perhaps particularly vulnerable to issues of social responsibility. The industry is still somewhat labor intensive and operates in a low wage environment. The industry is sometimes referred to as a "suitcase industry"

in that it frequently moves from one low wage country to the next, constantly seeking the lowest wage level. The industry also has a lot of contract manufacturing in which a foreign firm is contracted to do all the production for the firm owning the brand. Frequently there is little oversight and control over the foreign manufacturer. All of this can lead to the problems we see in this case.

2. Discuss the meaning and implications of the statement by a Nike representative that “consumers are not rewarding us for investment in improved social performance in supply chains.”

While this statement may appear to sound socially irresponsible, it is probably true. Nevertheless, it isn't a good excuse for not “doing the right thing.” While competitors may be engaging in unethical practices, and consumers may not care about the working conditions of foreign employees, it is still not a justifiable situation to engage in socially irresponsible actions. In the case of Nike, the company is not competing with the low end of the market, and one would assume that the premium pricing of the brand could allow for improvements in wages and working conditions. It should be pointed out that consumer perceptions and concerns can change and a firm can find itself dealing with a successful PR campaign directed towards its practices. Consumer “rewarding” can change and make such companies vulnerable due to their foreign employment practices.

3. What does it mean to have an industry open-systems approach to social responsibility? What parties are involved? Who are the stakeholders??

An open-system approach to social responsibility means that the organization views its actions in terms of the effect it has on the larger social system. In addition to being socially responsive to internal stakeholders such as domestic employees, the organization also views its impact on suppliers regulators, investors and communities, irregardless of their location.

4. What is meant by “leadership beyond borders?”

Leadership beyond borders means that leadership moves beyond borders or barriers created by others. Leaders in the apparel industry for example would attempt to extend their influence beyond the company borders in order to deal with the CSR issues discussed in the case. Leadership beyond borders also seeks to be transformational in its orientation; to engage people and to seek collective action and goals.

5. Is it possible to have “a compatibility of profits with people and planet?” Whose responsibility is it to achieve that state?

It is certainly possible to achieve a profit and to engage in socially responsible actions. A number of companies have proven this point (The Body Shop, Levi Strauss and Company, Ben & Jerry's, etc.). It is the responsibility of top management to set the direction for the organization and that direction includes social responsibility.

## **Additional Case**

### **Sewing for Millionaires**

A two-hour drive from the capital of San José, Costa Rica, sits the small community of Turrialba where mostly young workers sit and sew baseballs destined for Major League Baseball teams. Rawlings Sporting Goods Company moved its baseball manufacturing operations from Haiti in 1986 when the political landscape of the country began to change.

Rawlings selected the town of Turrialba due to the incentives offered the company by the Costa Rican government. Rawlings was awarded a free-trade zone in which the company would be allowed to operate duty-free in the country. Rawlings pays no import tariffs on the goods it imports to manufacture its baseballs, and the finished product can be shipped duty-free into the United States under the Caribbean Basin Initiative. The Turrialba region was hard hit economically in the 1980s when a major highway from the capital bypassed the town. Since travelers no longer stopped in Turrialba, the Costa Rican government wanted to develop the local area through foreign investment. Rawlings found the potential workforce better educated, and more disciplined than its workers in Haiti. The country was also well known for being very politically stable. With few employment opportunities in the area, Rawlings had no difficulty in securing dedicated and motivated employees. Although Costa Rica is the wealthiest country in Central America, per capita income is still only about \$4,200 a year. Costa Rica has an unemployment rate of 6.7% nationwide, however, the rate can vary from region to region. With the completion of the new highway and declining employment opportunities in the coffee and sugarcane industries, many local residents of Turrialba were eager to find stable employment.

Most Rawlings employees in Costa Rica are engaged in sewing operations. In the plant, 300 employees sit in rows of high back chairs and sew baseballs. Many employees break the boredom of the work by listening to music on their headphones. The plant employs a total of 575 workers. At one time Rawlings employed approximately 1,900 workers at the Costa Rican plant, however, employment fell when the Company shifted production of its lower quality baseballs to China. The Rawlings plant takes a baseball core and wraps it in yarn. The product is then covered with cowhide and sewn by hand. Baseballs must be sewn by hand in order to achieve the quality level demanded by the Major Leagues. Each worker sews 108 perfect stitches using a long needle and thread. The balls are then inspected, cleaned, and stamped with the MLB logo and the signature of the commissioner of baseball. The balls are then packed and shipped to the port city of Limón where they are loaded onto a ship bound for Port Everglades, Florida. The baseballs are then trucked to Rawlings' Springfield, Missouri facility, and then onto Major League teams or retail stores. Rawlings has been the exclusive supplier of baseballs to the Major Leagues since 1977. The Costa Rican facility produces approximately 2.2 million baseballs a year, with 1.8 million of those going to Major League Baseball. The remaining balls are sold to minor league and college baseball teams, or sold to the public through retail stores



or the websites of MLB and Rawlings. While Rawlings refuses to disclose the price of the baseballs paid by MLB, the baseballs retail on the Company's website for \$12.99 per unit.

Employees are paid \$1.21 per hour and receive the value of 67 cents an hour in benefits, or about thirty cents per ball produced. Workers can go home early in the week if they complete their production quotas. Rawlings workers earn about 14% above the Costa Rican minimum wage. In addition to their wages, Rawlings employees in Costa Rica must be paid for eleven holidays, receive two weeks of paid vacation a year, and receive a Christmas bonus equal to one month's pay. The Company must also pay into a retirement and medical plan and provide four months of maternity leave when needed.

A 2004 *New York Times* article questioned the pay and working conditions of the Rawlings plant in Costa Rica. The article accused Rawlings and MLB of running a sweatshop in Costa Rica where workers were underpaid and worked in an unhealthy environment. Consumer advocate Ralph Nader joined in the criticism by writing a letter to Bud Selig, MLB Commissioner and the Executive Director of the MLB Player Association. In the letter Nader condemned the two men for allowing baseballs to be manufactured in what he considered to be poor conditions. Portions of the letter follow:

*"Your respective organizations must not ignore their roles in this exploitation and abuse of worker rights committed under Major League Baseball and Player Association product sourcing and licensing agreements."*

*"American consumers and baseball fans currently have no guarantee that any licensed Major League Baseball products are not being made under sweatshop conditions that violate basic human and worker rights standards."*

Major League Baseball consumer products vice president, Howard Smith, responded to the rising complaints by stating: *"I can assure you that there is no company we do business with that knowingly goes into a factory with sub-par working conditions."* Not everyone agrees with Mr. Smith.

Maribel Alezondo Brenes worked at the Rawlings plant for seven years before her doctor told her to stop working there for health reasons. Carpal tunnel syndrome has been noticed in the Rawlings employees due to the repetitive nature of the work. Dr. Carlos Guerrero who worked at the Rawlings plant as company physician says that up to 90 percent of Rawlings employees may have experienced pain from the work, from minor cuts to disabling injuries. Others feel that the plant has been a good addition to the region, including Warny Gomez, who worked at the Rawlings facility for four years and made enough money to attend college and to become a teacher. With average pay for Major League Baseball players close to \$2.3 million a year, some Rawlings employees feel that their compensation is unjust. Many, however, feel like Alan Cascante, an eight-year employee of the baseball factory: *"We can live on that (Rawlings wages).*

We never made that working in the fields.” Plant manager, Ken West agrees with Cascante, by saying “The best thing’s the pay. We’re a good place to work.”

The debate over pay and working conditions of employees who supply MLB with its products appears to be growing in some quarters. People like Kenneth Miller; a self-appointed champion of sweatshop workers takes his message to the fans by camping outside ballparks. He tells potential consumers of MLB products that the baseball player bobble head doll they are about to purchase was made by a Chinese worker who works 20 hour shifts for very little pay. Miller states that he often finds indifference among consumers. Some tell him: “Why are you trying to interrupt our nice day at the ballpark?” Miller and a handful of others are pressuring MLB to take greater control over the working conditions of its suppliers, such as Rawlings.

As the debate continues in the United States over the working conditions and pay of the Costa Rican employees and others, baseballs are sewn in Turrialba with pictures of Alex Rodriguez, Mike Piazza, and other baseball players hanging on the walls of the factory. Rawlings’ employees, however, are too busy sewing baseballs for the millionaire players, to even notice the pictures hanging above them.

#### Discussion Questions:

1. In your opinion, is Rawlings exploiting its Costa Rican employees? Explain your answer.
2. Is it fair to compare the salary of Major League Baseball players to that of employees who sew baseballs?
3. If you were the CEO of Rawlings Sporting Goods’ parent company (K2, Inc.) what action would you take, if any, given the present situation?

Sources: Hersh, P. (2003). *The sport of baseball has little popularity in Costa Rica, but big-league baseballs are produced here.* Chicago Tribune, July 15; Jones, D. (2004). *Baseball assailed for using sweatshops.* Pittsburgh Post-Gazette, October 16; Moore, C. (2004). *Baseball striking out in human rights league.* Western Catholic Reporter, March 1; Sloane, G. (2003). *Babe Ruth organizers eye world series try.* AM Costa Rica, February 17; Weiner, T. (2004). *Costa Rica: Low wage workers make baseballs for millionaires.* New York Times, January 25; [www.state.gov](http://www.state.gov). Country background notes – Costa Rica. Accessed on May 13, 2005.

### **Teaching Note Sewing for Millionaires**

*All baseballs used in the Major League are produced by the Rawlings Sporting Goods Company in their Costa Rican factory. Workers earn about thirty cents per baseball and slightly above the minimum wage of Costa Rica. Recently, employee rights activists have questioned the pay and working conditions of the plant, and shown the disparity of pay between these workers and the salaries of Major League players. This case explores the ethical issues involved in the argument.*

*The case seeks to begin a discussion on the ethical issues raised when MNCs from wealthy countries employ workers in developing countries under conditions that are less favorable than found at home. Or stated otherwise, what are the responsibilities of a MNC to the local workforce? The case also seeks to put the student in the role of decision maker when facing environmental threats.*

### **Discussion Questions**

Different opinions will be expressed concerning the ethical nature of Rawlings' employment practices in Costa Rica. The answers that are provided below simply reflect one opinion, that being of the author of the case.

1. Is Rawlings exploiting the Costa Rican employees?

A case could be made for exploitation in that the wage level is not much above the minimum wage of the country. While the skill level needed to sew baseballs is not great, it does, nevertheless, involve training and skill development, and comes with some potential health hazards. Especially in the long run, a worker is more vulnerable to repetitive motion injury. Some may argue that since few employment opportunities exist in the area, Rawlings is able to get employees to work for a low wage and disregard their health concerns. On the other hand, Rawlings is by local standards a good employer. The pay is better than other opportunities in the area, and the work is stable. One could argue that Rawlings is simply paying what the labor market will bear, and could in fact get an even lower cost of labor by moving the operation to China.

2. Is it fair to compare wage levels with MLB players?

This is not a fair comparison and really has little relevance. While a MLB player may be able to command a salary many, many times greater than that of the average employee in the baseball factory, the comparison must include skills and labor availability. Very few people have the skills necessary to be employed in the Major Leagues. The availability of people to sew baseballs is abundant. While it is tempting to compare salaries, this comparison is meaningless. However, one could still make an argument for increased wages and better working condition for the factory workers.

3. As CEO, what actions would you take, if any?

The correct answer here is not to ignore the issue. The problem needs to be taken seriously, and without attention may get worse. Baseball manufacturing for the Major Leagues has high visibility and the potential for increased public scrutiny. It would be better to handle the situation before it becomes even more public. The negative public relations problem is only one of many potential problems. While Rawlings has had an exclusive contract with MLB for some time, the contract could be terminated if MLB felt its image was being harmed by its association

with Rawlings. In addition, the increased scrutiny by the media causes more visitors to the plant and the homes of workers, and increases the perception that employees of Rawlings are being exploited. Labor and quality issues may become more prevalent with this increased questioning. It certainly is possible that the issue will blow over, however, it appears that some reasonable concerns have been raised and should be addressed. Most importantly is the concern of possible long-term health issues. The current plant manager, Ken West has been quoted as saying that it is not an issue at the plant, however, it is likely that in fact it is a problem. Investigation into possible ways of minimizing this risk should be a high priority. Additionally, while Rawlings could move the operation to China and save on labor expense, the cost of labor in Costa Rica is not very high and the disruption of operations and training of new workers may not be in the best interests of the company. It could be argued that paying more than 14% above the minimum wage rate would go a long way to combating some of the problems Rawlings is facing in this case.

## **Student Stimulation**

### **Group or Class Learning Activities**

1. Environmental Policies: Ask teams to choose two firms. They should then find the environmental policies for these firms on the company website. Working in teams, have students evaluate the policies. Consider these issues when evaluating the policies: a) what impact do you think the environmental policy of each firm has on its bottom line; b) do you think there is a cultural link between the nature of the environmental policy and the home country of each corporation? c) to what extent does each firm “market” its environmental policy to end consumers?
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:
  - a. What ethical issues do you see in cross-border education?
  - b. In what ways is a university that is involved in international education different than an MNC that is involved in international business?
  - c. In what ways is a university that is involved in international education similar to an MNC that is involved in international business?
  - d. How would you change a university to make it more socially responsible?
  - e. Provide the teams with copies of your University’s actual code of ethics. How does it compare to the ones your students developed already? Does it

contain all the areas students feel are relevant given the University's impact on various stakeholders?

### **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?
6. Students from different cultures may have different perceptions of university "honor codes." For instance, in Thailand, students often feel that the greater honor is to aid one's fellow students rather than to allow them to fail. Thus, a Thai student would break the honor code by failing to assist his or her classmates. In the US, we would perceive the aid to be cheating and a violation of the honor code. If you were in a study abroad program in Thailand, which honor system would you utilize? Why? If a Thai student were studying in your school, which honor system should they operate under? Can someone comfortably change systems given its connection to our personal ethical values?