Chapter 2

Managing Interdependence: Social Responsibility and Ethics

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Opening Profile: AIDS: Nestlé's New Moral Dilemma in Africa

For the Nestlé Corporation of Switzerland, its 2001 moral dilemma regarding distribution of its baby formula in Africa was an ironic turnaround from its 1981 dilemma. Then, a seven-year boycott of Nestlé's baby products and a United Nations code on selling baby formula in LDCs pressured Nestlé to change its marketing strategy for Similac baby formula. Nestlé 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. Public outcry arose over the massive number of infant deaths that resulted primarily from the lack of information about sterilizing the bottles and the water to mix with the formula and from the lack of facilities to do so. In addition, poverty-stricken mothers resorted to overdiluting the formula or not buying any more when the samples ran out; meanwhile, they found that their own breast milk had stopped flowing from lack of use.[1] Nestlé agreed to a voluntary marketing code and agreed not to distribute free or low-cost formula.

In 2001, however, many thought that UNICEF should reconsider that code because of the modern scourge of AIDS in Africa. The problem is that mothers infected with the AIDS virus are transmitting it to their babies through breast-feeding, with estimates of infected babies well over a million.[2] And, while Nestlé has volunteered to donate free formula to HIV-infected women, UNICEF still refuses to endorse the $3 billion infant-formula industry. So, even though the situation has changed, unless UNICEF also changes the requirements, Nestlé does not want to go against the code and risk a repeat of the situation twenty years ago.[3]

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. In the domestic arena, managers are faced with numerous ethical complexities. In the global arena, such concerns are compounded by the larger numbers of stakeholders involved, including customers, communities, and owners in various countries.

Our discussion will focus separately on issues of social responsibility and ethical behavior, but there is considerable overlap between them. The difference is a matter of scope and degree. Whereas ethics deals with decisions and interactions on an individual level, decisions about social responsibility are broader in scope, tend to be made at a higher level, affect more people, and reflect a general stance taken by a company or a number of decision makers.

The Social Responsibility of MNCs

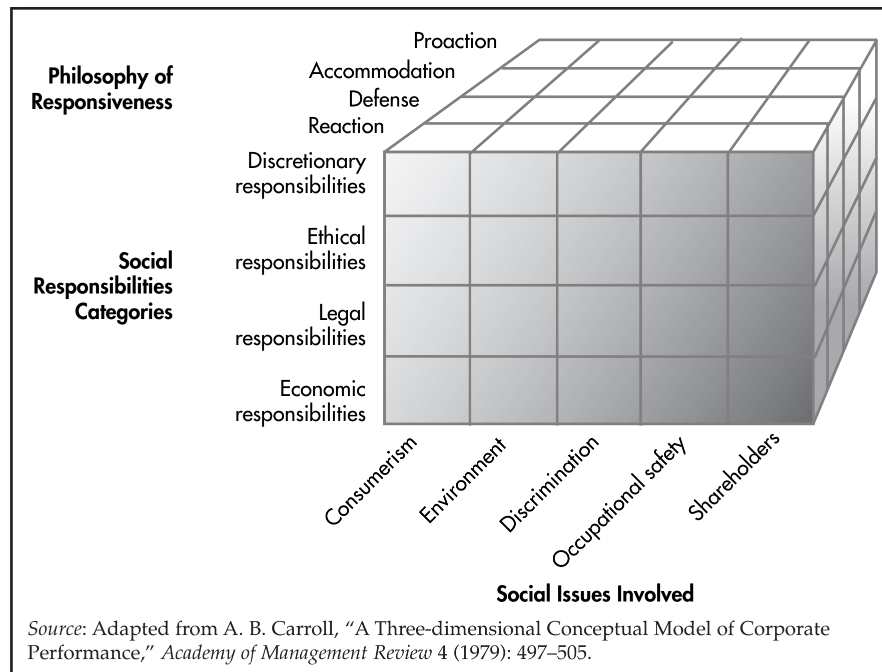
As illustrated in the opening profile, multinational corporations have been and—to a lesser extent—continue to be at the center of debate regarding social responsibility, particularly the benefits versus harm wrought by their operations around the world, especially in less developed countries. The criticisms of MNCs have been lessened in recent years by the decreasing economic differences among countries, by the emergence of LDC multinationals, and by the greater emphasis on social responsibility by MNCs. However, concerns still remain about the exploitation of LDCs, fueled by such incidents as the Union Carbide gas leak in Bhopal, India, in December 1984, which killed 2,500 people and injured over 200,000 others. Such incidents raise questions about the use of hazardous technology in developing economies.

Issues of social responsibility continue to center on the poverty and lack of equal opportunity around the world, the environment, consumer concerns, and employees' safety and welfare. Many argue that, since MNCs operate in a global context, they should use their capital, skills, and power to play a proactive role in handling worldwide social and economic problems and that, at the least, they should be concerned with host-country welfare. Others argue that MNCs already have a positive impact on LDCs by providing managerial training, investment capital, and new technology as well as by creating jobs and improving the infrastructure. Certainly, multinational corporations (now often called transnational corporations [TNCs]) constitute a powerful presence in the world economy and often have a greater capacity than local governments to induce change. The sales, debts, and resources of the largest multinationals exceed the gross national product, the public and private debt, and the resources, respectively, of some nations.[4]

The concept of international social responsibility includes the expectation that MNCs concern themselves with the social and economic effects of their decisions. The issue is how far that concern should go and what level of planning and control that concern should take. Such dilemmas are common for MNC managers. Del Monte managers, for example, realize that growing pineapples in the rich coastal lands of Kenya brings mixed results there. While badly needed foreign exchange earnings are generated for Kenya, there are adverse effects for poor Kenyans living in the region because less land is available for subsistence agriculture to support them.[5]

Opinions on the level of social responsibility that a domestic firm should demonstrate range from one extreme—the only responsibility of a business is to make a profit, within the confines of the law, in order to produce goods and services and serve its shareholders' interests[6]—to another extreme—companies should anticipate and try to solve problems in society. In between these extremes are varying positions described as socially reactive, in which companies respond,

Exhibit 2-1
A Three-Dimensional Model of Corporate Social Responsibility

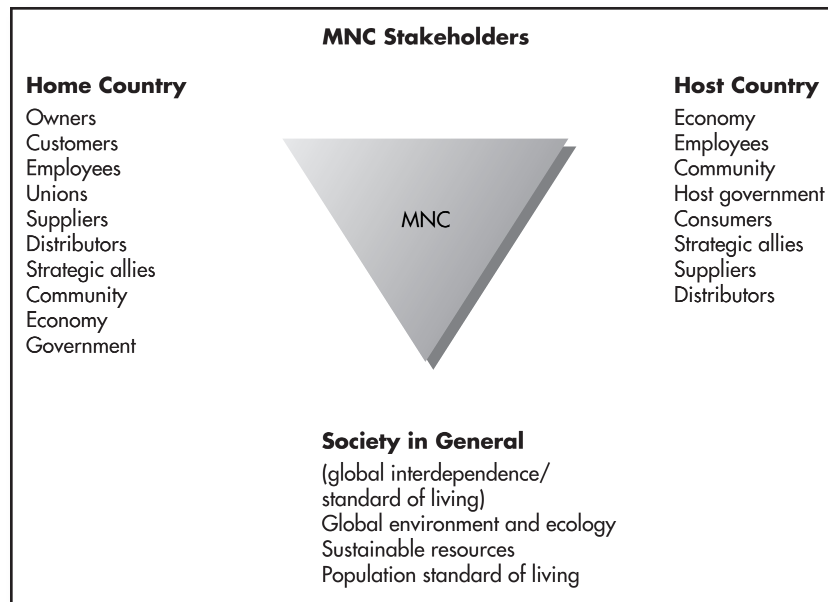


Source: Adapted from A. B. Carroll, "A Three-dimensional Conceptual Model of Corporate Performance," *Academy of Management Review* 4 (1979): 497–505.

to some degree of currently prevailing social expectations, to the environmental and social costs of their actions.[7] Carroll's classic model illustrates the relationships among the social issues involved, the categories of social responsibilities, and the four levels of the philosophy of reaction, or responsiveness: reaction, defense, accommodation, and proaction.[8] Carroll's model is shown in Exhibit 2-1. The levels of philosophy (proaction, accommodation, etc.), at the top, correspond to the levels of social responsibility on the side in the same order as shown (from top to bottom). Thus, usually a company with a proactive philosophy will put in the extra effort to fulfill discretionary responsibilities, whereas a company with a defensive philosophy will not be concerned beyond its legal responsibilities. In applying those dimensions to the typical social issues facing a corporation, the model suggests that a company with a defensive philosophy toward the social issue of discrimination typically meets its legal responsibilities only when compelled to by outside forces, as compared with a company with a proactive philosophy, which would meet its ethical and discretionary responsibilities by setting up positive programs to value diversity in the company. For example, the Denny's chain of restaurants in the United States was forced by lawsuits in 1997–98 to diversify its management structure; a more proactive stance would have called for that change to be made much earlier, perhaps as the growing diversity of its clientele was noted.

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 social responsibility and ethical behavior of firms

Exhibit 2-2
MNC Stakeholders



across borders is brought about by the additional stakeholders in the firm's activities through operating overseas. As illustrated in Exhibit 2-2, 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 the use of children in Pakistan to sew soccer balls means the company will pay more for adult employees, and therefore reduce the profitability to its owners. That same decision—while taking a stand for human rights according to the social and ethical expectations in the home country, and bowing to consumers' demands—may mean that those children and their families go hungry or are forced into worse working situations. Another decision to keep jobs at home to satisfy local employees and unions will mean higher prices for consumers and less profit for stakeholders. Moreover, if competitors take their jobs to cheaper overseas factories, then your company may go out of business, which will mean no jobs at all for the domestic employees and a loss for the owners.

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 consensus is emerging because of the development of a global corporate culture—an integration of the business environments in which firms currently operate.[9] 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.[10]

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.[11] He 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 in whatever country it is operating. With this approach, companies run into value conflicts, such as continuing to do business in China despite home-country objections to China's continued violation of human rights. In addition, public pressure in the home country often forces the MNC to act in accordance with ethnocentric value systems anyway. In one instance, public outcry in the United States and most of the world resulted in major companies (IBM, General Motors, Coca-Cola, and Eastman Kodak) either selling or discontinuing their operations in South Africa during the 1980s to protest that country's apartheid policies. More recently, the 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—the other three major manufacturers continue to export the implants, often from their factories in other countries.

The difficulty, even in adopting a stance of moral universalism, is in deciding where to draw the line. Which kinds of conflicts of values, asks Wicks, are "conversation stoppers" or "cooperation enders"? Individual managers must at some point decide, based on their own morality, when they feel a situation is simply not right and withdraw their involvement.

> There are practical limitations on our ability to act in the modern world, . . . but a systematic infringement of basic personal rights is generally grounds for ending cooperation. Less blatant violations, or practices which are not abhorrent to our basic values, are treated as items which are negotiable.[12]

MNC Responsibility Toward Human Rights

Whereas many situations regarding the morality of the MNC's presence or activities in a country are quite clear, other situations are not, especially when dealing with human rights. The role of MNCs in pulling out of South Africa in the 1980s as part of the movement against apartheid has now played out and many cautiously return to the now multiracial democracy. In many other areas of the world, the question of what role MNCs should play regarding human rights is at the forefront. So loud has been the cry about products coming from "sweatshops" around the world that President 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. A group has been named to monitor compliance; enforcement is difficult, of course, but publicity helps! The

Department of Labor publishes the names of companies who comply with the code, including Nike, Reebok, Liz Claiborne, Wal-Mart, and Phillips-Van Heusen.[13] Those companies can be identified on the department's home page Website (http://www.gov./nosweat.htm). Even so, in a study commissioned by Nike in 2000 to review personnel activities at its contractors in Indonesia, it was found that

> . . . 56 percent of the 4,004 workers told researchers that they had witnessed supervisors verbally, sexually, or physically abusing other employees.
>
> *WALL STREET JOURNAL*, FEBRUARY 22, 2001

The study, by nonprofit Global Alliance, concludes that workers at the Indonesian factories contracted by Nike had limited access to medical care, were exposed to sexual molestation by managers, and were often forced to work overtime.[14]

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 they consider human rights violations around the world, other countries point to the homelessness and high crime statistics in the United States. Often the discussion of human rights centers around Asia, because many of the products in the West are imported from there by western companies using manufacturing facilities located there.[15] 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. Though laws in the United States ban prison imports, shady deals between the manufacturers and companies acting as intermediaries make it difficult to determine the origin of many products—and make it easy for companies wanting access to cheap products or materials to ignore the law. However, under pressure from their labor unions (and, perhaps, their conscience), 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.[16] Reebok has audited all its suppliers in Asia. Levi Strauss has gone a step further. After sending teams of investigators around the world, Levi announced a new company policy: "We should not initiate or renew contractual relationships in countries where there are pervasive violations of basic human rights."[17] In fact, after that study, Levi withdrew its contracts in China and Burma, citing pervasive violation of human rights and continuing labor inequities. Of course, the company was also concerned that its brand image would suffer and that customers would not want to buy a shirt made by children in Bangladesh or by forced labor in China. Levi's top managers concluded that decisions focusing only on cost factors undermine the long-term interests of the company. They feel that more benefits accrue from an ethical approach, such as loyalty among its employees, partners, suppliers and customers. 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.[18]

Exhibit 2-3

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 assure 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 to host government authorities the information necessary for correctly assessing taxes to be paid. (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 not request the intervention of their home governments in disputes with host governments. (UN/CTC)
- 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)
- When granting licenses for the use of industrial property rights, MNEs should do so on reasonable terms and conditions (ICC; OECD)
- MNEs should not require payment for the use of technologies of no real value to the enterprise. (ICC)

ENVIRONMENTAL PROTECTION

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

cont.

Exhibit 2-3

cont.

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)

EMPLOYMENT PRACTICES

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

International agency sources:
OECD: The Organization for Economic Cooperation and Development Guidelines for Multinational Enterprises.
ILO: The International Labor Office Tripartite Declarations of Principles Concerning Multinational Enterprises and Social Policy.
ICC: The International Chamber of Commerce Guidelines for International Investment.
UN/CTC: The United Nations Universal Declaration of Human Rights.
The UN Code of Conduct on Transnational Corps.

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:

- 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.[19]

Also, 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, as shown in Exhibit 2-3 (the originating institutions are in parentheses). She 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."[20]

ETHICS IN GLOBAL MANAGEMENT

> The computer is on the dock, it's raining, and you have to pay $100 [bribe] to get it picked up.
>
> WM. C. NORRIS, CONTROL DATA CORP.

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. Attitudes toward ethics are rooted in culture and business practices. American businesses have a high degree of institutionalized ethics, such as codes of ethics and tax breaks for socially responsible behavior. 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 had a positive effect on larger issues such as the company, the extended family, or the state.[21] For

an MNC, it is very difficult to reconcile consistent and acceptable behavior around the world with home-country standards. One question, in fact, is whether they even should be reconciled; it seems that the United States is the driving force to legislate moral business conduct overseas.[22]

The term **international business ethics** refers to the business conduct or morals of MNCs in their relationships with individuals and entities.[23] 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, the professions, and the legal system. Should managers of MNC subsidiaries, then, base their ethical standards on those of the host country or those of the home country—or can the two be reconciled? What is the moral responsibility of expatriates regarding ethical behavior, and how do these issues affect business objectives? How do expatriates simultaneously balance their responsibility to various stakeholders: owners, creditors, consumers, employees, suppliers, governments, and societies? The often conflicting objectives of host and home governments and societies also must be balanced.[24]

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 perception of their obligations.[25] According to many U.S. executives, there is little difference in ethical practices among the United States, Canada, and Northern Europe. In fact 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. He says, "a kind of noblesse oblige still exists among the business classes in those countries" compared with the prevailing attitude among many American managers which condones making it whatever way you can.[26] Another who experienced few problems with ethical practices in Europe is Donald Petersen, former CEO of Ford Motor Company, but he warns us about underdeveloped countries, in particular those under a dictatorship, where bribery is generally accepted practice. And in Japan, says Petersen, the idea behind "give me the business and I'll give you a gift" is simply an accepted part of Japanese culture.[27]

The biggest single problem for MNCs in their attempt to define a corporatewide 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. More recently, this dilemma has taken on new forms because of the varied understandings of the ethical use of technology around the world, as illustrated in the accompanying *E-Biz Box.*

U.S. companies are often caught between being placed at a disadvantage by refusing to go along with a country's accepted practices, such as bribery, or being subject to criticism at home for using "unethical" tactics to get the job done. Large companies that have refused to participate have led the way in taking a moral stand because of their visibility, their potential impact on the local economy, and, after all, their ability to afford such a stance.[28]

E-BIZ BOX
EU Imposes Cross-Border Electronic Data Privacy

Most people in the United States have wished for more privacy of personal data; they receive mailings, solicitations, and other information about themselves that make them wonder where that source acquired the personal information. Not so in Europe. In fact, the Europeans are determined that they won't get on any unwanted mailing list from the United States or elsewhere. As of October 25, 1998, when the European Union Directive on Data Protection went into effect, commissioners in Brussels have resolved to prosecute companies and block Websites that fail to live up to Europe's standards on data privacy. The directive 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. EU citizens have the right, under this directive, to file suits against a company if they feel it is abusing their private data.

Such protections seem admirable, but free marketers across the ocean are worried about the prospect of Europe being able to regulate the computer databases and the Internet, which are vital to the information economy. They feel that regulations should be agreed upon for a global system. It is a stalemate situation of protection of privacy versus freedom of information, which is protected by the First Amendment in the United States. At the heart of the standoff is a basic cultural difference: Europeans trust their governments over companies, whereas in the United States, it is the opposite. Already, European inspectors travel to Sioux City, South Dakota, to Citigroup's giant data processing center, where computers store financial information about millions of German credit card holders, to make sure that Citigroup is complying with the privacy data protection law. Citigroup accepted the supervision as a condition to market a credit card in Germany.

U.S. companies are concerned that the EU directive will force them to establish separate data networks for Europe, making it impossible to conduct business as usual with EU member countries. The privacy rules are already having an effect—prohibiting U.S. airlines and hotels, for example, from storing information about their clients that they would normally use to provide better service for them. Third parties to business transactions, such as FedEx delivering a package across the ocean, could also be held responsible. There is considerable concern that the EU directive will imperil the future of electronic commerce.

The question of protection of export of private data is but one of the complexities brought about by the use of technology in international business. For now, on your next trip to Europe, bringing back the contact information that you entered on your laptop computer is illegal!

In 2001, some agreement between the EU and the U.S. had been reached on "safe harbor" principles allowing transfer of data. However one still must convince authorities in each country that the data was obtained lawfully and that you have sufficient security provisions for that data.

SOURCES: H. J. Smith, "Information Privacy and Marketing: What the U.S. Should (and Shouldn't) Learn from Europe," *California Management Review*, Winter 2001. v 43, i2, p. 8; R. Howells, "Update on Safe Harbor for International Data Transfer," (European Data Protection Directive), *Direct Marketing*, August 2000, v 63, i4. p. 40. "Europe's Privacy Cops," *Business Week*, November 2, 1998; "Eurocrats Try to Stop Data at the Border," *Wall Street Journal*, October 30, 1998.

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. 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 [boldface added].[29]

The 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 what standard of behavior they will follow. What about the $100 bribe to get the computer off the rainy dock? According to William Norris he told them to pay the $100 because to refuse would be taking things too far. Generally, Control Data did not yield to such pressure, though they say they lost sales as a result.[30]

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).[31] Other common types are payments to speed the clearance of goods at ports of entry and to obtain required certifications. They are called different names: tokens of appreciation, la mordida (the bite, in Mexico), bastarella ("little envelope" in Italy), pot-de-vin (jug of wine in France). For the sake of simplicity, we will categorize all these different types of questionable payments as some form of bribery.

In South Korea, for example, the bribery scandal that put former President Roh Tae Woo behind bars in 1996 spread to the top 30 chaebol (which account for 14 percent of gross domestic product). Any ensuing changes to the close relationship between politics and business in South Korea are likely to reshape, and perhaps slow down, the Korean economy. But executives in those chaebols say they still expect to pay the Huk Kab, or "rice-cake expenses," which run thousands of dollars, as "holiday gifts" to cabinet ministers as a hedge against disadvantageous treatment.

The dilemma for Americans operating abroad is how much to adhere to their own ethical standards in the face of foreign customs, or how much to follow local ways to be competitive. Certainly, in some societies, gift giving is common to bind social and familial ties, and such gifts incur obligation. 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 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 United States and its companies operating overseas. The penalties include severe fines and sometimes imprisonment. Many managers feel the law has given them a more even playing field, and they have been more willing to do business in certain countries where before it seemed impossible to do business without bribery and kickbacks. Unfortunately, bribery still continues, mostly on a small scale, where it often goes undetected. But, the U.S. Government does vigorously pursue and prosecute bribery cases. Even the mighty IBM's Argentine subsidiary has been accused of paying a bribe of $249 million to get the contract to install computers at all the branches of Argentina's largest commercial bank, Banco de la Nacion.[32] Companies from the U.S. claim that they are placed at a competitive disadvantage in Latin America and elsewhere because their competitors overseas do not face the same home-country restrictions on bribery.

If we agree with Carson that "accepting a bribe involves the violation of an implicit or explicit promise or understanding associated with one's office or role, and that, therefore, accepting (or giving) a bribe is always prima facie wrong," then our decisions as a manager, salesperson, or whatever are always clear, no matter where we are.[33]

However, if we accept that in some cases—in "morally corrupt contexts," as Philips calls them—"there may be no prima facie duty to adhere to the agreements implicit in one's role or position," then the issue becomes situational and a matter of judgment, with few consistent guidelines.[34] If our perspective, continues Philips, is that "the action purchased from the relevant official does not count as a violation of his [or her] duty," then the American managers or other foreign managers involved are actually victims of extortion rather than guilty of bribery.[35] That is the position taken by Gene Laczniak of Marquette Company, who says that it is just part of the cost of doing business in many countries to pay small bribes to get people just to do their jobs; but he is against paying bribes to persuade people to make a decision that they would not otherwise have made.[36]

Whatever their professed beliefs, many businesspeople are willing to engage in bribery as an everyday part of meeting their business objectives. Many corporate officials, in fact, avoid any moral issue by simply "turning a blind eye" to what goes on in subsidiaries. Some companies avoid these issues by hiring a local agent who takes care of the paperwork and pays all the so-called fees in return for a salary or consultant's fee.[37] However, while the FCPA does allow "grease" payments to facilitate business in a foreign country, if those payments are lawful there, other payments prohibited by the FCPA are still subject to prosecution even if the company says it did not know that its agents or subsidiaries were making such payments—the "reason to know" provision.[38,39]

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 American firms at a competitive disadvantage.[40] In fact, the United States is the only country prohibiting firms from making payments to secure contracts overseas.[41] In any event, business activities that cannot stand scrutiny, many feel, are clearly unethical, corrupt, and,

in the long run, corrupting.[42] Bribery fails three important tests of ethical corporate actions: (1) Is it legal? (2) Does it work (in the long run)? (3) Can it be talked about?[43]

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

- Develop worldwide codes of ethics.
- Consider ethical issues in strategy development.
- Given major, unsolvable, ethical problems, consider withdrawal from the problem market.
- Develop periodic "ethical impact" statements.[44]

Most of the leadership in developing ethical postures in international activities comes from the United States. Although this move toward ethics and social responsibility is spreading, both in the United States and around the world, problems still abound in many countries.

Heightened global competition encourages companies to seek advantages through questionable tactics. A 1995 Commerce Department study revealed many incidents of improper inducements by companies and governments around the world (such as Germany's Siemens and the European airframe consortium Airbus Industrie) which undercut U.S. companies. Indeed, American companies are not all clean. In October 1995, Lockheed Martin Corporation's former vice-president was sentenced to 18 months in prison and a $125,000 fine for bribing a member of the Egyptian Parliament to win an order for three C-130 cargo planes.[45] So much for Lockheed's consent decree to refrain from corrupt practices, which they signed 20 years ago following their bribery scandal in Japan.

Japan also continues to have its share of internal problems regarding the ethical behavior of its officials and businesspeople. In the scandal involving Nippon Telephone and Telegraph Company (NTT), the chairman of the board of NTT was involved in obtaining cut-rate stock in a real estate subsidiary of the Recruit Company in exchange for helping the company obtain two U.S. supercomputers. When the stock went public, the chairman and other NTT executives made a lot of money. They were later arrested and charged with accepting bribes.[46]As the scandal unfolded, it appeared that government members were involved, including the prime minister, Noboru Takeshita, who had received $1.4 million in questionable, albeit legal, donations from the Recruit Company. Takeshita subsequently resigned, as did other government officials, and the incident became known as Recruitgate, in reference to the Watergate scandal that forced President Nixon to resign.[47]

Making the Right Decision

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

as shown in Exhibit 2-2. These are broad and cover various areas of social responsibility and ethical behavior; however, while they are comprehensive, many issues are subject to interpretation.

If legal consultation does not provide you with a clear answer about what to do, you should consult the company's code of ethics (if there is one). You, as the manager, should realize that you are not alone in making these kinds of decisions; it is also the responsibility of the company to provide guidelines for the actions and decisions made by its employees. In addition, you are not the first, and certainly not the last, to be faced with this kind of situation. This also allows for a collective experience in the company about what kinds of decisions your colleagues typically make in various circumstances. Those norms or expectations (assuming they are honorable) can supplement the code of ethics or substitute for the lack of a formal code. If your intended action runs contrary to the norms or the formal code, then discontinue that plan. If you are still unsure of what to do, you have the right and the obligation to consult your superiors. Unfortunately, often the situation is not that clear cut, or your boss will tell you to "use your own judgement." Sometimes your superiors back at 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 get the deal done. It is at this point that, if your dilemma continues, you must fall back to your own moral code of ethics. One way to consider the dilemma is to ask yourself what are the rights of the various stakeholders involved (see Exhibit 2-2) and how should you weigh those rights? First, does the proposed action (rigged contract bid, bribe, etc.) harm anyone? What are the likely consequences of your decision both in the short run and in the long run? Who would benefit from your contemplated action? What are the benefits to some versus potential harm to others? In the case of a rigged contract bid through bribery, for example, people are put at a disadvantage, especially over the long term with a pattern of this behavior. This is because if competition is unfair, not only are your competitors harmed by losing the bid, but also the consumers of the products or services are harmed because they will pay more to attain them than they would under an efficient market system.

In the end, you have to follow your own conscience and decide where to draw the line in the sand in order to operate with integrity—otherwise the line moves further and further away with each transgression. In addition, what can start with a small bribe or cover-up (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 as 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.

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 need to control their activities at all levels—from simple, daily business transactions involving local workers, intermediaries, or consumers to global concerns of ecological responsibility—for the future benefit of all concerned. Whatever the situation, the powerful long-term effects of MNC and MNE action (or inaction) should be planned for and controlled, not done haphazardly 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 highlight the growing interdependence and changing balance of business power globally, we should also consider foreign subsidiaries in the United States. Since much criticism about a lack of responsibility has been directed toward MNCs with headquarters in the United States, we need to think of these criticisms from an outsider's perspective. The number of foreign subsidiaries in the United States has grown and continues to grow dramatically; foreign direct investment (FDI) in the United States by other countries is in many cases far more than U.S. investment outward. Americans are thus becoming more sensitive to what they perceive as a lack of control over their own country's business.

Things look very different from the perspective of Americans employed at a subsidiary of 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.

Today, managers from all countries must learn new ways, and most MNCs are trying to adapt. Sadahei Kusumoto, president and CEO of the Minolta Corporation, says that Japanese managers in the United States need to recognize that they are "not in Honshu [Japan's largest island] anymore" and that one very different aspect of management in the United States is the idea of corporate social responsibility.[48]

In Japan, corporate social responsibility has traditionally meant that companies take care of their employees, whereas in the United States the public and private sectors are expected to share the responsibility for the community. Part of the explanation for this difference is that American corporations get tax deductions for corporate philanthropy, whereas Japanese firms do not. Furthermore, Japanese managers are not familiar with community needs. For these and other reasons, Japanese subsidiaries in the United States have not been active in U.S. philanthropy. However, Kusumoto pinpoints why they should become more involved in the future:

> In the long run, failure to play an active role in the community will brand these companies as irresponsible outsiders and dim their prospects for the future.[49]

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

Managing Subsidiary and Host-Country Interdependence

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

> Interdependence rather than independence, and cooperation rather than confrontation are at the heart of that accommodation . . . the journey from independence to interdependence managed badly leads to dependence, and that is an unacceptable destination.[50]

Most of the past criticism levied at MNCs has focused on their activities in LDCs. Their real or perceived lack of responsibility centers on the transfer-in of inappropriate technology, causing unemployment, and the transfer-out of scarce financial and other resources, reducing the capital available for internal development. In their defense, MNCs help LDCs by bringing in new technology and managerial skills, improving the infrastructure, creating jobs, and bringing in investment capital from other countries by exporting products. The infusion of outside capital provides foreign-exchange earnings that can be used for further development. The host government's attitude is often referred to as a love–hate relationship: it wants the economic growth that MNCs can provide but does not want the incursions on national sovereignty or the technological dependence that may result.[51] Most criticisms of MNC subsidiary activities, whether in less developed or more developed countries, are along these lines:

1. MNCs raise their needed capital locally, 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.[52]

Specific MNCs have been charged with tax evasion, union busting, and interference in host-country politics. Of course, MNCs have both positive and negative effects on different economies; for every complaint about MNC activities (whether about capital markets, technology transfer, or employment practices), we can identify potential benefits, as shown in Exhibit 2-4.

Numerous conflicts arise between MNC companies or subsidiaries and host countries, including conflicting goals (both economic and noneconomic) and con-

Exhibit 2-4

MNC Benefits and Costs to Host Countries

BENEFITS	COSTS
CAPITAL MARKET EFFECTS	
• Broader access to outside capital • 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 PROTECTION EFFECTS	
• Access to new technology and R&D developments • Infrastructure development and support • Export diversification	• Technology is not always appropriate • Plants are often for assembly only and can be dismantled • Government infrastructure investment is higher than expected benefits
EMPLOYMENT EFFECTS	
• Direct creation of new jobs • 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: R. H. Mason and R. S. Spich, *Management: An International Perspective* (Homewood, IL: Irwin, 1987), 202.

flicting concerns, such as the security of proprietary technology, patents, or information. Overall, the resulting trade-offs create an interdependent relationship between the subsidiary and the host government based on relative bargaining power. The power of MNCs is based on their large-scale, worldwide economies, their strategic flexibility, and their control over technology and production location. The bargaining chips of the host governments include their control of raw materials and market access and their ability to set the rules regarding the role of private enterprise, the operation of state-owned firms, and the specific regulations regarding taxes, permissions, and so forth.[53]

MNCs run the risk of their assets becoming hostage to host control, which may take the form of nationalism, protectionism, or governmentalism. Under nationalism, for example, public opinion is rallied in favor of national goals and against foreign influences. Under protectionism, the host institutes a partial or complete closing of borders to withstand competitive foreign products, using tariff and nontariff barriers, such as those used by Japan. Under governmentalism, the government uses its policy-setting role to favor national interests, rather than relying on market forces. An example is the decision of Britain to privatize its telephone system.[54]

Ford Motor Company came up against many of these controls when it decided to produce automobiles in Spain. The Spanish government set specific restrictions on sales and export volume: the sales volume was limited to 10 percent of the previous year's total automobile market, and the export volume had to be at least two-thirds of the entire production in Spain. Ford also had to agree that it would not broaden its model lines without the authorization of the government.[55] The intricacies of the relationship and the relative power of an MNC subsidiary and a host-country government are situation specific. Clearly, such a relationship should be managed for mutual benefit; a long-term, constructive relationship based on the MNC's socially responsive stance should result in progressive strategic success for the MNC and economic progress for the host country. The effective management of subsidiary and 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.[56] In setting up and maintaining subsidiaries, managers are wise to consider the long-term trade-offs between strategic plans and operational management. By finding out for themselves the pressing local concerns and understanding the sources of past conflicts, they can learn from mistakes and recognize the consequences of the failure to manage problems. Further, managers should implement policies that reflect corporate social responsibility regarding local economic issues, employee welfare, or natural resources.[57] At the least, the failure to manage interdependence effectively results in constraints on strategy. In the worst case, it results in disastrous consequences for the local area, for the subsidiary, and for the global reputation of the company.

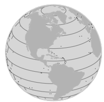
The interdependent nature of developing economies and the MNCs operating there is of particular concern when discussing social responsibility because of the

tentative and fragile nature of the economic progression in those countries. MNCs need to set a high moral standard and lay the groundwork for future economic development; at the minimum they should ensure that their actions will do no harm. Some recommendations by De George for MNCs operating in, and doing business with, developing countries are as follows:

1. Do no intentional harm. This includes respect for the integrity of the ecosystem and consumer safety.
2. Produce more good than harm for the host country.
3. Contribute by their activity to the host country's development.
4. Respect the human rights of their employees.
5. To the extent that local culture does not violate ethical norms, MNCs should 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, consumer groups, which serve as a means of social control).[58]

One issue that illustrates conflicting concerns about social responsibility and interdependence is the North American Free Trade Agreement (NAFTA), discussed in the Comparative Management in Focus.

Comparative Management in Focus



Interdependence: The NAFTA—Perspectives from the South and the North

> By 2001, about half of all new jobs created in Mexico since the NAFTA [will have] stemmed directly from that agreement, fostering a burgeoning middle class of consumers.
>
> *FORTUNE INVESTORS' GUIDE*, DECEMBER 18, 2000

It may be too soon to judge the long-run success of NAFTA, but early results do reinforce the interdependent nature of the agreement between 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 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. Indeed, Mexico's President Vincente Fox, a former Coca-Cola executive, set 2001 budget goals of 4% to 5% GDP growth.[59]

It seems that because of lower labor costs for "foreign" companies, the devalued peso, and NAFTA-reduced tariff levels, NAFTA had a mitigating effect on the Mexican economic crisis.[60] In a touch of irony, Asia's problems caused some global companies to relocate factories from Asia to Mexico. In fact, Mexico has overtaken mainland China as the volume leader of exports of textiles and garments to the United States. But, do the trade numbers tell it all? Perhaps we can compare perspectives from south and north of the border by looking at some examples and issues.

From the South Looking North

> It's not like ten years ago, when we wanted to talk to [U.S.] customers and no one would talk to us. Now, big [U.S.] customers are calling us.
>
> VICTOR ALMEIDA, CEO, INTERCERAMIC.[61]

The Almeida family of Interceramic (Internacional de Ceramica SA, Chihuahua, Mexico), always wanted to export to the United States, but it took the heightened interest in Mexico through the NAFTA agreement to really give them their breakthrough.

The manufacturer of glazed floor and wall tile is just one of the many savvy Mexican firms making inroads into the U.S. market. But in many ways it is harder for Mexican managers to go north than for U.S. managers to go south. While they both face the same sorts of cross-cultural managerial problems, Mexican companies are typically at a competitive disadvantage in the United States because they are not as advanced in technology or efficiency as American firms.

Interceramic, a traditional Mexican family business, had to learn the hard way that business is done differently in the United States. Victor Almeida, the CEO, found that contractors buy most of the tile in the United States, compared to the homeowner in Mexico, and that customers in the United States demanded a much better level of service.[62] He had to convince U.S. distributors that Interceramic had high-quality products and that the company was reliable, and it took some time to find the right U.S. managers to represent the company and interact with people on both sides of the border. He encouraged them to be more like Mexicans by showing their emotions more openly. In addition, he opened offices in Texas so that the export managers could be closer to the customer and thus get more input to custom design the tiles to suit American tastes. Although it has taken a few years, Mr. Almeida's efforts are now paying off, and he attributes much of that to NAFTA, as well as to his hard work.

But it's a different story for smaller, less efficient firms: many simply cannot compete with the resources of technology and access to capital that U.S. firms are bringing to Mexico. Corner stores and small businesses are getting driven out by the Wal-Marts, Grossmans, and Dunkin' Donuts—the same competitive situation that has hit towns in the United States. Mexican factories are finding it difficult to compete for employees with companies like GM which are offering subsidized housing. However, other businesses, in towns such as Nuevo Laredo, are booming as a result of servicing large companies such as Wal-Mart (known locally as Walmex), Mexico's biggest chain as of 2001.[63]

From the North Looking South

> If you don't have trustworthy Mexican partners, you can get into trouble here; only idiots try to figure it out themselves.
>
> R. HECKMANN, CEO, U.S. FILTER[64]

"For every factory opened in Mexico (whether by Asian, Canadian, European, or American firms), the U.S. wins service, transportation, or distribution jobs."[65] Also, American firms which supply components to those factories are profiting

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from the boom south of the border. This is because primary components in products such as VCRs must be made in North America to benefit from NAFTA. U.S. and Mexican companies also benefit from orders for supplies from European and Asian firms.

While many Canadian and American companies are expanding into Mexico, taking advantage of the increased confidence and opportunities resulting from passage of NAFTA, most firms face an uphill battle because they make incorrect assumptions about the similarity of the market and distribution system. Problems include corruption, American arrogance, red tape on both sides of the border, and misunderstandings about the Mexican culture and how to do business there.

Coupling these problems with those in the infrastructure, it is easy to see why many foreign firms have had difficulties expanding into Mexico, often giving up. While it is easier now to get a business phone line, transportation and mail systems are still behind American expectations, and bill collecting often must be done in person because of numerous problems with the mail and required documentation. Electricity is sometimes cut off without notice, and the legal system is so difficult to figure out that foreigners risk going to jail without being accused of a crime. Mexican partners and alliances seem to be the answer—as even the giant Wal-Mart Stores Inc. found out when it ran into so many distribution problems in Mexico that it decided it would cost no more in the long run to use local distributors.

So why do American companies bother? Typically, because they want to take advantage of market expansion opportunities. One example is U.S. Filter, a water-purification company whose target in Mexico is "90 million people who can't trust their tap water, and a slew of companies under government pressure to clean up waste water."[66]

Interdependence: South–North Strategic Alliances Richard Heckmann, U.S. Filter's CEO, realized early on that alliances with trustworthy Mexican partners provided the answer to many problems and to achieving the interdependent goals of both countries and their firms. He knew, for example, that the political reality was that Mexican officials would favor their ties to Mexican firms and steer bids to those companies. So he contracted with a Mexican construction company, Plar SA, with strong political connections. Plar SA benefits from the deal by getting technical and financial help from U.S. Filter to upgrade its technology. Also, in order to reach his smaller potential customers, Mr. Heckmann has formed a joint venture with Enrique Anhalt, a local Mexico City water-purification supplier to 250 manufacturers and other customers with small systems, assuming that when they upgrade they will turn to a local supplier.

The environmental cleanup efforts in Mexico clearly exhibit the interdependence of NAFTA and will benefit everyone in the long run. Funding from the United States is helping with projects such as the sewage-treatment plants at 11 cities south of the border. In turn, that business is going to many U.S. environmental-services companies, such as San Diego Gas & Electric Co., which is building natural gas pipelines to Mexicali and Tijuana to supply clean fuel to industrial plants.

The auto industry is another agent of massive change in Mexico—building an industrial base south of the border that will help strengthen the Mexican economy. "The auto industry has the unusual ability to . . . jump start a middle class," according to David Cole, director of the University of Michigan's automotive-studies office.[67] While the average Ford worker in Hermosillo still earns considerably less than his counterpart in Wayne, Michigan, that wage does represent a considerable increase for Mexican workers. In addition, every new auto plant in Mexico trains thousands of Mexicans, most of them new to factory work. While those factors don't console auto workers in the United States who have lost their jobs, it does mean that American auto manufacturers can be more globally competitive.

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. South Americans are realizing that they may get left out in the cold as both the European Community and North America form their own huge markets. As noted by Mr. Grisetti, an Argentine businessman, "If the world is dividing into blocs, we have to form a bloc or disappear . . . it's a necessity."

Managing Environmental Interdependence

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

> Now that mankind is in the process of completing the colonization of the planet, learning to manage it intelligently is an urgent imperative. [People] must accept responsibility for the stewardship of the earth. The word stewardship implies, of course, management for the sake of someone else. . . . As we enter the global phase of human evolution, it becomes obvious that each [person] has two countries, his [or her] own and the planet earth.[68]

Effectively managing environmental interdependence includes considering ecological interdependence as well as the economic and social implications of MNC activities. There is an ever-increasing awareness of, and a mounting concern, worldwide, about the effects of global industrialization on the natural environment. This concern was evidenced by the gathering of world leaders at the Earth Summit in Rio de Janeiro to discuss ecological preservation and decide on action. 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.[69] For an MNC to take advantage of less stringent regulations (or expectations) is not only irresponsible but also invites disaster, as illustrated by the Union Carbide accident in Bhopal.

In recent years, the export of hazardous wastes from developed countries to less developed ones has increased considerably. One instance was the dumping of over eight thousand drums of waste, including drums filled with polychlorinated biphenyl (PCB), a highly toxic compound, in Koko, Nigeria.[70] While not all dumping is illegal, the large international trade in hazardous wastes (as a result of the increasing barriers to domestic disposal) raises disturbing questions regarding social responsibility. Although the importer of waste must take some blame, it is the exporter who shoulders the ultimate responsibility for both generation and disposal. Often, companies choose to dispose of hazardous waste in less developed countries to take advantage of weaker regulations and lower costs. Until we have strict international regulation of trade in hazardous wastes, companies should take it upon themselves to monitor their activities, as Singh and Lakhan demand:

> To export these wastes to countries which do not benefit from waste-generating industrial processes or whose citizens do not have lifestyles that generate such wastes is unethical. It is especially unjust to send hazardous wastes to lesser developed countries which lack the technology to minimize the deleterious effects of these substances.[71]

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.[72] One MNC, Monsanto Chemical Corporation, for example, sells DDT to many foreign importers, even though its use in the United States has been essentially banned. Apart from the lack of social responsibility toward the people and the environment in the countries that import DDT, this action is also irresponsible to American citizens because many of their fruits and meat products are imported from those countries.[73]

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

> The concept [of industrial ecology] requires that an industrial system be viewed not in isolation from its surrounding systems, but in concert with them. It is a systems view in which one seeks to optimize the total materials cycle from virgin material, to finished material, to component, to product, to obsolete product, and to ultimate disposal.[74]

Essentially, this perspective supports the idea that environmental citizenship is necessary for a firm's survival as well as responsible social performance.[75]

It is clear then, that MNCs must take the lead in dealing with ecological interdependence by integrating environmental factors into strategic planning. Along with an investment appraisal, a project feasibility study, and operational plans, such planning should include an environmental impact assessment.[76] At the 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.[77]

Multinational corporations already have had a tremendous impact on foreign countries, and this impact will continue to grow and bring about long-lasting changes. Even now, U.S. multinational corporations alone account for about 10 percent of the world's GNP. Because of interdependence both at the local level and the 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

In conclusion, when research findings and anecdotal evidence indicate differential attitudes toward ethical behavior and social responsibility across cultures, MNCs must take certain steps. For example, they must be careful when placing a foreign manager in a country whose values are incongruent with his or her own, because this could lead to conflicts with local managers, governmental bodies, customers, and suppliers. As discussed earlier, expatriates should be oriented to the legal and ethical ramifications of questionable foreign payments, the differences in environmental regulations, and the local expectations of personal integrity, and they should be supported as they attempt to integrate host-country behaviors with the expectations of the company's headquarters.[78]

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

In Part 2, we will focus on the pervasive and powerful influence of culture in the host-country environment in which the international manager operates. In Chapter 3, we will examine 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?

INTERNET RESOURCES

Visit the Deresky companion Web site at http://prenhall.com/Deresky for this chapter's Internet resources.

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SUMMARY OF KEY POINTS

1. The concept of international social responsibility includes the expectation that MNCs should be concerned about the social and the economic effects of their decisions regarding activities in other countries.
2. Moral universalism refers to the need for a moral standard that is accepted by all cultures.
3. Concerns about MNC social responsibility revolve around issues of human rights in other countries, such as South Africa and China. Many organizations develop codes of conduct for their approach to business around the world.
4. International business ethics refers to the conduct of MNCs in their relationships to all individuals and entities with whom they come into contact. Ethical behavior is judged and based largely on the cultural value system and the generally accepted ways of doing business in each country or society. MNC managers must decide whether to base their ethical standards on those of the host country or those of the home country and whether these different standards can be reconciled.
5. MNCs must balance their responsibility to various stakeholders, such as owners, creditors, consumers, employees, suppliers, governments, and societies.
6. Questionable payments are those payments that raise significant questions about appropriate moral behavior either in the host nation or other nations. The Foreign Corrupt Practices Act prohibits most questionable payments by U.S. companies doing business in other countries.
7. Managers must control their activities relative to interdependent relationships at all levels, from simple, daily business transactions involving local workers, intermediaries, or consumers to global concerns of ecological responsibility.
8. The MNC-host country relationship is generally a love–hate relationship from the host-country's viewpoint in that it wants the economic growth that the MNC can provide but does not want the dependency and other problems that result.
9. 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.
10. Managing environmental interdependence includes the need to consider ecological interdependence as well as the economic and social implications of MNC activities.