Chapter 2: Managing Interdependence: Social Responsibility and Ethics
Comparative Management in Focus: Doing Business in China

The attraction of doing business in China:
- Cheap labor cost
- An expanding market
- A growing economy with growth in higher skilled jobs and services

Continuing concerns:
- Uncertain legal environment
- Protecting IP
Comparative Management in Focus: Doing Business in China

The human rights and Freedom of Information challenges

- Potentially rampant violations of workers’ rights
- Repression of free-speech
- Difficulty monitoring/correcting violations

The human rights and Freedom of Information challenges

- Wal-Mart
- Government limits on media and internet freedoms
- Google
- Microsoft
- Yahoo
Comparative Management in Focus: Doing Business in China

Examples of recent human rights issues in China:
- Nike
- Governmental crackdown on “propaganda”
- Google, Microsoft, Yahoo, Apple
Chapter Learning Goals

- **Appreciate the complexities** involved in the corporation’s obligations toward its various constituencies around the world.

- **Understand the changing perceptions and demands of corporations** doing business in other countries, in particular the responsibilities toward human rights.

- **Acknowledge the strategic role** that CSR and codes of ethics must play in global management.

- **Provide guidance** to managers to maintain ethical behavior amid the varying standards and practices around the world.
Chapter Learning Goals

- Recognize that companies must provide benefits to the host country in which they operate in order to maintain cooperation.

- Discuss the need for corporations to consider sustainability in their long-term plans in order to manage environmental impacts on host locations.

- Identify the challenges involved in human rights issues when operating in around the world.
The Social Responsibility of MNCs

- Corporate social responsibility Dilemma (CSR)

*Profit is MNCs’ only goal*

*MNCs should anticipate and solve social needs*
MNC Stakeholders

EXHIBIT 2-1  MNC Stakeholders

**Home Country**
- Owners
- Customers
- Employees
- Unions
- Suppliers
- Distributors
- Strategic allies
- Community
- Economy
- Government

**Host Country**
- Economy
- Employees
- Community
- Host government
- Consumers
- Strategic allies
- Suppliers
- Distributors

**Society in General**
- (global interdependence/standard of living)
- Global environment and ecology
- Sustainable resources
- Population's standard of living
Benefits from CSR
Benefits from CSR

- Improved access to capital
- Secured license to operate
- Revenue increase and cost and risk reduction
- Better brand value and reputation with customer attraction and retention
- Improved employee recruitment, motivation, and retention
Global Consensus or Regional Variation?

- Global corporate culture: An integration of the business environments in which firms currently operate

- Example of regional variation: The US focuses on following basic business obligations, Europe focuses on serving broader social aims
Dealing with Confusion About Cross-Cultural Dilemmas

- Engaging stakeholders (and sometimes NGOs) in a dialog

- Establishing principles and procedures for addressing difficult issues such as labor standards for suppliers, environmental reporting, and human rights

- Adjusting reward systems to reflect the company’s commitment to CSR
General Guidelines for Code of Morality and Ethics in Individual Countries

- **Moral Universalism** - Addressing the need for a moral standard that is accepted by all cultures

- **Ethnocentric Approach** - Applying the morality used in home country—regardless of the host country’s system of ethics

- **Ethical Relativism** - Adopting the local moral code of whatever country in which a firm is operating
MNCs and Human Rights

- The Sweatshop Code of Conduct
- The Electronic Industry Code of Conduct (EICC)
- Social Accountability 8000 (SA8000)
International Business Ethics

- The business conduct or morals of MNCs in their relationships with individuals and entities

- Ethics vary based on the cultural value system in each country or society
A Moral Philosophy of Cross-cultural Societal Ethics

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

### Global Corruption Barometer

<table>
<thead>
<tr>
<th>Region</th>
<th>Business/ Private Sector</th>
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</thead>
<tbody>
<tr>
<td>Asia</td>
<td>3.3</td>
</tr>
<tr>
<td>Africa</td>
<td>3.1</td>
</tr>
<tr>
<td>Western Europe</td>
<td>3.3</td>
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<tr>
<td>Central &amp; Eastern Europe</td>
<td>3.7</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>3.5</td>
</tr>
<tr>
<td>USA</td>
<td>3.2</td>
</tr>
</tbody>
</table>
Global Corruption Barometer:
2010 Corruption Perception Index (CPI)—Selected Ranks
Source: Selected data from the TI Corruption Perception index, 2010

Top 20—Least Corrupt

1. Denmark
2. Singapore
3. New Zealand
4. Finland
5. Canada
6. Australia
7. Hong Kong
8. Germany
9. Japan
10. UK
11. Chile
12. Belgium
13. USA
14. France
15. Taiwan
16. South Korea
17. Poland
18. Greece
19. S. Africa
20. Turkey
Is it bribery?

- Questionable Payments
  - Paying mail carriers in Mexico to prevent them from “losing” mail

- Paying $100 to get a computer picked up from a rainy dock

- Gift-giving to bond social ties
Managing the Corruption - Legal Approaches to Bribery

- Foreign Corrupt Practices Act (FCPA)
- Organization for Economic Co-operation and Development convention on bribery
Three Tests of Ethical Corporate Actions

- Is it legal?
- Does it work in the long run?
- Can it be talked about?
  - (- when “Bribery” happens…??)
What is the “right” decision?

- Consult home/host country laws
- Consult International Codes of Conduct for MNCs
- Consult the company’s code of conduct
What is the “right” decision?

- Consult your superiors
- Fall back on your own moral code of ethics
The Process for Companies to Combat Corruption and to Minimize the Risk of Prosecution

- **Having a global compliance system** which shows that employees have understood, and signed off on, the legal obligations regarding bribery and corruption in the countries where they do business.

- **Making employees aware** of the penalties and ramifications for lone actions, such as criminal sanctions.

- **Having a system in place to investigate** any foreign agents and overseas partners who will be negotiating contracts.

- **Keeping an effective whistle-blowing system** in place.
Managing Subsidiary—Host-Country Interdependence

Common Criticism of MNC Subsidiary Activities

1. MNCs locally raise their needed capital, contributing to a rise in interest rates in host countries.

2. The majority (sometimes even 100 percent) of the stock of most subsidiaries is owned by the parent company. Consequently, host-country people do not have much control over the operations of corporations within their borders.

3. MNCs usually reserve the key managerial and technical positions for expatriates. As a result, they do not contribute to the development of host-country personnel.
Common Criticism of MNC Subsidiary Activities Cont.

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.
Managing Subsidiary—Host-Country Interdependence

- Requires managers to go beyond issues of CSR to deal with specific concerns of the MNC—host-country relationship

- MNCs must learn to accommodate the needs of other organizations and countries
### MNC Benefits & Costs to Host Countries

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Costs</th>
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<tbody>
<tr>
<td>Access to outside capital</td>
<td>Competition for capital</td>
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<tr>
<td>Foreign-exchange earnings</td>
<td>Increased interest rates</td>
</tr>
<tr>
<td>Access to technology</td>
<td>Inappropriate technology</td>
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<tr>
<td>Infrastructure development</td>
<td>Development investment exceeds benefits</td>
</tr>
<tr>
<td>Creation of new jobs</td>
<td>Limited skill development</td>
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<tr>
<td>Local management development</td>
<td>Few managerial jobs for locals</td>
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</tbody>
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The Risks of Interdependence for MNCs

- Nationalism
- Protectionism
  - Example: Japan’s tariffs
- Governmentalism
  - Example: Britain’s privatized telephone system
Issues in Managing Environmental Interdependence

- The dumping of 8000 drums of toxic waste in Koko, Nigeria
- BP in the Gulf of Mexico
- The export of US pesticides
- Industrial ecology