Solution Manual for International Management Managing Across Borders and Cultures Text and Cases 8th Edition Helen Deresky 0133062120 9780133062120

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Chapter 2
MANAGING INTERDEPENDENCE
SOCIAL RESPONSIBILITY, ETHICS, AND SUSTAINABILITY

LECTURE OUTLINE

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The Video correlation guide can be downloaded from the Instructor Resource Center. To obtain a user name and password please contact your local Pearson sales representative.

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

Opening Profile: McDonald's CSR Experience in China
The profile explains how difficult it is to create an image of a corporation that runs counter to public perception, especially when that perception is negative on a variety of levels such as promoting waste, unhealthy lifestyles, and a destruction of local culture.
Bob Langert, VP of McDonald's for CSR remarks that McDonald's has become proactive in promoting a CSR agenda and that CSR has worked out well for McDonald's in terms of their image and cost reductions. McDonalds works with NGOs such as the World Wildlife Fund which helps to increase their credibility. The trust factor for McDonalds in China has gotten better as a result.

I.   The Social Responsibility of MNCs **(see slide 2-6)**
   A. *Global interdependence* is a compelling factor 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.
   B. The United Nations published guidelines for the responsibilities of transnational corporations and called for companies to be subject to monitoring, verification, and censure for unethical business practices.
   C. Though many companies agree with the guidelines, they resist the notion that corporate responsibility should be regulated and question where to draw the line between socially responsible behavior and the concerns of the corporation's other stakeholders. Issues of social responsibility continue to center on poverty and lack of equal opportunity around the world, the environment, consumer concerns, and employee safety and welfare.
   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 (page 42) 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.

Under the Lens

Illustrating that shareholders are not always focused only on profits, the New York City Pension Funds, a minority shareholder in Walmart, is pressuring the company to require its suppliers to give annual reports about working conditions in their factories. Labor activists in China, for example, state that Walmart makes suppliers compete for the company's business on the basis of price. "Walmart pressures the factory to cut its price, and the factory responds with longer hours or lower pay," said a Chinese labor official, who declined to be named for fear of punishment. "And the workers have no options". For its part, Walmart contests these claims, saying that suppliers are required to meet Walmart's standards or lose their contracts; and also that it would be very difficult to get suppliers to give comprehensive annual reports on working conditions.

CSR: Global Consensus or Regional Variation?

A. 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 **(see slide 2-9)**—"corporate activity should be motivated in part by a concern for the welfare of some non-owners, and by an underlying commitment to basic principles such as integrity, fairness, and respect for persons."

B. 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 **(see slide 2-11)** 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.

C. Creating Shared Value (CSV)—that is, expanding the pool of economic and social value—"leverages the unique resources and expertise of the company to create economic value by creating social value." By viewing the growth, profitability, and sustainability of the corporation as intermeshed with societal and economic progress in the markets in which it operates, companies such as Walmart, Google, and Intel are creating shared value by: "reconceiving products and markets; redefining productivity in the value chain; and enabling local cluster development" (clusters of related business in a local area in which the company operates). Walmart, for example, has reduced its environmental footprint through its revamping of the plastic used in its stores, and by reducing its packaging; it also has cut 100 million miles from its delivery routes, saving $200 million even as it shipped more products.

D. MNC responsibility toward human rights
   1. What constitutes "human rights" is clouded by the perceptions and priorities of people in different countries **(see slide 2-12)**. Although 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.

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 and Levi have established codes of conduct for their buyers, suppliers, and contractors. In addition some companies are uniting with others in their industry to form their own code for responsible action. One of these is the Electronic Industry Code of Conduct (EICC) which comprises H-P, Dell, IBM, Intel and 12 other tech companies who have agreed on policies banning child labor, excessive overtime, and so forth.

Comparative Management Focus: Doing Business in China—CSR and The Human Rights Challenge (see slide 2-14, 2-15)

China's growth engine continued to drive the global economy in 2012 (albeit more slowly), propelled by China's $586 billion economic stimulus plan enacted during the global economic downturn. However, although this growth has lifted millions of Chinese out of poverty, many people and their basic rights remain largely behind, and there has been a heavy cost to the environment as energy usage increases and causes pollution. Growth in higher skilled jobs and in services is now well under way. However, there is continuing concern among MNCs about the pitfalls of operating in China—among them are the uncertain legal climate; the difficulty of protecting intellectual property there; the repression of free speech; and the difficulty of monitoring, let alone correcting, human rights violations in factories.

Freedom of information took a particularly hard hit in October 2011 when the media reported that "Whether spooked by popular uprisings worldwide, a coming leadership transition at home or their own citizens' increasingly provocative tastes, Communist leaders are proposing new limits on media and Internet freedoms that include some of the most restrictive measures in years."

The latest censorship moves come as a disappointment because it had seemed as though China was becoming more conscious of the need to improve its image regarding CSR as it takes a larger economic role on the world stage; indeed, its membership in the WTO obliges the country to act in concert with the policies and values of a free market.

Country/Culture—China: A series of extremely useful DVDs giving insight about Chinese business is "On the Frontlines: Doing Business in China": www.chinadoingbusiness.com

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

E. 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 Website of Social Accountability International (www.sa-intl.org) to learn more about the SA 8000 standards.

  2. There are four international codes of conduct **(see slide 2-10)** 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 (page 48)

II. Ethics in Global Management **(see slide 2-17)**
  A. Globalization has multiplied the ethical problems facing organizations. However, business ethics have not yet been globalized. Attitudes toward ethics are rooted in culture and business practices. For an MNC, it is difficult to reconcile consistent and acceptable behavior around the world with home-country standards. One question, in fact, is whether it should be reconciled. Perhaps more scrutiny should have been applied to those global MNCs headquartered in the United States such as Enron and WorldCom that so greatly defrauded their investors, employees, and all who had business with them.
  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 **(see slide 2-18)** 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 2010 Corruption Perceptions Index **(see slide 2-19)** is provided in Exhibit 2-4.

Teaching Resource: Have students visit the Website of Transparency International www.transparency.org and have them find out how the corruption index is determined.

F. Ethics in Uses of Technology
1. The ethical use of technology around the world poses a considerable challenge for companies to have consistent practices because of the varied expectations about the use of technological devices and programs as they intersect with people's private lives. This conflict is illustrated by the electronic data privacy laws in Europe. The EU Directive on Data Protection guarantees European citizens absolute control over data concerning them. A U.S. company wanting personal information must get permission from that person and explain what the information will be used for. The company must also guarantee that the information won't be used for anything else without the person's consent.

G. Bribery **(see slide 2-22)**
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.
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 **(see slide 2-24)** 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.
4. There are three questions **(see slide 2-25)** 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. **(see slide 2-26)**
   -Having a global compliance system that shows that employees have understood, and signed off on, the legal obligations regarding bribery and corruption in the countries where they do business.
   -Making employees aware of the penalties and ramifications for lone actions, such as criminal sanctions.
   -Having a system in place to investigate any foreign agents and overseas partners who will be negotiating contracts.
   -Keeping an effective whistle-blowing system in place

   Among those policies **(see slide 2-27)** 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. Plan regular assessment of the company's ethical posture.
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. If you are still unsure of what to do you have the right and obligation to consult your superiors. 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 conscience 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?

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 United States
  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 gives rise to the companies' presence in the first place.

C. Managing subsidiary-host country interdependence **(see slide 2-29, 2-30)**
  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 **(see slide 2-29)** 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 to the home country.

    Exhibit 2-5 summarizes the benefits and costs **(see slide 2-33)** 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 noneconomic) 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, AntiRacismNet, and WomensNet, are gateways to articles, headlines, features, and Web links 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. With nationalism, 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 by using tariff and nontariff 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 **(see slide 2-36)** 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 and sustainability

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

The BP disaster has raised deeper concerns about the usefulness of voluntary CSR policies and reports. Clearly, many corporations need to focus carefully on the implementation of their sustainability strategies

1. International managers can no longer afford to ignore the impact of their activities on the environment. The demand for corporations to consider **sustainability** in the CSR plans comes from various stakeholders around the world.
2. A generally accepted definition of sustainable development for business enterprises is that of "adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today, while protecting, sustaining, and enhancing the human and natural resources that will be needed in the future."
3. Existing literature generally agrees on three dimensions of sustainability: (1) economic, (2) social, and (3) environmental. A sustainable business has to take into account "the interests of future generations, biodiversity, animal protection, human rights, life cycle impacts, and principles like equity accountability, transparency, openness, education, and learning, and local action and scale."
4. Effectively managing environmental interdependence includes the need to consider ecological interdependence as well as economic and social implications of MNC activities: selling at low prices yet being environmentally and socially conscious.
5. 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, "Bhopal: The Second Tragedy," provides an excellent overview of the environmental and physical damage caused by the industrial accident at the Union Carbide plant in Bhopal, India as well as the responsibility of the Indian and American governments in providing for the victims.

6. While most executives agree that sustainability is important to the financial success of their companies, less than half of them are making serious commitments to integrate the necessary steps into their business systems. Reasons include a lack of clear view on what sustainability comprises, and the difficulty in allocating responsibility in the company for the vast and overlapping concerns of environmental, social, and governance issues. As a result, sustainability often does not get internalized in the culture or systems of the company, and competing priorities, such as short-term profits, intervene.
7. A report in 2011 from a survey by McKinsey consultants of 3,203 executives representing the full range of industries and geographic regions shows that many companies are actively integrating sustainability principles into their businesses, and they are doing so by pursuing goals that go far beyond earlier concern for reputation management. The McKinsey report noted a more mature attitude toward sustainability and its expected benefits than in prior surveys, saying that "More companies are managing sustainability to improve processes, pursue growth, and add value to their companies rather than focusing on reputation alone."
8. In recent years, the export of hazardous wastes from developed countries to less-developed ones has increased considerably. E-waste—from electronic components,

computers, and cell phones, for example, all of which are full of hazardous materials—has become a major problem for developing economies, producing sickness and death for its handlers there; this continues in spite of laws against such dumping by U.S. companies and others. Often, companies choose to dispose of hazardous waste in less-developed countries to take advantage of weaker regulations and lower costs.

9. 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.

Management in Action: TerraCycle – Social Entrepreneurship Goes Global TerraCycle is an example of a "social purpose venture." Each exists because of a social, specifically environmental mission, but seeks to achieve profitability and growth. Regardless of the terminology, it is clear that social entrepreneurs such as Skazy provide "the engine of positive, systemic change that will alter what we do, how we do it, and why it matters." In addition, by partnering with companies and institutions around the world, TerraCycle is providing a stimulus and outlet for the CSR of those entities and a direct source of initiatives for environmental sustainability.

F. Implementing Sustainability Strategies
Effective implementation of sustainability strategies, according to Epstein and Buhovac, requires companies to have both formal and informal systems in place: "Companies need the processes, performance measurement, and reward systems (formal systems) to measure success and to provide internal and external accountability. But they also need the leadership, culture, and people (informal systems) to support sustainability implementation. An alignment among the formal and informal systems along with the organizational structure is critical for success." Key to understanding the role of corporate sustainability is the relationship between managers' decisions, their impact on the society and its environment, and financial performance. Epstein's model (Exhibit 2-6, page 63) provides a system for examining, measuring, and managing the drivers of corporate sustainability.

Chapter Discussion Questions

1. **Discuss the concept of *corporate social responsibility*. What role does it play in the relationship between a company and its host country? (Course objective 1)**

   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. An 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? (Course objectives 1, 2)**

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. Although 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? (Course objective 4)**

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? 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? (Course objectives 2, 4)**

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 United States 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? (Course objectives 3, 4)**

    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. Because 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. Although managers must be sensitive to local customs, they must also adhere to the values of their organizations. Whereas it may be custom to hire children to work fulltime in some cultures, 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? (Course objectives 3, 4)**

    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 harmless practice 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. **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. (Course objective 6)**

    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. Coca-Cola has had issues in India concerning the environmental impact of its factory in Kala Dera.

8. **Discuss the ethical issues that have developed regarding the use of IT in cross-border transactions. What new conflicts have developed since the printing of this book? What solutions can you suggest? (Course objectives 3, 4)**

Information technology has increased the ability of firms to engage people throughout the world. Although 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 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. (Course objectives 3, 4, 5)

Experiential Exercise

This exercise will require students to address a difficult and relevant situation concerning questionable payments. Because 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. (Course objective 4)

End-of-Chapter Case: Nike's CSR Challenge (Course objectives 2, 3, 4)

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."**

Although 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." Although 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 toward 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, regardless 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.

6. **Research Nike's CSR actions since this time frame and why it has earned the reputation as one of the world's foremost organizations in sustainability. Nike says that they now operate assembly factories where they can verify that children are not being used as employees.**

According to Mallenbaker.net, "The Global Alliance was quite complimentary (concerning Nike). It said, "Upon due consideration, members of the Operating Council unanimously

expressed their judgment that upon learning of the alleged violations surfaced through the Global Alliance assessment process, that Nike had acted in good faith, and developed a serious and reasonable remediation plan.

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 United States, 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?