Chapter 5: Ethics and Social Responsibility in International Business

Week 5 Day 1

Learning Objectives

- Describe the nature of ethics
- 2. Discuss ethics in cross-cultural and international contexts
- 3. Identify the key elements in managing ethical behavior across borders
- 4. Discuss social responsibility in cross-cultural and international contexts
- 5. Identify and summarize the basic areas of social responsibility
- 6. Discuss how organizations manage social responsibility across borders
- 7. Identify and summarize the key regulations governing international ethics and social responsibility

Opening Case - BP: Safety First or Profit First?

- ▶ The explosion of the Deepwater Horizon oil drilling platform in the Gulf of Mexico
 - On April 20, 2010, the Deepwater Horizon, a drilling rig operating in the Gulf of Mexico exploded, killing 11 and injuring 17.
 - BP had the contract to complete an exploratory well in the mile deep water in the Macando Project.
 - After an independent investigation, it was suggested that **BP was more concerned with controlling costs than promoting safety.**
 - BP's commitment to safety has been questioned, although BP continues to assert that safety is their number one priority.
- Parties that are responsible for the incident
 - Transocean: owned and operated the Deepwater Horizon
 - BP: owner of the Macondo well.
 - Halliburton: an experienced oil well service company

Independent investigations indicated that all three made mistakes

BP: Safety First or Profit First?

- Deficiencies in the safety culture at BP
 - ▶ 2004: BP's Texas City refinery suffered a fire
 - ▶ 2005: a deadly explosion at the same plant killed 15 people and injured 170 workers
 - **2006**:
 - ▶ OSHA discovered problems with pressure-relief values during a 2006 inspection in Toledo, Ohio
 - Over 5,000 barrels of oil leaked from corroded pipelines (two separate incidents)
 Poor maintenance & inadequate inspections
 - ▶ 2007: Replacement of CEO John Browne Tony Hayward
 - ▶ 2008: small spill at its Atlantis platform in the Gulf of Mexico
 - ▶ 193 barrels caused by a rupture a defective pump company had chosen not to repair
 - ▶ Sept: two segments of pipe flew 900 feet after a high-pressure natural gas pipeline ruptured
- ▶ BP's focus on cost reduction
 - Failure to repair; worker fatigue caused by heavy use of overtime; poor inspection

Globalization & Business Ethics

Pros and Cons of Globalization (from MNCs' perspectives)

Pros of Globalization	Cons of Globalization
 Offers businesses new opportunities to seek new markets 	 New challenges regarding the need to define appropriate ethical standards
Broaden their product lines	 Need to operate in a socially responsible manner in all
 Lower cost of production 	the markets they operate

Issues in Global Firm's Social Responsibility

- Responsibility to provide a safe working environment for its employees
- Diligent protection of the natural environment

Globalization & Business Ethics

Another Issues to Consider

The appropriate response to the **cost pressures** that firms face as a result of globalization

Examples of CSR issues

- Child labor issue
 - E.g. Fruit Juice distributors Minute Maid, Tropicana, Nestle bought fruit juices from suppliers in South America where many of them relied heavily on child labor to harvest fruits
 - MNCs (Nestle, Archer Daniels Midland's) purchase of cocoa from West Africa that employed 280,000 children whom were allegedly treated no better than slaves
- Differences in perspective
 - Developed Country: unethical to outsource production to offshore factory that relies on child labor and/or that maintains unsafe working conditions
 - Developing Country: those jobs may be superior to the ones that would otherwise be available

1) The Nature of Ethics and Social Responsibility in International Business

Ethics

- An individual's personal beliefs about whether a decision, behavior, or action is right or wrong.
 - What constitutes ethical behavior varies from one person to another
 E.g. Bus − a young person giving a seat to an elder or someone with disability

Ethical behavior

▶ Behavior that conforms to generally accepted social norms

Unethical behavior

▶ Behavior that does not conform to generally accepted social norms

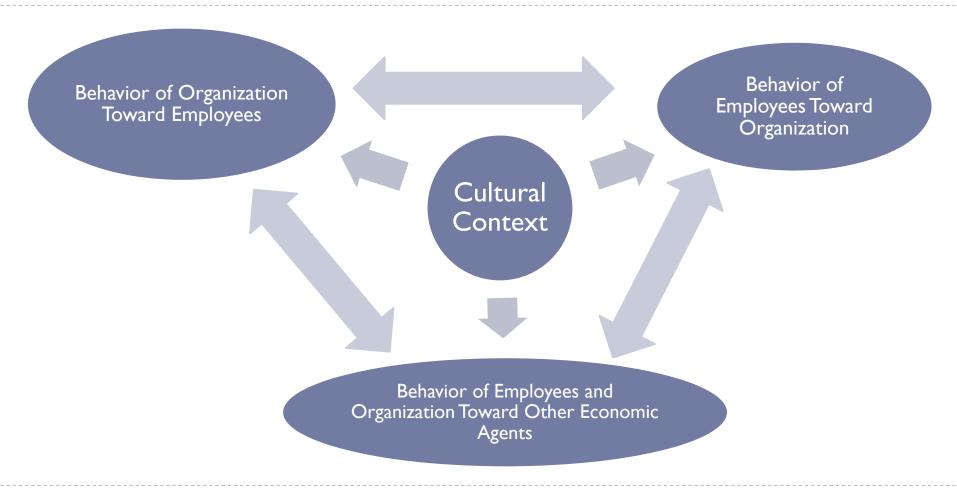
An Individual's ethics are determined by a combination of factors

1) The Nature of Ethics and Social Responsibility in International Business

- How does an individual's ethics are determined?
 - In response to their perception of the behavior of their parents and other adults
 - From their peer as they grow up
 - Religious training
 - A person's value
- Individuals have their own personal belief systems about what constitutes ethical and unethical behavior.
- ▶ Common cultural contexts usually lead to similar views on ethical and unethical behavior.
- Individuals are able to rationalize behavior based on circumstances.
 - E.g. finding a 10,000 KRW note on a street
- Individuals may deviate from their own belief systems based on different circumstances.
 - E.g. stealing out of hunger
- ▶ Ethical values are strongly affected by national cultures and customs.
 - Values are the things a person feels to be important.
- Members of one culture may view a behavior as unethical, while members of another may view that same behavior as perfectly reasonable.

E.g. Looting in case of emergency: Hurricane Katrina in 2005 vs. Tsunami & Earthquake in Japan in 2011 Customs officer who requested \$100in a envelope to clear a shipment of imported goods US vs. Indonesia or Kenya

2) Ethics in Cross-Cultural and International Contexts



How an Organization Treats Its Employees

Hiring & firing

- Based on the individual's ability to perform the job vs. giving preferential treatment to individuals based on non-work related factors (gender, age, ethnicity etc.)
 - E.g. Daslu, a Sao Paoulo high-fashion women's clothing store to the wealthiest of Brazil's wealthy Aventalzino "little aprons" to aid the sales staff unlikely to get promoted due to their social class

Wages & working conditions

- A manager paying an employee less than s/he deserves
- Privacy issue

Challenges of managers in international organizations

- The firm must deal with country-specific ethical issues regarding its treatment of employees
- Must be prepared to contend with international comparison
 - ▶ E.g. the practice of outsourcing production to overseas locations

How Employees Treat the Organization

Conflict of Interest

- Occurs when a decision potentially benefits the individual to the possible detriment of the organization
- Cultural difference
 - ▶ E.g.A gift from the supplier New York Times refuse to allow their employees to accept free meals for fear that their journalistic judgments and integrity might be compromised
 - ▶ Japan Ochugen (July), Oseibo (December) gifts
 - ▶ China Guanxi based on reciprocal exchanges of favors

Secrecy and confidentiality

- Divulging company secrets
- Employees who work for highly competitive business industries E.g. electronics, software, and fashion apparel
 - Stronger temptation to sell information about company plans to competitors
 E.g. Durawool (an American steel-wool manufacturer) vs. its Chinese subsidiary
 Motorola & SI Group's legal struggles with their former Chinese managers

Honesty

 E.g. using a business telephone to make personal long distance calls, stealing supplies, and padding expense accounts

How Employees and the Organization Treat Other Economic Agents

- ▶ The primary agents of interest
 - Customers, competitors, suppliers, dealers and labor unions
- Problems created by ethical ambiguity

E.g. firms in global pharmaceutical industry facing criticism of expensive drugs Financial reporting – overstating their earnings projections & hiding financial problems

Differences in business practices across countries

E.g. small bribes and side payments

Foreign companies often follow the local custom regardless of what is considered an ethical practice at home

E.g. China: local journalist expect their cab fare to be paid if they are covering a business-sponsored news conference

Indonesia: foreigner's driver's license usually take more than a year but can be "expedited for an extra \$100

Middle East: US power-generating company lost a \$320 million contract because the host nation demanded \$3million bribe. Japanese firm paid the bribe and got the contract

3) Managing Ethical Behavior Across Borders

- Company's endeavor to eliminate as much ambiguity as possible about the view of ethical vs. unethical behavior
 - Guidelines and Code of Ethics
 - Ethics Training
 - Organizational Practices and the Corporate Culture

Guidelines and Code of Ethics

Guidelines

 Written guidelines that detail how employees are to treat suppliers, customers, competitors and other stakeholders

Code of ethics

Written statements of the values and ethical standards that guide the firms' actions

Must be backed up by organizational practices & corporate culture

Must make decision whether to establish one overarching code for all of its global unit or to tailor each one to its local context

Must be clear & straight forward

Must address the major elements relevant to its environment

Must be adhered to when problems arise

Ethics Training

- MNCs offering employees training in how to cope with ethical dilemmas
 - ► E.g. Boeing
 - ▶ Line managers leading training sessions for other employees; ethics committee
- Must make decision whether to make ethics training globally consistent or tailored to local contexts
- Most MNCs provide expatriates with localized ethics training to better prepare them for their foreign assignments
 - ▶ E.g. BP prepares its managers from London for future assignments to Russia
 - Language training, training on local business customs, practices and ethics

Organizational Practices and the Corporate Culture

- Organizational practices and corporate culture contribute to establishing the ethical climate of the firm
 - If top leaders in a firm behave in an ethical manner and violations of ethical standards are promptly and appropriately addressed,
 - the rest of the organization quickly understands the expectations for their own behavior
- In particular countries, bribery is practically a way of life.

Kenya: 2/3 of public officials involve paying a bribe

China: some studies estimate that the cost of corruption have wiped out of 13~16% of its GDP

- Survey
 - Focused specifically on the acceptability of bribing officials when doing business in foreign countries Firms found bribery to be relatively acceptable: Russia, Chinese Taiwanese, South Korea Firms found bribery to be relatively unacceptable: Australia, Sweden, Switzerland, Austria and Canada Middle: US, Japan, Italy
- Organizations need to be very clear about their practices in such environments if they wish their employees to adhere to company standards instead of local standards.
 - Clear code of conduct and corporate culture against bribe and other unethical behavior

4) Social Responsibility in Cross-Cultural and International Contexts

- Social responsibility (or Corporate Social Responsibility CSR)
 - The set of obligations an organization undertakes to protect and enhance the society in which it functions
 - Balance between
 - The ideal of a global stance on CSR vs. local conditions that may compel differential approaches
 - ▶ E.g. Tobacco industry

Most developed countries, tobacco companies are limited in their ability to advertise and are required to post health warnings on cigarette packages

Some countries are less restrictive on limitations or has no limitations

Decision

Should they apply the most restrictive approach? vs. Take advantage of the flexibility offered in some markets?

5) Areas of Social Responsibility

- Organizational Stakeholders
- ▶ The Natural Environment
- General Social Welfare

Organizational Stakeholders

Stakeholders

- ▶ The people and organization that
 - ▶ are directly affected by the practices of organization
 - have a stake in its performance
- Three main groups
 - Customers; Employees; Investors
- Corporate's responsibilities towards its main stakeholders
 - Customers
 - Fair price, honor product warranties, to meet delivery commitments, to stand behind the quality of the products E.g. L.L. Bean, Toyota, Land's End, Dell Computer, Daimler, Volkswagen
 - Employees
 - Treat their employees fairly, make them a part of the team, respect their dignity and basic human needs, find/hire/train & promote qualified minorities
 - E.g. 3M Company, Hoechst AG, Honda
 - Investors
 - Follow proper accounting procedures, provide appropriate information to share holders about the financial performance of the firm, manage the organization to protect shareholder rights and investments

The Natural Environment

Environmental Issues

- Firms indiscriminately dumped sewage, waste products from production, and trash into streams and rivers, the air and on vacant land
 - E.g. Royal Dutch Shell ripped down trees of Amazon River Basin for potential drilling sites in the 80s and left a trail of garbage in their wake
- Many laws regulate the disposal of waste materials
- Companies have become more socially responsible in their release of pollutants and general treatment of the environment
 - ▶ Need to develop economically feasible ways to reduce acid rain & global warming; to avoid depleting the ozone layer; and to create alternative method of handling sewage, wastes and ordinary garbage
 - E.g. Procter & Gamble using recycled materials for containers
 - Hyatt Corporation established a new company to help recycle waste products from its hotels

General Social Welfare

- Some argue that organizations should;
 - promote the general welfare of society
 - E.g. contributions to charities, philanthropic organizations, not-for-profit foundations; supporting museums, symphonies and public radio and TV; taking role in public health and education
 - Act more broadly to correct the political and/or social inequities that exist in the world
 - ▶ E.g. doing business in countries with a record of human rights violations e.g. Myanmar, Sudan
 - Firms in oil reserves in western and central Africa that has human rights issues
 - Deal with a related but distinct problem: global poverty and its potential role in helping to address it

6) Managing Social Responsibility Across Borders

- Approaches to Social Responsibility
 - Obstructionist Stance
 - Defensive Stance
 - Accommodative Stance
 - Proactive Stance
- Managing Compliance
 - Legal Compliance
 - Ethical Compliance
 - Philanthropic Giving
- Informal Dimensions of Social Responsibility
 - Organization Leadership and Culture
 - Whistle-blowing
- Evaluating Social Responsibility

Approaches to Social Responsibility

Obstructionist Stance

- Do as little as possible to address social or environmental problems
- To deny and avoid accepting responsibility for their actions in case of unacceptable practices E.g. Astra, a Swedish firm accused of sexual harassment, diversion of company resources for personal use Top officials in Sweden denied any wrongdoing before the investigation

Defensive Stance

- The organization will do everything that is required of it legally but nothing more
 - Insists that their job is to generate profits E.g. Tobacco companies

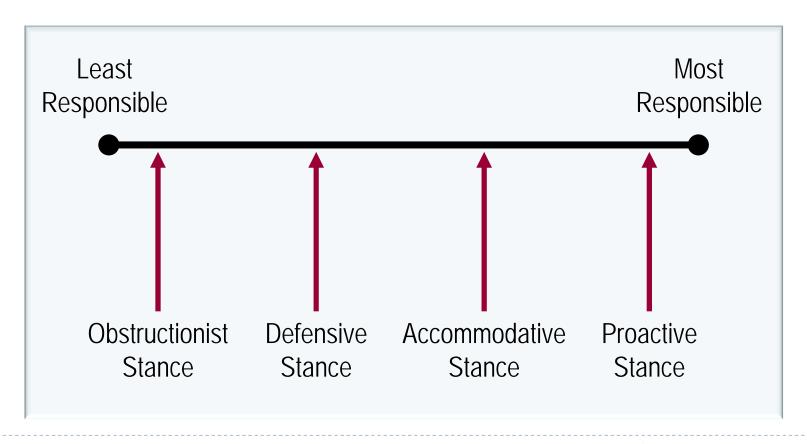
Accommodative Stance

- Meets its legal and ethical requirements & go beyond these requirements in selected cases
- Voluntarily agree to participate in social programs but solicitors have to convince the organization that the programs are w orthy of their support
 - ▶ The organization do not proactively seek

Proactive Stance

- In favor of social responsibility; view themselves as citizens in a society
- Proactively seek opportunities to contribute
 - E.g. Aquafinca, the first supplier of tilapia to meet the International Standards for Responsible Tilapia Aquaculture
- Indicate a sincere and potent commitment to improving general social welfare in a country

Social Responsibility



Managing Compliance

CSR = Business Strategy?

- MNCs should view social responsibility as a major challenge that requires careful planning, decision making, consideration and evaluation
- Management of CSR formal and informal dimensions

Formal Dimensions

Legal Compliance

- The extent to which the organization conforms to regional, national and international laws
 - Achieved by assigning the appropriate functional managers

Ethical Compliance

- The extent to which the members of the organization follow basic ethical standards of behavior
 - Training in ethics, developing guidelines and code of conducts, establishing formal ethics committees

Philanthropic Giving

- The awarding of funds or gifts to charities or other social programs
 - E.g. Alcoa gave \$112,000 to a small town in Brazil to build a sewage treatment plant

Informal Dimensions of Social Responsibility

Organization Leadership and Culture

- E.g. Patagonia, a supplier of outdoor gear
- Made an explicit and comprehensive commitment to environment protection
- ▶ 1989: cofounded the Conservation Alliance with other firms to promote protection of the environment

Whistle-blowing

- The disclosure by an employee of illegal or unethical conduct on the part of others within the organization
- How an organization response to this practice indicates its stance towards social responsibility
 - ▶ E.g. Xerox & James Bingham (a former executive)
 - ▶ Bingham got fired after his whistle blowing attempt about its alleged financial mismanagement in several of the firm's foreign subsidiaries
- Some organizations welcome whistle-blowers
- The attitude toward whistle blowing differs according to culture
 - ▶ E.g. Japan viewed as an act of betrayal and disturbance of harmony

Evaluating Social Responsibility

- Require employees to read their guidelines or code of ethics and sign a statement
- Evaluate how it responds to instances of questionable legal or ethical conduct
- Corporate social audit
 - A formal and thorough analysis of the effectiveness of the firm's social performance
 - Undertaken by high-level managers from within the firm
 - Requires clearly defined social goals, analysis of resources, determination of how well it is achieving the goals and make recommendations

7) Difficulties of Managing CSR Across Borders

- ▶ The role of corporation in society varies across countries
 - MNC's challenge
 - To find the proper balance between the roles and behaviors expected by their home and host governments
 - Corporations play different role sin the political process of individual countries
- A model developed by Dutch CSR experts
 - Three main actors in the policy formulation process
 - ▶ The **state**: passes & enforces laws
 - ▶ The *market*: utilizes inputs and allocates outputs to members of the society through the process of competition and the pricing mechanism
 - ▶ Civil society: NGOs, churches, charitable organizations, labor unions etc.
- The Anglo-Saxon Approach
 - Views the state, market, and civil society as **separate**, **competitive**, and antagonistic
- The Asian Approach
 - ▶ Believes in a close collaboration between the state and the market, with a lesser role for civil society
 - Anglo-Saxon's view "crony capitalism"; Civil society plays a minor role
- ▶ The Continental European Approach
 - Sees all three actors as relatively equal collaborators

8) Regulating International Ethics and Social Responsibility

▶ The US

- ▶ The Foreign Corrupt Practices Act (FCPA) 1977
 - Prohibition of US firms, employees, and agents acting on their behalf from paying or offering to pay bribes to any foreign government official in order to influence the official actions or policies to gain or retain business

Even when the transaction is completely done outside the country

E.g. Mobil Oil's violation against FCPA in 2003: the two executives agreed to pay \$78 million to government leaders in Kazakhstan in return for control of the coutry's giant Tengiz oil fields

- ▶ The Alien Tort Claims Act − 1789
 - US MNCs may be responsible for human rights abuses by foreign governments if the companies benefited from those abuses

▶ The UK

- ▶ Bribery Act 2010
 - Applies to corrupt actions done anywhere in the world by firms with a business presence in the UK

8) Regulating International Ethics and Social Responsibility

The OECD

- ▶ The Anti-Bribery Convention of the Organization for Economic Cooperation and Development – 2000
 - Attempt to eliminate bribery in international business transactions

 Mandates jail time for those convicted of paying bribes
- ▶ The International Labor Organization (ILO)
 - Has become a major watchdog for monitoring working conditions in factories in devel oping countries
 - Independent inspection mechanism

 Helps MNCs allay concerns from human rights and workers rights activist group

 Helps factory owners to establish new business relationships with MNCs

Homework #7 – due next Friday

- ▶ Read the case "A Pipeline of Good Intentions"
- Answer the first four case discussion questions
- Do not spend more than 2 pages answering the questions
- You may use bullet points
- Keep your answers brief but think!
- Type your answers
- ▶ Due date: Friday, 3rd of April by 11 a.m.

Group discussion Report #4 (due next Friday)

- With your group members discuss;
 - About fifth week reading
 - About fifth week case
 - And discuss based on case discussion questions
- Discuss following statement

"Do you think social responsibility for a multinational corporation is something best managed **locally** or best managed **globally**?"

- Report due date: 3rd of April by 11 a.m.
- Group report / Individual Report (sheets are downloadable from the website http://ecampus.cbnu.ac.kr)

Case Study Pipeline of Good Intentions

Week 5 Day 2

Class Discussion

Globalization

Discuss the following issue

"Do you think social responsibility for a multinational corporation is something best managed locally or best managed globally?"

Case Study Discussion

- The difficulties and risks associated with developing the Doba basin oil field in southern Chad
- Oil Curse
 - Phenomenon describing that often the discovery of oil in a poor country has led to increases in poverty and social problems.
- Chad
 - Oil was discovered in southern Chad (Africa), Doba basin in the 1990s.
 - A very poor country plagued by civil wars, dictatorships, and invasions by foreign powers.
 - Landlocked, (estimated oil of 2 billion barrels)
 - A pipeline through neighboring Cameroon had to be built to allow for the shipping of Chad's oil.
- The governments of Chad and Cameroon, the World Bank, and a consortium of oil companies agreed on;-
 - Funding terms for the pipeline project
 - How the government of Chad would spend the proceeds from the transportation and sale of the oil.

- ▶ The emphasis on the use of revenue from the project alleviating poverty
 - In essence an attempt to avoid the "oil curse" and stem government corruption.
- Due to economic and political issues,
 - 2005: Chad's National Assembly voted to significantly modify the framework for spending oil revenues
 - This was seen as a breach of the lending agreement with the World Bank, and the World Bank suspended all new grants and loans to Chad.
- ▶ The consortium of oil firms
 - Caught in the middle.
 - It has decided to withhold all revenues until Chad resolves its dispute with the World Bank.
 - Chad's government has stated that unless the consortium releases the funds, the government will demand that all oil production in Doba cease.

- What is the "oil curse"?
- Why do you think it develops?

Why was the World Bank's participation in the Chad-Cameroon pipeline critical?

Does the World Bank have a right to demand that sovereign countries like Chad spend their oil revenues in ways the World Bank deems appropriate?

- If the World Bank and Chad's government fail to settle their dispute over amendments to the Petroleum Revenue Management Law, what should the consortium do?
- Should they make funds available to Chad's government in defiance of the World Bank's wishes?

Homework #9 – due next Wednesday

- Read Chapter 6 International Trade and Investment
- Answer following questions
 - What is international trade? Why does it occur?
 - 2. How do the theories of absolute advantage and comparative advantage differ?
 - 3. Why are Leontief's findings called a paradox?
 - 4. How do inter-industry and intra-industry trade differ?
 - 5. Explain the impact of the product life cycle on international trade and international investment
 - 6. What are the primary sources of the competitive advantages firms use to compete in international markets?
 - 7. What are the four elements of Porter's theory of national competitive advantage?
 - 8. What are the three parts of Dunning's eclectic theory?
- Do not spend more than 2 pages (Type your answers)
- Try and keep your answers brief
- ▶ Due date: Wednesday, 8th of April by 10 a.m.

Homework #10 – due next Friday

- ▶ Read the case "Twenty-first Century Pirates"
- Answer the four case discussion questions
- Do not spend more than 2 pages answering the questions
- You may use bullet points
- Keep your answers brief but think!
- Type your answers
- ▶ Due date: Friday, I0th of April by II a.m.

Group discussion Report #5 (due next Friday)

With your group members discuss;

- About sixth week reading
- About sixth week case
- And discuss based on case discussion questions

Discuss following statement

"Among various theories that is mentioned in this week's reading, choose one major theory of international trade which you think are the most applicable / useful. How applicable is the those theory in today's environment? Why do you think that theory is useful / applicable?"

- ▶ Report due date: I0th of April by II a.m.
- Group report / Individual Report (sheets are downloadable from the website http://ecampus.cbnu.ac.kr)