

**Chapter 2**  
**MANAGING INTERDEPENDENCE**  
***SOCIAL RESPONSIBILITY, ETHICS, SUSTAINABILITY***

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**Chapter Learning Objectives**

- 2-1.** To understand the social responsibility of corporations toward their various constituencies around the world, in particular their responsibilities toward human rights
- 2-2.** To acknowledge the strategic role that ethics must play in global management and provide guidance to managers to maintain ethical behavior amid the varying standards and practices around the world
- 2-3.** To recognize the importance of managing interdependence and include *sustainability* and *shared value* in their long-term plans

### ***Opening Profile: Samsung finally apologizes to its workers around the world struck down by disease***

For over a decade, Samsung has denied that hundreds of workers fell seriously ill in its factories manufacturing chips and LCD displays. The company finally made a formal apology to the workers and their families and accepted a compensation plan. Samsung will offer up to Won150m (\$132,000) to each worker who has contracted cancer or other serious diseases while working at its electronics factories since 1984. The compensation process will start within this year and continue until 2028. Samsung also donated Won50bn to the Korea Occupational Safety and Health Agency to help improve industrial safety in the country, which has one of the highest industrial death rates in the developed world and a culture of covering up industrial accidents. Samsung has come under fire at overseas plants for labor issues with UN experts voicing concern about the treatment of workers at its smartphone factories in Vietnam.

### **Introduction**

Samsung also faces corruption scandals and allegations of labor sabotage. The group's billionaire heir is serving a suspended sentence for bribery. Managers are faced with numerous ethical complexities. In the international arena, these concerns are compounded by the larger numbers of stakeholders involved, including customers, communities, allies, and owners in various countries.

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

- 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. **Corporate social responsibility (CSR)** is defined as "actions that appear to further some social good, beyond the interests of the firm and that which is required by law" and **ethical behavior**, though considerable overlap is apparent.
- E. 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
  - reflect a general stance a company takes
- F. Sustainability falls under the umbrella of corporate social responsibility and the intent of **creating shared value (CSV)**.

- G. 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.
- H. 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 is that companies should anticipate social needs and try to solve them. Exhibit 2-1 shows that managers are faced with not only considering stakeholders in host countries, but also with weighing their rights against the rights of domestic shareholders. The impact of CSR on business benefits can increase the firm's competitiveness and thus economic success.
- I. The impact of CSR on business benefits can increase the firm's competitiveness and economic success;
- Improved access to capital
  - Secured license to operate
  - Revenue increases
  - Cost decreases
  - Risk reduction
  - Increase in brand value
  - Improved customer attraction and retention
  - Improved reputation
  - Improved employee recruitment, motivation, and retention

### **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**—an integration of the business environments in which firms currently operate.
- B. 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 companies such as Walmart, Google, and Intel are creating shared value by:
- reconceiving products and markets
  - redefining productivity in the value chain
  - enabling local cluster development
- Walmart has reduced its packaging and cut 100 million miles from its delivery routes, saving \$200 million even as it shipped more products.

***Under the Lens: Specialty Products, Support and Shared Value are Key to Success: India***

Subsistence farmers are turning their lives around thanks to a coffee co-op. Ten years ago, the residents in India's remote Araku valley—were impoverished subsistence farmers, living in mud huts. Life has changed for tribal farmers since they began cultivating coffee, encouraged by the Naandi Foundation, a Hyderabad-based philanthropic organization. Naandi's agricultural experts have taught Araku's growers to produce top-quality organic coffee sold as "specialty" coffee to traders from Japan, Korea, and Europe. Naandi raised \$5m from its Indian philanthropists for Araku Originals to market its coffee in Europe. Araku Originals has now opened a flagship store in Paris.

- D. In Exhibit 2-2, Nestlé shows how it has advanced the company strategy and resources beyond that of social responsibility to that of creating shared value with its stakeholders in a long-term agenda.
- E. MNC responsibility toward human rights
  1. Whereas many situations regarding the morality of the MNC's presence or activities in a country are quite clear, other situations are not. The Anti-Sweatshop Code of Conduct 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.
  2. What constitutes "human rights" is clouded by the perceptions and priorities of people in different countries. 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.
  3. 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 Hewlett Packard, Dell, IBM, Intel, and 12 other tech companies who have agreed on policies banning child labor, excessive overtime, and so forth.

***Comparative Management in Focus: Doing Business in China—Censorship, Human Rights, and the Challenge for Multinationals***

As of 2019, the pace of economic growth had slowed considerably—nearing a 30-year low. Large numbers of Chinese workers have been staging protests for unpaid compensation. Although there has been growth in higher-skilled jobs and in services, there is concern among MNCs about the pitfalls of operating in China. These include the uncertain legal climate; the difficulty of protecting intellectual property; the repression of free speech; and the difficulty of monitoring, let alone correcting, human rights violations in factories. MNCs face considerable pressure to address human rights issues in China. U.S. officials have pressed for substantial changes to economic policies especially with respect to protection of intellectual property rights and discriminatory treatment of U.S. multinational enterprises. U.S. officials have voiced concerns about widespread subsidization of enterprises in industrial sectors that puts U.S. companies at a competitive disadvantage.

***Management in Action: “Impact Beyond Numbers”—GoodWeave’s Global Solution to Child Labor***

GoodWeave International has been a key player in terms of setting child labor standards, establishing product certification and worker-protection programs, as well as devising inspection and monitoring programs for informal supply chains. GoodWeave has established a GoodWeave label that provides assurance that a product is child-labor free. GoodWeave works aggressively with the private sector to provide transparency and accountability throughout supply chains. GoodWeave’s strategic imperative for labor rights involves workable solutions that penetrate the many subcontracting layers in order to reach “remote sites and informal homeworkers, who are often intentionally hidden, and ensure their protection and freedom.”

F. International 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 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 workweeks.
  - 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 in the guidelines in Exhibit 2-3.

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

2. There are four international codes of conduct that provide some consistent guidelines for multinational enterprises (MNEs). These codes were developed by the International Chamber of Commerce, the Organization for Economic Cooperation and Development, the International Labor Organization, and the United Nations Commission on Transnational Corporations. Getz has integrated these four codes and organized their common underlying principles, thereby establishing MNE behavior toward governments, publics, and people. This synthesis of guidelines is shown in Exhibit 2-3.

## II. Ethics in Global Management

- 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. *Ethics in Global Management* 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 2-4 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 2017 Corruption Perceptions Index shows that more than two-thirds of the 180 countries in the index score below fifty on a scale from 100 (highly clean) to 0 (highly corrupt). See Exhibit 2-5.

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

### F. Bribery

- 1. MNCs are placed at a disadvantage either 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. Large companies have taken a moral stand because of their visibility and their impact on the local economy. Some companies, however, have not always taken a moral stand.
- 2. A specific ethical issue for managers in the international arena is that of **questionable payments**.
- 3. The **Foreign Corrupt Practices Act (FCPA)** of 1977 prohibits U.S. companies from making illegal payments, other gifts, or political contributions to foreign government officials for the purpose of influencing them in business transactions. The goal was to stop MNCs from contributing to corruption in foreign governments and to upgrade the image of the United States and its companies operating overseas.

### ***Under the Lens: SAP Alerts US to South Africa Kickback Allegations***

SAP, Europe’s largest software company is changing its global sales practices and has alerted authorities to allegations that its South African office paid kickbacks to a company linked with the country’s influential Gupta family. SAP said it had also begun disciplinary proceedings against three employees in South Africa. The South African press had reported an alleged R100m (\$7.5m) in kickbacks. SAP allegedly agreed to pay a 10 percent “sales commission” in 2015 to CAD House, a company owned by Gupta family members, to secure business from Transnet, South Africa’s state-owned port and rail operator. In 2016, the SEC announced that German-based SAP SE agreed to relinquish \$3.7 million in profits to settle charges that it violated the FCPA during its attempts to obtain business in Panama.

#### G. Ethics in Uses of Technology

1. A growing concern among Internet users and companies around the world is **cyber security** (i.e., protection of private information that has been posted online).
2. 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. Facebook faced a major investigation regarding data protection after a data breach involving photos belonging to millions of its users. 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.

#### H. Making the Right Decision

1. How is a manager operating abroad to know what is the right decision when faced with questionable or unfamiliar circumstances of doing business? That decision must be profitable and secure new opportunities. However, there are other considerations that make it less clear whether to continue in countries that provide less transparency and pressures, and about what to do. If the manager is faced with such a situation, a number of steps can help her clarify the way to proceed.
  - Consult the laws of both the home and the host countries.
  - Consult the International Codes of Conduct for MNEs (see Exhibit 2-3).
  - Consult the company’s code of ethics (if there is one) and established norms.
  - Weigh stakeholders’ rights (see Exhibit 2-1).
  - Follow your own conscience and moral code.

*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?

### ***Under the Lens: Volkswagen under the Spotlight***

Loopholes in the lab tests: Three years after the Dieselgate scandal, auto companies are manipulating emissions data, using ‘lawful but awful ways’ to game even a new testing regime.

When Volkswagen was caught cheating diesel emissions tests in 2015, one of the first actions its engineers took was to launch a secret project: to obtain cars from rival manufacturers and conduct tests on their emissions. Its aim was to find evidence of widespread cheating across the industry, so guilt could be spread around and penalties diluted. The Volkswagen Scandal, in other words, might helpfully become the Car Scandal. As the European Commission revealed when it disclosed the latest “tricks” carmakers were exploiting loopholes for incoming 2020 emissions procedures. The efforts of other carmakers to legally undermine testing for both NO<sub>x</sub> and CO<sub>2</sub> in Europe have never resulted in real penalties.

### **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
  - 1. When managing interdependence, international managers must go beyond general issues of social responsibility and deal with specific concerns of the MNC subsidiary-host country relationship.
  - 2. Most criticisms of MNC subsidiary activities, whether in less-developed or more-developed countries, are along these lines:
    - a. MNCs raise capital locally.
    - b. The majority of the venture’s stock is usually held by the parent company.
    - c. MNCs usually reserve key management positions for expatriates.
    - d. The transfer-in of inappropriate technology.
    - e. MNCs concentrate their R&D at home.
    - f. MNCs give rise to demand for luxury goods in economies that are not meeting demands for necessities.

- g. MNCs start their operations by purchasing existing firms rather than developing new productive facilities in the host countries.
- h. MNCs dominate major industrial sectors.
- i. MNCs are not accountable to the host government but respond to the home country.

Exhibit 2-6 summarizes the benefits and costs to host countries of MNCs in three areas: capital market effects, technology and production effects, and employment effects.

- 3. Numerous conflicts arise between MNC companies or subsidiaries and host countries, including conflicting goals (both economic and 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:* Institute for Global Communications—IGC’s 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.  
<https://www.igc.org/>

- 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.

#### D. Managing Environmental Interdependence and Sustainability

- 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. <https://www.films.com/id/8177>

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 2017 from a survey by McKinsey consultants of 2,711 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 pro-active 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. The dilemma for corporations is that they try to meet two contradictory requirements:
  - selling at low prices
  - being environmentally and socially consciousCompetitive pressures limit the company’s ability to raise prices to cover the cost of socially responsible policies.
9. 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.

#### E. Implementing Sustainability Strategies

1. 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 2-7) provides a system for examining, measuring, and managing the drivers of corporate sustainability.

2. Multinational corporations already have had a tremendous impact on foreign countries, and this impact will continue to grow and bring about long-lasting changes. Because of interdependence, 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. 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.

## **Chapter Discussion Questions**

### **2-1. Discuss the concept of CSR. What role does it play in the relationship between a company and its host country? How does CSV move beyond CSR?**

**Learning Objective: 2-1; AACSB: Ethical understanding and reasoning**

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. 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 are creating shared value.

### **2-2. Discuss the criticisms that have been leveled against MNCs in the past regarding their activities in less-developed countries. What counterarguments are there to those criticisms?**

**Learning Objective 2-1; AACSB: Ethical understanding and reasoning**

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.

**2-3. What does moral universalism mean? Discuss your perspective on this concept. Do you think the goal of moral universalism is possible? Is it advisable?**

**Learning Objective: 2-2; AACSB: Ethical understanding and reasoning**

This term means addressing 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.

**2-4. 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?**

**Learning Objective: 2-1; AACSB: Ethical understanding and reasoning**

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. Human trafficking is another human rights concern at this time. 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.

**2-5. What is meant by international business ethics? Should the local culture affect ethical practices? What are the implications of such local norms for ethical decisions by MNC managers?**

**Learning Objective: 2-2; AACSB: Ethical understanding and reasoning**

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 the custom to hire children to work fulltime in some cultures, the international manager must be responsive to the ethical orientation of the organization.

**2-6. If you were a manager of a company bound by the Foreign Corrupt Practices Act, how can you reconcile local expectations of questionable payments? 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?**

**Learning Objective: 2-2; AACSB: Ethical understanding and reasoning**

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).

**2-7. What do you think are the responsibilities of MNCs toward the global environment? Give some examples of MNC activities which run counter to the concepts of ecological interdependence and responsibility.**

**Learning Objective: 2-3; AACSB: Diverse and multicultural work environments**

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 Kaladera.

**2-8. 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?**

**Learning Objective 2-3; AACSB: Integration of real-world business experiences**

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. Social media companies like Facebook and Google have been accused of violating privacy laws by posting unauthorized photos. Twitter has been accused of suppressing tweets of those with political opinions that differ from those of Twitter's management.

## Application Exercises

### **2-9. Do some research to determine the codes of conduct of two familiar companies.**

**Compare the issues that they cover and share your findings with the class. After several students have presented their findings, prepare a chart showing the commonalities and differences of content in the codes presented. How do you account for the differences?**

**Learning Objective: 2-2; AACSB: Ethical understanding and reasoning**

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.

### **2-10. Examine an MNC that faced a human rights or environmental scandal. Critique the organizational responses of the MNC. What did it do well in the aftermath of the scandal? How could it have improved its response?**

**Learning Objective: 2-2; AACSB: Ethical understanding and reasoning**

Using internet research students will research current human rights scandals. For example, the mining of cobalt in the Democratic Republic of Congo has been carried out using child labor. The cobalt is sent to China and used in the manufacturing of batteries for electric cars. Human rights organizations have spoken out against the use of child labor, but this practice has not been eradicated in the Democratic Republic of Congo.

## Experiential Exercise

**Learning Objective: 2-2; AACSB: Ethical understanding and reasoning**

The Foreign Corrupt Practices Act (FCPA) targets bribery of foreign government officials by publicly traded corporations or U.S. persons. It is the most powerful and effective transnational anticorruption law in the world. Students can use the internet to research examples of questionable payments that American companies have made to do business in foreign countries. Some argue that the United States is not competitive if payments are not made because other countries do not consider these payments illegal or unethical. Having found examples of bribery, students can discuss the ethics of these payments in-person or over Zoom.

## End-of-Chapter Case: *Facebook Faces Fresh Probe After Photo Leak*

### **2-11. Who are Facebook's stakeholders? What are the social responsibilities of the company? To what level of CSR or CSV is the company adhering at the time of this case?**

**Learning Objective: 2-1; AACSB: Ethical understanding and reasoning**

In addition to stakeholders such as domestic employees and Facebook subscribers worldwide, Facebook's external stakeholders include suppliers, regulators, investors, and communities, CSR—(corporate social responsibility) includes the expectation that

Facebook should be concerned about the social and economic effects of their decisions on activities in other countries. CVR expands economic and social value and leverages the unique resources and expertise of Facebook to create economic value by creating social value. Facebook is involved in the broadest data protection investigation in Europe. After the social media group revealed another leak of private photos belonging to millions of people, Facebook said it was “sorry” the latest photo breach had happened and would release a tool to help developers determine which users had been affected.

- 2-12. No doubt, much will have transpired since the writing of this case regarding Facebook’s privacy challenges. Research and compile an update. What other privacy issues have arisen in Europe, in the United States, and around the world? What has Mark Zuckerberg done about it to placate the public and preserve the brand?**  
**Learning Objective: 2-1; AACSB: Integration of real-world business experiences**

Students can research the latest update of Facebook’s ongoing privacy issues in Europe and share their findings with the class. A top European court ruled in 2020 that companies moving personal user data from the EU to other jurisdictions will have to provide the same protections given inside the bloc. The ruling could impact how companies transfer European users’ data to the United States and other countries, such as the U.K. Mark Zuckerberg favors stricter privacy legislation.

*Source:* Retrieved from <https://www.cnn.com/2020/07/16/european-court-rules-on-facebook-vs-schrems-case.html> on Sept. 13, 2020

Another issue for Facebook is its decision about what posts to allow and what posts to arbitrarily remove. Here is a recent example. The company has started removing false claims that the deadly wildfires in Oregon were started by various left-wing and right-wing groups, a spokesman for Facebook said, after the rumors left state officials inundated with queries for information.

*Source:* Retrieved from <https://www.foxbusiness.com/category/facebook> on Sept. 13, 2020

- 2-13. What is your personal opinion about the problems of privacy from using Facebook?**  
**Learning Objective: 2-2; AACSB: Integration of real-world business experiences**

Answers will vary. Students can discuss this question in small groups. Privacy on Facebook is a safety issue. Photos of teenagers posted on Facebook attract predators with devastating results. Examples abound. Especially since K-12 learning is largely online, it is important to protect students from unauthorized contacts who could harm them.

- 2-14. What regulations or restrictions for Facebook have been put in place in Europe and the United States? Do you agree with them?**  
**Learning Objective: 2-2; AACSB: Integration of real-world business experiences**

Facebook and its companies, including Instagram, Oculus and WhatsApp, will all comply with the GDPR. ... Facebook and its companies, including Instagram, Oculus and WhatsApp, will all comply with the GDPR. The General Data Protection

Regulation (GDPR) is a new data privacy regulation that aims to give individuals in the EU protection and control over their personal data. This affects how businesses can collect and use personal data.

*Source:* Retrieved from <https://termly.io/resources/articles/gdpr-in-the-us/> on Sept. 13<sup>th</sup>, 2020

## 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 companies' websites. 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?
3. FCPA Debate  
Divide the class into two teams: Team A presents the case that the U.S. Foreign Corrupt Practices Act (FCPA) is an ethical manner of conducting business. Team B argues that the FCPA prevents the U.S. from being competitive worldwide. Each team has 15 minutes to prepare: the teams debate for 10-15 minutes.
4. Ethical Dilemmas  
An **ethical dilemma** or **ethical paradox** is a decision-making problem between two possible moral imperatives, neither of which is unambiguously acceptable or preferable. The complexity arises out of the situational conflict in which obeying would result in transgressing another. Doing Internet research, students will present examples of ethical dilemmas and share their findings with the class in-person or using Zoom.

### 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?
7. Discuss cultural relativism. Claiming that morality is relative to a society is appealing because it avoids the chaos of individualism, yet it recognizes that substantial ethical differences exist. It does not imply that one system of ethics is better than another. Therefore, managers are placed in the position of having to understand (but not to judge) foreign cultural values. Advocates would agree to the saying “When in Rome, do as the Romans do.” Critics of cultural relativism argue that if something is ethical, it should be a moral standard for all human beings—it should be universal. Students can discuss this question in small groups in-person or as a Zoom meeting.

Web Exercise: What is the mission of Amnesty International? How does it fight human rights violations. Research this organization at: <https://www.amnesty.org/en/>