CHAPTER 5

Ethics and Social Responsibility in International Business

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AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO:

1. 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.

FOXCONN: MANAGING 1.5 MILLION EMPLOYEES

Few consumers have ever heard of Foxconn Technology Group. Even fewer know the name of its parent organization, Taiwan's Hon Hai Precision Industry Co. Yet Hon Hai is the world's largest contract manufacturer of electronics goods, with 2012 sales of $109 billion. As a contract manufacturer, Foxconn fabricates and assembles products for other companies. Although Apple is its largest client, Foxconn's customers constitute a who's who of the industry: Sony, Toshiba, Hewlett-Packard, Dell, and Cisco, to name but a few. Foxconn assembly facilities are found in India, Mexico, Brazil, the Czech Republic, Hungary, Slovakia, and, most importantly, China, where the vast majority of Hon Hai's 1.5 million employees toil. Foxconn's operations in China are huge; for instance, its 2.5-square kilometer Longhua campus in Shenzhen employs an estimated 240,000 workers. As Chapter 8's closing case discusses, wages in coastal China have skyrocketed, so Foxconn's newest factories are in inland locations like Zhengzhou and Chengdu.

So important is Foxconn to the health of the Chinese and world economies that analysts often scrutinize Hon Hai's financial statements for signals about future market trends. For example, after the Chinese Lunar New Year in 2013, Foxconn announced it would freeze its hiring in China because more workers returned to their jobs than normal. Analysts worriedly questioned whether this meant the Chinese economy was slowing down (job-hopping would decline in a poor job market), or did it portend weak iPhone 5 sales?

Workers can live in company-owned dormitories, eight workers to a room, and eat at company-sponsored canteens. The company provides a learning center at its larger factory complexes, allowing workers to improve their job skills and even earn a junior college or bachelor's degree. An estimated 10 percent of the work force participates in such programs.

Foxconn has drawn much adverse publicity because of working conditions in its factories. Workers toiled long hours: 60-hour work weeks were common. Foxconn also bore much caustic criticism for its temporary solution to a rash of suicides that plagued the company in 2009: it installed safety nets outside its factories. Its longer-term response was more reasonable. Foxconn raised wages, improved safety standards, agreed to limit overtime, and encouraged audits by the Fair Labor Association. After receiving audit results in March 2012, Foxconn promised to improve its health, safety, and overtime standards. Regardless of the complaints leveled against Foxconn, most observers agree that the company is one of the better electronics companies to work for in China.

Workers are not necessarily supportive of all these changes. Perhaps most troublesome to Foxconn's workforce is the company's renewed commitment to obeying a near universally ignored Chinese law limiting employees to 9 hours a week of overtime. Interviews conducted by Western journalists with Foxconn workers surfaced their concerns that cuts in overtime will reduce their earning potential: these workers want more overtime, not less! They journeyed to coastal China from their rural villages to make and save money. Foxconn's commitment to restricting overtime thus frustrates their objectives, and makes it more likely they will job-hop to nearby factories less sensitive to adverse press. Foxconn estimates the changes will raise its labor costs by $1.4 billion a year, without any signals from Apple or its other clients that they are willing to pay a higher price for Foxconn-manufactured goods.[1] ■

Globalization offers businesses, employers, and entrepreneurs myriad opportunities to seek new markets, broaden their product lines, and lower their cost of production, as Foxconn's rapid growth and sprawling factory complexes bear witness. And the introduction of new products and new ways of doing business can bring major improvements into the lives of the world's poorest people. But globalization also presents international businesses with new challenges, such as the need to define appropriate ethical standards and to operate in a socially responsible manner in all the markets and countries in which the firm does business.

One important issue is the firm's responsibility to provide a safe working environment for its employees and diligent protection of the natural environment. Another issue is the appropriate response to the cost pressures that firms face as a result of globalization. It has long been common for firms to move production and low-skill jobs from their home country to other countries, often to capitalize on lower labor costs. But these practices sometimes result in unfavorable publicity and may even expose fundamental issues associated with potential human rights violations. For instance, for years large fruit juice distributors such as Minute Maid, Tropicana, and Nestlé bought fruit juices from suppliers in South America. Many of these suppliers relied heavily on child labor to harvest oranges, lemons, and other fruits. Children as young as nine years old were commonly taken out of school by their impoverished parents and put to work in the citrus groves. These parents often saw no problem with this behavior because they themselves had also picked fruit as children. A similar set of issues were raised regarding Nestlé's, Cargill's, and Archer Daniels Midland's purchasing of cocoa from West African plantations that employed 280,000 children, some of whom were allegedly treated no better than slaves.[2]

However, the issues may not be as clear as they might at first seem. For example, many people from developed countries would agree that it is unethical for a business to outsource production to an offshore factory that relies on child labor or that maintains unsafe working conditions. But people in that country might argue that as unattractive as they might seem to outsiders, those jobs are superior to the ones that would otherwise be available. And as the opening case suggested, high levels of overtime work may be viewed differently by workers in developing countries than by labor rights advocates from rich countries.

This chapter explores these and other issues from an international business perspective. We first examine the nature of ethics and social responsibility in international business. We then discuss ethics in cross-cultural and international contexts. Next, we describe how firms attempt to manage ethical behavior across borders. Social responsibility in cross-cultural and international contexts is then introduced and discussed. After describing the major areas of social responsibility, we discuss how firms manage social responsibility across borders. Finally, we conclude with a summary of some of the major laws that attempt to regulate international ethics and social responsibility.

The Nature of Ethics and Social Responsibility in International Business

The fundamental reason for the existence of a business is to create value (usually in the form of profits) for its owners. Furthermore, most individuals work to earn income to support themselves and their families. As a result, the goal of most of the decisions made on behalf of a business or an individual within a business is to increase income (for the business or the individual) or reduce expenses (again, for the business or the individual). In most cases businesspeople make decisions and engage in behaviors, for both their personal conduct and the conduct of their organizations, that are acceptable to society. But sometimes they deviate too much from what others see as acceptable.

In recent years, it seems that the incidence of unacceptable behaviors on behalf of businesses or people within businesses has increased. Regardless of whether this increase is real or only illusory, such high-profile and well-documented cases as Enron, WorldCom, Tyco, and Arthur Andersen have certainly captured the attention of managers, investors, and regulators everywhere. Nor has this been a distinctly U.S. problem. Businesses such as Satyam Computer Services (an Indian computer services firm engaged in wholesale accounting fraud), Royal Ahold NV (a Dutch grocery chain admitting to accounting irregularities), and Nestlé (a Swiss firm accused of violating World Health Organization codes controlling the marketing of infant formula in less-developed countries) have also caught their share of attention for improprieties, real or imagined.[3] Hence, just as the business world is becoming increasingly internationalized, so too is the concern for ethical and socially responsible conduct by managers and the businesses they run.

We define **ethics** as an individual's personal beliefs about whether a decision, behavior, or action is right or wrong.[4] Hence, what constitutes ethical behavior varies from one person to another. For instance, one person who finds a 20-euro banknote on the floor of an empty room may believe that it is okay to simply keep it, whereas another may feel compelled to turn it in to the lost-and-found department and a third to give it to charity. Further, although ethics is defined in the context of an individual's belief, the concept of **ethical behavior** usually refers to behavior that conforms to generally accepted social norms. **Unethical behavior**, then, is behavior that does not conform to generally accepted social norms.

An individual's ethics are determined by a combination of factors. People start to form ethical frameworks as children in response to their perceptions of the behavior of their parents and other adults they deal with. As children grow and enter school, they are influenced by peers with whom they interact in the classroom and playground. Everyday occurrences that force the participants to make moral choices—a friend asking to copy homework, a father accidently denting a parked car when the only witness is his child, or a child who sees his mother receive too much change from the supermarket cashier—shape people's ethical beliefs and behavior as they grow into adulthood. Similarly, a person's religious training contributes to his or her ethics. Some religious beliefs, for instance, promote rigid codes of behaviors and standards of conduct, whereas others provide for more flexibility. A person's values also influence ethical standards.

a group of middle-class residents of Brazil will generally agree with one another as to whether a behavior such as stealing from an employer is ethical or unethical.

- Individuals may be able to rationalize behaviors based on circumstances. For instance, the person who finds a 20-euro banknote and knows who lost it may quickly return it to the owner. But if the money is found in an empty room, the finder might justify keeping it on the grounds that the owner is not likely to claim it anyway.
- Individuals may deviate from their own belief systems based on circumstances. For instance, in most situations people would agree that it is unethical to steal and therefore they do not steal. But if a person has no money and no food, that individual may steal food as a means of survival.
- Ethical values are strongly affected by national cultures and customs. **Values** are the things a person feels to be important. As we discussed in Chapter 4, values often center on such things as time, age, education, and status. Culture has a direct impact on the value systems of the members of that culture. Values in turn affect how those individuals define ethical versus unethical behavior. For instance, in Japan status is often reflected by group membership. As a result, behavior that helps the group is more likely to be seen as ethical, whereas behavior that harms the group is likely to be viewed as unethical. For example, many Americans condoned the looting that occurred in New Orleans in the chaos that followed Hurricane Katrina in 2005, in the belief that an individual's rights to survival superseded property rights. Yet under similar dire circumstances, looting was far less prevalent in Japan after its devastating 2011 earthquake and tsunami.

Members of one culture may view a behavior as unethical, whereas members of another may view that same behavior as perfectly reasonable. A U.S. businessman might report to the police a U.S. customs officer who requested $100 in an envelope to clear a shipment of imported goods, whereas his Kenyan or Indonesian counterparts would likely make the payment without even being asked. These differences can create worrisome ethical dilemmas for international business practitioners when the ethical standards of their home country differ from that of the host country. Nonetheless, we want to emphasize that ethics is a distinctly individual concept, rather than an organizational one. In general, the relationship between an organization and its environment revolves around the concept of social responsibility, a topic we address later in this chapter. But as we discuss ethics per se in the first part of the chapter, keep in mind that we are focusing on individuals in organizations, as opposed to the organization itself.

In Practice

- Ethics is defined as an individual's personal beliefs about whether actions are right or wrong
- Ethical perspectives are often shaped by national customs and cultures

For further consideration: Talk to two or three of your classmates about what they would do if they found a $20 bill on the floor of an empty classroom. Did you all agree on the "right" thing to do? Did your own answer change as a result of your conversations?

Ethics in Cross-Cultural and International Contexts

A useful way to characterize ethical behaviors in cross-cultural and international contexts is in terms of how an organization treats its employees, how employees treat the organization, and how both the organization and its employees treat other economic agents. These relationships are illustrated in Figure 5.1.

How an Organization Treats Its Employees

One important area of cross-cultural and international ethics is the treatment of employees by the organization. At one extreme, an organization can strive to hire the best people, to provide ample opportunity for skills and career development, to offer appropriate compensation and benefits, and to generally respect the personal rights and dignity of each employee. At the perished in a garment factory collapse in 2013, Walmart, Gap Inc., Inditex, Hennes & Mauritz, Tesco, and other major North American and European clothing retailers committed to a five-year plan to promote worker safety in Bangladesh.[6]

How Employees Treat the Organization

Numerous ethical issues also relate to how employees treat the organization. The central ethical issues in this relationship include conflicts of interest, secrecy and confidentiality, and honesty. A conflict of interest occurs when a decision potentially benefits the individual to the possible detriment of the organization. Ethical perceptions of the importance of conflicts of interest vary from culture to culture. Consider the simple example of a supplier offering a gift to a company employee. Some companies believe that such a gift can create conflicts of interest. They fear that the employee will begin to favor the supplier that offers the best gifts, rather than the supplier whose product is best for the firm. To guard against such dangers, many companies have policies that forbid their buyers from accepting gifts from suppliers. Some U.S. newspapers and broadcast media, such as the *New York Times*, even refuse to allow their employees to accept free meals for fear that their journalistic judgments and integrity might be compromised. But in other countries exchanges of gifts between a company's employees and its customers or suppliers is perfectly acceptable. In Japan, for instance, such exchanges are common (and expected) during the *ochugen* and *oseibo* gift-giving periods. Ochugen, which occurs in July, originally developed to pay homage to the spirit of one's ancestors, although it has evolved to reflect one's best wishes for summer. Oseibo gifts, which are offered in December, represent a token of gratitude for favors and loyalty shown throughout the year. Japanese department stores helpfully stock their shelves with appropriate goods at every price level during ochugen and oseibo. Well-defined cultural norms govern the level and appropriateness of the gifts to be exchanged by businesspersons, which depends on the nature of the business relationship, its length, and the amount of business transacted. Note, however, that determining an appropriate gift by the amount of business transacted is exactly the kind of behavior that arouses suspicion of conflict of interest in many North American and European companies.

China offers a similar set of challenges to firms wishing to control conflicts of interest. Much business in China is conducted through *guanxi*, which is based on reciprocal exchanges of favors. Because of the importance of guanxi, North American and European firms operating in China often face a difficult task in adapting to the norms of Chinese business culture while continuing to honor company policy regarding conflicts of interest. Typically one finds that in high-context, collectivist, and power-respecting cultures, gift exchanges are a more important part of the way business is done than in low-context, individualistic, and power-tolerant cultures.

Divulging company secrets is viewed as unethical in some countries, but not in others. Employees who work for businesses in highly competitive industries—electronics, software, and fashion apparel, for example—might be tempted to sell information about company plans to competitors. Consider the plight of Durawool, a U.S. steel-wool manufacturer. It was shocked to learn that Chinese law offered it little protection when one of its local employees left the company's Chinese subsidiary and promptly started a rival firm using Durawool's technology.[7] Motorola and SI Group, a U.S. chemical manufacturer, are currently engaged in legal struggles with former Chinese managers they accuse of similar behavior.[8]

A third area of concern is honesty in general. Relatively common problems in this area include such things as using a business telephone to make personal long distance calls, stealing supplies, and padding expense accounts. In some business cultures, such actions are viewed as unethical; in others, employees may develop a sense of entitlement and believe that "if I am working here, then it is the company's responsibility to take care of my needs." The potential for conflict is clear when individuals from such divergent ethical perspectives work together.

How Employees and the Organization Treat Other Economic Agents

The third major perspective for viewing ethics involves the relationship between the firm and its employees with other economic agents. The primary agents of interest include customers, competitors, stockholders, suppliers, dealers, and labor unions. The behaviors between the organization and these agents that may be subject to ethical ambiguity include advertising and promotions, financial disclosures, ordering and purchasing, shipping and solicitations, bargaining and negotiation, and other business relationships.

For example, businesses in the global pharmaceuticals industry have been under growing criticism because of the rapid escalation of the prices they charge for their newest and most powerful drugs.[9] These firms argue that they need to invest heavily in research and development programs to develop new drugs, and higher prices are needed to cover these costs. Yet given the extent of the public health crises that plague some areas of the world—such as HIV/AIDS in sub-Saharan Africa—some activists argue that the pharmaceutical manufacturers should lower their prices or relax their patent protection so that patients in poorer countries can afford to purchase the drugs needed to treat such diseases. Another growing concern in recent years involves financial reporting by businesses. Because of the complexities inherent in the finances of large MNCs, some of them have been aggressive in presenting their financial positions in a positive light. And in at least a few cases, some managers have substantially overstated their earnings projections or hidden financial problems so as to entice more investors.[10]

Differences in business practices across countries create additional ethical complexities for firms and their employees. In some countries small bribes and side payments are a normal and customary part of doing business; foreign companies often follow the local custom regardless of what is considered an ethical practice at home. In China, for instance, local journalists expect their cab fare to be paid if they are to cover a business-sponsored news conference. In Indonesia the normal time for a foreigner to get a driver's license is more than a year, but it can be "expedited" for an extra $100. And in Romania, building inspectors routinely expect a "tip" for a favorable review.[11]

At times, however, the sums involved are not small. A U.S. power-generating company lost a $320 million contract in the Middle East because government officials demanded a $3 million bribe. A Japanese firm paid the bribe and won the contract. Enron allegedly had a big project in India canceled because newly elected officials demanded bribes. Although such payments are illegal under U.S. law (as well as the laws of several other countries), managers nonetheless dislike losing important contracts to less ethical rivals.

In Practice

- National cultures often view common business practices differently. A gift may be viewed as an appropriate acknowledgement of a business relationship in one culture but as a bribe in another culture.
- International businesses need to develop policies to deal with these differences in national cultures and then clearly communicate their expectations to their employees.

For further consideration: If a company purchases a vital component from a foreign supplier, is the company responsible for how that supplier treats its own employees?

Managing Ethical Behavior Across Borders

Ethics reside in individuals, but many businesses nevertheless endeavor to manage the ethical behavior of their managers and employees by clearly establishing the fact that they expect them to engage in ethical behaviors. They also want to take appropriate steps to eliminate as much ambiguity as possible about what the companies view as ethical versus unethical behavior. The most common ways of doing this are through the use of guidelines or codes of ethics, ethics training, and organizational practices and the corporate culture.

Guidelines and Codes of Ethics

Many large multinationals, including Toyota, Siemens, General Mills, and Johnson & Johnson, have written guidelines that detail how employees are to treat suppliers, customers, competitors, and other stakeholders. Others, such as Philips, Nissan, Daewoo, Whirlpool, and Hewlett-Packard, have developed formal **codes of ethics**—written statements of the values and ethical standards that guide the firms' actions. However, the mere existence of a code of ethics does not ensure ethical behavior. It must be backed up by organizational practices and the company's corporate culture. (See "People, Planet, and Profits," *Siemens Pays—and Pays and Pays.*)

VENTURING ABROAD

SIEMENS PAYS—AND PAYS AND PAYS

The saga of Siemens AG, the €78 billion Munich-based manufacturer of steam turbines, telecommunications equipment, medical scanners, and other sophisticated technology, provides a morality tale for firms pondering whether they should offer under-the-table payments to win lucrative international contracts. In October 2007, a German court fined Siemens €201 million (at the time, $284 million) for paying bribes. According to German court records, at least 77 separate bribes, totaling €12 million, were made by managers of Siemens' telecommunications equipment subsidiary to cabinet ministers and bureaucrats in Libya, Russia, and Nigeria. The court estimated the bribes generated €200 million in "unlawful economic advantages" for Siemens, which formed the basis for the magnitude of the fine. And previously that year, another German court fined Siemens €38 million for bribes paid to Italian officials in the company's power generation subsidiary. Nor were the German prosecutors finished; in April 2008, they announced they were broadening their inquiries and contemplating criminal proceedings.

But the worst was not over for Siemens. The company was then investigated by the U.S. Justice Department and the Securities and Exchange Commission (SEC) for violation of the Foreign Corrupt Practices Act and securities regulations. The SEC alleged that "Siemens created elaborate payment schemes to conceal the nature of its corrupt payments, and the Company's inadequate controls allowed the illicit conduct to flourish. The misconduct involved employees at all levels of the Company, including former senior management, and reveals a corporate culture that had long been at odds with the FCPA." The SEC uncovered 4,238 payments totaling $1.4 billion to bribe government officials in such countries as Venezuela, China, Israel, Bangladesh, Nigeria, Argentina, Vietnam, Russia, Mexico, and Iraq. In December 2008, Siemens agreed to pay the U.S. government $800 million to settle the charges against it: $350 million to the SEC for the securities charges and $450 million to the Department of Justice for the criminal charges. Siemens also paid an additional $569 million fine to the German government. In addition, the company also agreed to pay the World Bank $100 million and to forgo bidding on World Bank contracts for two years.

Acknowledging the extent of the problem, Siemens' supervisory board replaced several of the firm's top executives with outsiders. The company's new general counsel, Peter Solmssen—like the new CEO Peter Löscher, he is a former General Electric executive—recognizes the challenges he and the company face. Notes Solmssen, "Corruption at Siemens was 'systemic' in recent years. There was a cultural acceptance that this was the way to do business around the world, and we have to change that." Among Löscher and Solmssen's first acts was an overhaul of the company's code of conduct and its compliance programs. In addition to transforming the firm's corporate culture, they face the task of restoring the firm's external reputation and credibility. And of course, they need to maintain Siemens' competitiveness in the marketplace: No small trick, given the distraction of the company's legal problems and the ensuing drain on managerial attention and company resources. There is little doubt that Siemens will continue to pay for its misdeeds for a long time.

Sources: Based on "Siemens settles with World Bank on bribes," *Wall Street Journal*, July 3, 2009; "SEC charges Siemens AG for engaging in worldwide bribery," U.S. Securities and Exchange Commission, Press Release 2008-294 (December 15, 2008); U.S. District Court for the District of Columbia, *U.S. Securities and Exchange Commission v. Siemens Aktiengesellschaft*, Case: 1:08-cv-02167; "Siemens power unit investigated," *Wall Street Journal*, April 15, 2008 (online); "Siemens amnesty plan assists bribery probe," *Wall Street Journal*, March 5, 2008, p. A12 (includes Solmssen's quote); "Siemens internal review hits hurdles," *Wall Street Journal*, January 23, 2008, p. A18; "Inside bribery probe of Siemens," *Wall Street Journal*, December 28, 2007, p. A4; "Siemens ruling details bribery across the globe," *Wall Street Journal*, November 16, 2007, p. A1; "Siemens fine ends a bribery probe," *Wall Street Journal*, October 5, 2007, p. A2; "Siemens probe spotlights murky role of consultants," *Wall Street Journal*, April 20, 2007, p. A1.

A multinational firm must make a decision as to whether to establish one overarching code for all of its global units or to tailor each one to its local context. Similarly, if a firm acquires a new foreign subsidiary, it must also decide whether to impose its corporate code on that subsidiary or allow it to retain the one it may have already been following. For a code to have value, of course, it must be clear and straightforward, it must address the major elements of ethical conduct relevant to its environment and business operations, and it must be adhered to when problems arise. In one classic folly, Enron's board of directors was once presented with a potentially lucrative venture that contradicted the firm's code of ethics. So what did the board do? It voted to set aside the code of ethics, approved the business venture, and then reinstated the code of ethics!

Ethics Training

Some MNCs address ethical issues proactively, by offering employees training in how to cope with ethical dilemmas. At Boeing, for example, line managers lead training sessions for other employees, and the company also has an ethics committee that reports directly to the board of directors. The training sessions involve discussions of different ethical dilemmas that employees might face and how they might best handle those dilemmas.

Again, one decision for international firms is whether to make ethics training globally consistent or tailored to local contexts. Regardless of which approach they use, though, most multinationals provide expatriates with localized ethics training to better prepare them for their foreign assignments. BP, for instance, prepares managers at its headquarters in London for future assignments to Russia by having them undergo training in the Russian language as well as in local business customs and practices and ethics.

Organizational Practices and the Corporate Culture

Organizational practices and the corporate culture also contribute to the management of ethical behavior. If the top leaders in a firm behave in an ethical manner and violations of ethical standards are promptly and appropriately addressed, then everyone in the organization will understand that the firm expects them to behave in an ethical manner—to make ethical decisions and to do the right things. But if top leaders appear to exempt themselves from ethical standards or choose to ignore or trivialize unethical behaviors, then the opposite message is being sent—that it is acceptable to do something that is unethical if you can get away with it.

One recent survey sheds some interesting light on how these practices are implemented in various countries. The survey focused specifically on the acceptability of bribing officials when doing business in foreign countries. This survey found that Russian, Chinese, Taiwanese, and South Korean firms found bribery to be relatively acceptable. Among the countries that found bribery to be unacceptable were Australia, Sweden, Switzerland, Austria, and Canada. Italy, Japan, and the United States fell in between the extremes.[12]

Kenya is one of the countries in which bribery is almost a way of life. One study estimates that as many as two-thirds of individual and business involvements with Kenyan public officials involve paying a bribe.[13] Bribery and corruption is so extensive in China that some studies estimate that the costs of corruption have wiped out the equivalent of 13 to 16 percent of the country's gross domestic product (GDP).[14] Many of the former Soviet republics face similar problems.

Yet firms should think twice—or more than twice—before engaging in such behavior, as "Venturing Abroad" indicated. Firms that gain reputations as bribe payers are asked to pay bribes; firms with the opposite reputation often are not. As one expert in the area notes:

> Viable companies can say "no."…[T]he U.S. electronics group Motorola not only refused a bribe request from a Latin American official but also said it would not conduct business in that country until the regime changed. Refusal of bribe requests requires a corporate culture that supports the refusal of such requests. One of the most effective means of doing this is with a simple corporate code for managers and employees, affiliates, and potential business partners. At a minimum, the code should refer to the laws that bind the company and prohibit bribery of foreign officials. The code should also describe the decision-making line for bribe requests and assure managers the company will back them when they refuse to pay a bribe.
>
> Building this into the corporate culture…can bring competitive advantage. The leading oil company Texaco (now part of Chevron), for example, earned such a fearsome reputation for not acceding to bribe requests that even at remote African border crossings Texaco's jeeps are sometimes waved through without any requests for a bribe.[15]

In Practice

- Most international businesses have adopted formal codes of conduct and systematically provide ethics training to their employees to help them prepare for overseas assignments.
- A strong commitment to ethical standards, in both word and deed, by company executives is critical to creating an ethical corporate culture.

For further consideration: Would you be willing to pay a bribe on behalf of your company? If so, why? Under what conditions? If not, why not?

Corporate Social Responsibility in Cross-Cultural and International Contexts

As we have discussed, ethics in business relate to individual managers and other employees and their decisions and behaviors. Organizations themselves do not have ethics but do relate to their environment in ways that often involve ethical dilemmas and decisions by individuals within the organization. These situations are generally referred to within the context of the organization's social responsibility. Specifically, **corporate social responsibility (CSR)** is the set of obligations a corporation undertakes to protect and enhance the society in which it functions.

Although definitions of what constitutes CSR can vary from country to country and from organization to organization, the most commonly used framework for defining CSR is the **triple bottom line**, the notion that corporations must consider and balance three objectives in formulating and implementing their strategies and decisions:

- Fulfilling their economic mission, delivering profits for their shareholders and creating value for their stakeholders
- Protecting the natural environment
- Enhancing the general welfare of society

Some experts succinctly state the triple bottom line as consideration of "people, planet, and profits."

The Economic Mission

In the traditional **shareholder model** of the corporation, a firm's goal is to maximize the after-tax present discounted value of the profits flowing over time to shareholders. This is not an easy task in a highly competitive global economy. Firms can earn profits only by marketing products that consumers are willing to buy at a price they are willing to pay; moreover, they are pressured by their industry rivals to produce these products while using as few of society's scarce resources as possible. However, in the past several decades, the stakeholder model of the corporation has gained prominence, which has made the task of delivering value to shareholders even more complex. Advocates of the **stakeholder model** argue that firms need to consider the interests of other stakeholders as well as shareholders in reaching decisions.[16] Stakeholders are those individuals, groups, and organizations who may be affected by the corporation's performance and decisions. **Primary stakeholders**—those individuals and organizations directly affected by the practices of the organization and that have an economic stake in its performance—include employees, customers, and investors. **Secondary stakeholders** are individuals or groups that may be affected by corporate decisions but are not directly engaged in economic transactions with the firm, such as news media, nongovernmental organizations (NGOs), or the community in which the firm operates.

Most firms understand the importance of treating their stakeholders—particularly their primary stakeholders—in a socially responsible manner. They strive to treat their customers fairly and honestly, pricing their products transparently, honoring product warranties, and standing behind the quality of the products they sell. They respect the dignity and basic human needs of their work forces and provide safe and healthy work environments for their employees. They recognize their fiduciary responsibilities to their shareholders, the ultimate owners of the firm. As part of this fiduciary responsibility, they strive to use corporate resources judiciously, follow appropriate accounting procedures and provide accurate and transparent financial statements, and avoid even the appearance of financial improprieties, such as stock price manipulation, insider trading, or bribery. Such socially responsible behaviors make good business sense because they encourage customers, employees, and investors to buy from, work for, and invest in the firm.

Sustainability and the Natural Environment

The second component of the triple bottom line is protecting the natural environment.[17] Most nations have laws striving to protect and improve the quality of their waters, lands, and air. In some countries, enforcement of these laws is unfortunately weak or lacking. Companies sometimes viewed that following the law—no more, no less—fulfilled their obligations to the natural environment. For instance, when Royal Dutch Shell first explored the Amazon River Basin for potential drilling sites in the late 1980s, its crews ripped down trees and left a trail of garbage in their wake. Fortunately, in many instances companies themselves have become more socially responsible in their treatment of the environment. For example, when Shell launched its most recent exploration expedition into another area of the Amazon Basin, the group included a biologist to oversee environmental protection and an anthropologist to help the team more effectively interact with native tribes.[18] Similarly, lumber retailers such as Home Depot and Wickes have agreed to sell only wood products certified as having been harvested using environment-friendly techniques.[19] Yet companies need to do more than "talk the talk." BP, for example, spent millions of pounds touting its concerns for the environment in a series of ads that played off its former name of British Petroleum, claiming BP meant "beyond petroleum" and promising innovative efforts to develop green energy sources. As the chapter's closing case suggests, Gulf Coast shrimpers, crabbers, and motel owners and the Inupiat people of northern Alaska might rightly be skeptical of BP's environmental pledges.

In 1987 the United Nation's World Commission on Environment and Development issued a report titled *Our Common Future*. (This report is commonly referred to as the Brundtland report, in honor of the Commission's chairwoman, former Norwegian Prime Minister Gro Brundtland.) The Brundtland report emphasized the importance of sustainable development, which it defined as "development which meets the needs of the present without compromising the ability of future generations to meet their own needs." Numerous firms, large and small, have embraced the challenge of developing sustainable business practices and policies. Starbucks, for example, pays its coffee suppliers a premium of 10 cents additional per pound if they implement sustainable agricultural practices. Procter & Gamble is an industry leader in using recycled materials for containers, and many German firms aggressively use recycled materials whenever possible. Hyatt Corporation established a new company to help recycle waste products from its hotels. Conservation Corporation of Africa, a game lodge firm based in Johannesburg, strives to make its lodges as environmentally friendly as possible. ("People, Planet, and Profits" explores the role of ecotourism in promoting the objectives of the Brundtland report.) In many cases, implementing sustainable business practices adds to the company's bottom line by stripping out costs through re-engineering products and production processes.[20] Of course, much remains to be done. Companies need to develop economically feasible ways to reduce acid rain and global warming; to avoid depleting the ozone layer; and to create alternative methods of handling sewage, hazardous wastes, and ordinary garbage.[21] The Internet is also seen as potentially playing an important role in resource conservation because many e-commerce businesses and transactions reduce both energy costs and pollution.[22]

PEOPLE, PLANET, AND PROFITS

LIONS AND TIGERS AND BEARS, OH MY!

Sick of his advisors responding, "on the one hand…, on the other hand…," President Harry S. Truman famously requested that someone should find him a one-armed economist. Truman would no doubt be frustrated by the answers he would receive if he asked whether globalization harms or aids the world's threatened and endangered wildlife. On the one hand, critical habitat has been destroyed, turned into farm land, or paved over to build new factories to serve global markets. On the other hand, global concerns about greenhouse gas emissions and the rise of ecotourism have induced nations and local citizens to protect critical habitat.

The Nature Conservancy, a leading environmental NGO, defines ecotourism as "Environmentally responsible travel to natural areas, in order to enjoy and appreciate nature,…have low visitor impact, and provide for beneficially active socio-economic involvement of local peoples.…[Ecotourism provides] sustainable benefits to local communities." Successful ecotourist programs develop incentives for local residents, who are often desperately poor, to help protect habitat and the animals themselves. Consider the mountain gorillas of Rwanda, which were made famous by Dian Fossey and her book *Gorillas in the Mist*, later made into a movie of the same name starring Sigourney Weaver. The mountain gorilla population is threatened by loss of habitat by subsistence farmers encroaching on their territory and poachers who killed the animals for their skins, heads, and hands. The rise of ecotourism and the willingness of affluent foreigners to pay hundreds of dollars a day to see the animals in the wild have allowed outfitters to develop profitable business models that promote sustainability. One such effort, the creation of the Iby'lwacu Cultural Village by a safari outfitter, hires former poachers to serve as guides, wardens, and staff for trips to gorilla habitat. The project has led to a 60 percent decrease in poaching and a 40 percent increase in ecotourist revenues.

In Kenya, safari operators are leasing land from the local Masai tribes and allowing the land to revert to traditional habitat, attracting wildebeest, zebras, lions, and other African wildlife and a flood of foreign tourists eager to observe them. To ensure that the local people benefit from the project, the safari operators then hire the local tribespeople as guides and game wardens at wages higher than they would earn as farmers. The staff of Sandibe, a safari lodge in Botswana, helped nearby villagers cultivate small plots of land and then taught them how to grow fruits and vegetables efficiently. The lodge buys most of what the villagers produce to serve to their guests, providing a sustainable source of revenue for the villagers and fresh "local grown" food for guests.

Less well-known but just as significant are Vietnam's efforts to protect the country's bears, who would otherwise be caged and "milked" for their bile, a traditional ingredient in Asian medicine. Similarly, Indonesia is using the revenues generated by ecotourists to protect its elephant population in northern Sumatra.

(*Continued*)

Ricky W. Griffin

Ecotourism has helped protect Rwanda's famous mountain gorillas and reduced poaching of the animals for their skins and other body parts. Outfitters hire local residents as guides, game wardens, and staff, thereby giving the local community an economic stake in protecting the gorillas and their habitat.

Ecotourism is by no means a panacea for protecting against the loss of critical habitat and species endangered by encroachment of human activity, however. Moreover, things are not all black-and-white. For instance, most respectable safari operators in the Serengeti maintain a safe distance between the animals and their guests and avoid doing anything to upset the animals or change their natural behaviors. But some low-cost tour operators have been known to offer food to animals to entice them closer to safari vehicles (and gain a bigger tip from their guests). This practice, though, changes the natural behaviors of the animals and is condemned by those who practice "true" ecotourism. Nonetheless, by giving members of the local community a stake in protecting critical habitat, ecotourism promises to be an important weapon in promoting global sustainability and in protecting vulnerable and endangered species.

Sources: Based on "Bearing Up," *The Economist*, January 18, 2013; "Gamble in the jungle," *Financial Times*, October 20/21, 2012, p. 8; "Rangers in Congo risk lives for rare gorillas," *Washington Post*, September 21, 2012; "Elephants and eco-tourism in northern Sumatra," www.bbcnews.com, June 10, 2011; Nature Conservancy website, www.nature.org; "Use them or lose them," *The Economist*, March 6, 2008; "Good news, for a change," *The Economist,* January 22, 2004.

General Social Welfare

Some people believe that in addition to treating their stakeholders and the environment responsibly, business organizations also should promote the general welfare of society. Examples include making contributions to charities, philanthropic organizations, and not-for-profit foundations and associations; supporting museums, symphonies, and public radio and television; and taking a role in improving public health and education. Some people also believe that corporations should act even more broadly to correct the political or social inequities that exist in the world. For example, these observers would argue that businesses should not conduct operations in countries with a record of human rights violations, such as North Korea or Sudan. Recent interest by U.S. firms in oil reserves in western and central Africa have sparked concerns about human rights issues in those areas as well, an issue discussed in one of Part I's closing cases, "A Pipeline of Good Intentions."[23] A related but distinct problem that also is receiving renewed attention is global poverty and the potential role of business in helping to address it. In Cambodia, for instance, 30 percent of the population lives below the poverty level; 42 percent lack clean drinking water; and 29 percent of children under 5 are malnourished. But there are also emerging signs that some countries are beginning to address poverty-related issues. Uganda, for example, is still a poor country; foreign aid constitutes a significant portion of its national budget. But since 1990 the percentage of its population living with HIV has dropped from 10.2 percent to 7.2 percent. Primary school enrollment has jumped from 58 percent in 1986 to more than 94 percent of school-age children today. And the proportion of its population living in poverty has fallen from 44 percent in 1996 to 24 percent.[24] Yet as illustrated in Map 5.1, numerous problem areas still exist.

In Practice

- The triple bottom line approach is the most commonly used framework for characterizing international businesses' corporate social responsibility.
- Adoption of sustainable business practices often adds to a firm's profitability while protecting the environment.

For further consideration: Fair and ethical behaviors toward a firm's primary stakeholders is often in the best interests of the firm's shareholders. Can you think of examples in which this is not the case?

Managing Social Responsibility Across Borders

As with attempts to manage ethical conduct, businesses usually make some effort to actively address social responsibility. The basic approach they adopt shapes how they manage issues of compliance, the informal dimensions of social responsibility, and the evaluation of their social responsibility efforts.

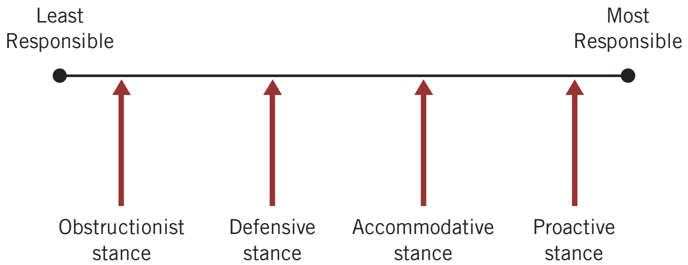
Approaches to Social Responsibility

Firms generally adopt one of four different basic approaches to social responsibility. The four stances, as shown in Figure 5.2, fall along a continuum ranging from the lowest to the highest degree of socially responsible practices.

OBSTRUCTIONIST STANCE Organizations that take what might be called an **obstructionist stance** to social responsibility usually do as little as possible to address social or environmental problems. When they cross the ethical or legal line that separates acceptable from unacceptable practices, their typical response is to deny or avoid accepting responsibility for their actions. For example, a few years ago top managers in several foreign affiliates of Astra, a Swedish firm, were accused of a host of improprieties ranging from sexual harassment to the diversion of company resources for personal use. When these problems first began to surface, top officials in Sweden denied any wrongdoing before they even bothered to conduct an investigation. Similarly, both Nestlé and Danone have been accused of violating international agreements signed in 1981 to control the marketing of infant formulas that serve as substitutes for breast milk. Those agreements stress the importance of breast-feeding. Nestlé and Danone allegedly provided mothers in West Africa with free samples of milk powder and violated labeling standards on infant formula in the countries of Togo and Burkina Faso. The firms, however, deny any such violations and argue that their actions were all technically within the parameters of the agreements.[25] Moreover, both companies now believe that the treaties are outmoded as a result of the HIV/AIDS crisis, arguing that use of infant formulas may reduce the transmission of the virus from infected breast-feeding mothers to their infants.

DEFENSIVE STANCE One step removed from the obstructionist stance is the **defensive stance**, whereby the organization will do everything that is required of it legally but nothing more. This approach is often adopted by companies that are unsympathetic to the concept of social responsibility. Managers in organizations that take a defensive stance insist that their job is to generate profits. For example, such a firm would install pollution control equipment dictated by

FIGURE 5.2
Approaches to Social Responsibility



law but would not install higher-quality equipment even though it might limit pollution further. Tobacco companies take this position in their marketing efforts. In the United States, they are legally required to include warnings to smokers on their products and to limit their advertising to prescribed media. Domestically they follow these rules to the letter of the law but use stronger marketing methods in countries that have no such rules. In many African countries, for example, cigarettes are heavily promoted, contain higher levels of tar and nicotine than those sold in the United States, and carry few or no health warning labels.[26] Firms that take this position are less likely to cover up wrongdoing than obstructionist firms and will generally admit to mistakes when they are identified and then take appropriate corrective actions.

ACCOMMODATIVE STANCE A firm that adopts an **accommodative stance** meets its legal and ethical requirements but will also go beyond these requirements in selected cases. Such firms voluntarily agree to participate in social programs, but solicitors have to convince the organization that the programs are worthy of their support. Some firms will match contributions made by their employees to selected charitable causes. And many organizations will respond to requests for donations to Little League baseball, youth football programs, and so forth. Vodafone's local affiliate, for example, sponsors a youth cricket league in Pretoria, South Africa. The point, though, is that someone generally has to knock on the door and ask—the organizations do not proactively seek such avenues for contributing.

PROACTIVE STANCE The highest degree of social responsibility that a firm can exhibit is the **proactive stance**. Firms that adopt this approach take to heart the arguments in favor of social responsibility. They view themselves as citizens in a society and proactively seek opportunities to contribute. An excellent example of a proactive stance is the Ronald McDonald House program undertaken by McDonald's. These houses, located close to major medical centers, can be used by families for minimal cost while their sick children are receiving medical treatment nearby. Likewise, Aquafinca, a Honduran subsidiary of Florida's Regal Springs Tilapia, teamed up with the World Wildlife Foundation and two important U.S. distributors, Sysco and Costco, to become the first supplier of tilapia to meet the International Standards for Responsible Tilapia Aquaculture.[27] These and related activities and programs exceed the accommodative stance—they indicate a sincere and potent commitment to improving general social welfare in a country and thus represent a proactive stance to social responsibility. Apple has similarly adopted a proactive policy of trying to minimize the impact of its products on the environment ("People, Planet, and Profits" discusses some of the issues of concern in this industry). As part of this effort, Apple prominently posts on its website environmental reports for each of its products. The Body Shop, Ben & Jerry's, Patagonia, and Timberland are four other companies widely admired for their proactive stances regarding social responsibility.[28]

Remember that these categories are not discrete but merely define stages along a continuum of approach. Organizations do not always fit neatly into one category. The Ronald McDonald House program has been widely applauded, for example, but McDonald's has also come under fire for allegedly misleading consumers about the nutritional value of its food products. And even though Astra took an obstructionist stance in the example cited previously, many individual employees and managers at the firm have no doubt made substantial contributions to society in a number of different ways.

Managing Compliance

The demands for social responsibility placed on contemporary organizations by an increasingly sophisticated and educated public grow stronger every day. As we have seen, there are pitfalls for managers who fail to adhere to high ethical standards and for companies that try to circumvent their legal obligations. Organizations, therefore, need to fashion an approach to social responsibility the same way that they develop any other business strategy. That is, they should view social responsibility as a major challenge that requires careful planning, decision making, consideration, and evaluation. They may manage social responsibility through both formal and informal dimensions. Formal organizational dimensions used to implement a firm's social responsibility include legal compliance, ethical compliance, and philanthropic giving.

LEGAL COMPLIANCE **Legal compliance** is the extent to which the organization conforms to regional, national, and international laws. The task of managing legal compliance is generally

PEOPLE, PLANET, AND PROFITS

E-WASTE

Technological progress is one of the primary driving forces of globalization, as we noted in Chapter 1. Smartphones, high-definition flat screen TVs, desktop computers, laptops, and tablet computers speed information flows and enhance the productivity of workers, as well as the joy of sharing photos and texts with our friends and family. There is a downside to these devices, however: the growing problem of disposing of used or outmoded electrical devices, many of which contain toxic chemicals such as cadmium, lead, and mercury. If disposed of improperly, electronics goods can potentially release hazardous toxic fumes or contaminate ground water supplies. The U.S. Environmental Protection Agency (EPA), for example, estimates that electronic waste (e-waste) accounts for 70 percent of the heavy metals in a typical landfill.

E-waste is the fasting growing waste disposal problem facing both developed and developing countries. The European Union estimates that its members generate as much as 11 million tons of e-waste annually, clogging landfills and potentially endangering water supplies. A recent EPA study indicated that in a typical year Americans disposed of 2.4 million tons of electronic products, but that only 25 percent of these would be recycled. China's annual e-waste has reached 2.3 million tons.

Most e-waste is both toxic and valuable because the innards of modern electronics contain metals such as gold, palladium, and silver in concentrations 40 to 50 times richer than the ores found in commercial mining ventures. Thus, discarded electronic goods can be valuable indeed. High-tech recyclers in developed countries, such as Switzerland's Xstrata and Belgium's Umicore, can recover up to 95 percent of these precious metals. However, often lower-tech, dirtier solutions can be more profitable. Guiyu, a city in southern China, is renowned as the e-waste capital of the world. An estimated 150,000 workers are employed in the Guiyu region recycling e-waste through simple, labor-intensive means. Some workers use pliers or clippers to yank chips from memory boards or strip the insulation from cabling to reclaim the copper wire. Others leach out the metals by pouring acid on circuit boards that have been preheated by boiling. Lacking adequate safety equipment, workers—often children—are exposed to toxic fumes, carcinogens, and lead poisoning. Environmental studies indicate high levels of toxic heavy metals, carcinogens, and dioxins in the local air and water supplies. Nigeria and Ghana are home to similar electronic recycling ventures.

After an Italian firm was caught dumping 8,000 barrels of toxic trash in a Nigerian village, the Basel Convention of 1989 established controls over rich countries disposing of their toxic materials by shipping them to poorer countries. But dumping of e-waste is a continuing problem. In January 2013 Nigeria impounded a British vessel and imposed a $1 million fine on importers for trying to discard two containers of e-waste there.

A variety of solutions have been proposed. One approach is to strengthen the Basel agreement by a total ban on e-waste imports. Another solution is "eco-design," encouraging firms to design and manufacture their products with easy salvage in mind. More aggressive encouragement of recycling is also helpful, an approach endorsed by major producers and retailers. Apple, Dell, and Best Buy, for example, have established recycling programs, agreeing to accept e-waste at company-owned or company-sponsored facilities.

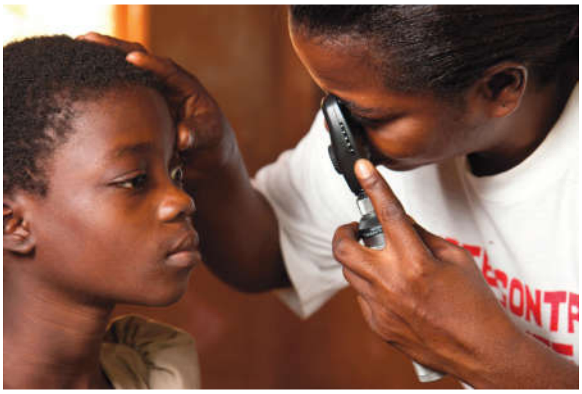
Sources: Based on "A Cadmium lining," *The Economist*, January 26, 2013; *Electronic Waste Management in the United States through 2009*, Environmental Protection Agency, May 2011; "Garbage in, garbage out," *The Economist*, April 2011; Apple website, www.apple.com.

assigned to the appropriate functional managers. For example, the organization's top human resource executive is responsible for ensuring compliance with regulations concerning hiring, pay, and workplace safety and health. Likewise, the top finance executive generally oversees compliance with securities and banking regulations. The organization's legal department is also likely to contribute to this effort by providing general oversight and answering queries from managers about the appropriate interpretation of laws and regulations.

ETHICAL COMPLIANCE **Ethical compliance** is the extent to which the members of the organization follow basic ethical (and legal) standards of behavior. We noted previously that organizations have increased their efforts in this area—providing training in ethics and developing guidelines and codes of conduct, for example. These activities serve as vehicles for enhancing ethical compliance. Many organizations also establish formal ethics committees, which may be asked to review proposals for new projects, help evaluate new hiring strategies, or assess new environmental protection plans. They might also serve as a peer review panel to evaluate alleged ethical misconduct by an employee.[29]

PHILANTHROPIC GIVING Finally, **philanthropic giving** is the awarding of funds or gifts to charities or other social programs. Giving across national boundaries is becoming more common. For example, Alcoa gave $112,000 to a small town in Brazil to build a sewage treatment plant. And Japanese firms such as Sony and Mitsubishi make contributions to a number of social programs in the United States. BP has chosen to support numerous social programs in Russia and other former republics of the former Union of Soviet Socialist Republics.

Perhaps the most significant international philanthropic program to date is that of Merck, the big U.S. pharmaceutical company, which had developed a heartworm medicine for dogs. In



Max McClure/Alamy

Over 80 million residents of Africa, Latin America, and the Middle East are threatened by river blindness, a debilitating disease spread by black flies. Merck has donated over 2.5 billion doses of Mectizan to help clinics like this one in Togo halt the disease's progress.

the affluent U.S. market Merck charged $20 to $30 for a dose of the drug. But Merck scientists discovered that their heartworm medicine could also cure onchocerciasis, a disease more commonly known as river blindness. This parasitic disease, spread by biting black flies, causes maddening itching, muscle pains, and weakness. Half of its victims suffer impaired vision, and a sixth lose their eyesight entirely. Yet the people who inhabit the lands that are plagued by river blindness are among the world's poorest. Merck decided to provide the drug, called Mectizan, for free. Since 1987, Merck has donated more than 2.5 billion doses of Mectizan to people in 33 countries, sparing an estimated 80 million people annually from this terrifying disease.[30]

Unfortunately, in this age of cutbacks, many corporations have also had to limit their charitable gifts over the past several years as they continue to trim their own budgets. And many firms that continue to make contributions are increasingly targeting them to programs or areas where the firm will get something in return. For example, firms today are more likely to give money to job training programs than to the arts than was the case just a few years ago. The logic is that they get more direct payoff from the former type of contribution—in this instance, a better trained workforce from which to hire new employees—than the latter.[31]

Informal Dimensions of Social Responsibility

In addition to these formal dimensions for managing social responsibility, there are also informal ones. Leadership, organization culture, and how the organization responds to whistle-blowers each helps shape and define people's perceptions of the organization's stance on social responsibility.

ORGANIZATION LEADERSHIP AND CULTURE Leadership practices and organization culture can go a long way toward defining the social responsibility stance an organization and its members will adopt.[32] Consider Patagonia, a supplier of high-quality outdoor gear that started as a small specialist provider of mountain-climbing equipment. Its founder, Californian Yvon Chouinard, was a pioneer in the clean climbing movement, which sought to minimize the sport's impact on the wilderness. Under Chouinard's leadership, the firm has made an explicit and comprehensive commitment to environment protection. Its mission statement is straightforward: "Build the best products, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis." It has matched these words with deeds that send a clear message to its employees, customers, and suppliers. In 1989, it cofounded the Conservation Alliance with other firms in the outdoor industry to promote protection of the environment. Patagonia organizes workshops to train grassroots environmental groups, gives monies to environmental causes, and funds its employees who wish to serve internships in environmental groups. In 2010, for example 50 Patagonia employees interned for groups as diverse as Kenya's Watamu Turtle Programme, Maine's Friends of Casco Bay, and Guatemala's Smithsonian Migratory Bird Center.[33] By contrast, the message sent to BP employees regarding the trade-offs among costs, safety, and environmental protection communicated a different set of priorities, as we will discuss in the chapter's closing case.

WHISTLE-BLOWING **Whistle-blowing** is the disclosure by an employee of illegal or unethical conduct on the part of others within the organization.[34] How an organization responds to this practice often indicates its stance toward social responsibility. In a typical North American company, whistle-blowers may have to proceed through a number of channels to be heard. Some have even been fired for their efforts, a fate that befell James Bingham, a former executive with Xerox. He attempted to blow the whistle on alleged financial mismanagement in several of the firm's foreign subsidiaries. He claimed that the firm illegally set aside $100 million when it acquired a British firm to use those funds to boost future earnings. He also cited a corporate culture at Xerox that, in his words, "cut bookkeeping corners to make up for deteriorating business fundamentals and to maximize short-term results." Shortly after he made his allegations, Bingham was fired.[35]

Many organizations, however, welcome the contributions of whistle-blowers. A person who observes questionable behavior typically first reports the incident to his or her boss. If nothing is done, the whistle-blower may then inform higher-level managers or an ethics committee if one exists. Eventually, the person may have to go to a regulatory agency or even the media to be heard.

Not surprisingly, attitudes toward whistle-blowing are affected by culture. Because of the traditional strong attachment of the individual to the organization in Japan, for instance, whistle-blowing is often viewed as an act of betrayal, rather than one of integrity. Back in the 1970s, one Japanese salesman discovered that his boss was engaging in price-fixing. He reported the incident to higher-ups in the organization, who told him to ignore the problem. The salesman persisted in his whistle-blowing efforts. The company's response was to exile him to a remote subsidiary, where he continued to work in a tiny office—only nine square feet—without a telephone or a pay raise for 27 years. Although whistle-blowing has become more common in Japan in the past decade, it is still frowned on because it disturbs the harmony of the group, or *wa*, a value much prized in Japanese culture.[36] One Japanese religious scholar notes, "Traditionally, betrayal is the biggest crime in Japan, almost worse than murder. The price was *mura hachibu*, or exile from the village."[37] In one well-publicized recent example, Michael Woodford, the newly appointed CEO of Olympus, a major Japanese camera manufacturer, was fired after he uncovered $1 billion of financial irregularities and reported them to Olympus' board of dirctors. The apparent reason for his dismissal: his whistle-blowing was disharmonious.[38]

Evaluating Social Responsibility

Any organization that is serious about social responsibility must ensure that its efforts are producing the desired benefits. Essentially this requires applying the concept of control to social responsibility. Many organizations now require current and new employees to read their guidelines or code of ethics and then sign a statement agreeing to abide by it. An organization should also evaluate how it responds to instances of questionable legal or ethical conduct. Does it follow up immediately? Does it punish those involved? Or does it use delay and cover-up tactics? Answers to these questions can help an organization diagnose any problems it might be having in meeting its social responsibilities.

Many organizations choose to conduct formal evaluations of the effectiveness of their social responsibility efforts. Some organizations, for instance, routinely conduct corporate social audits. A **corporate social audit** is a formal and thorough analysis of the effectiveness of the firm's social performance. The audit is usually undertaken by a task force of high-level managers from within the firm. It requires that the organization clearly define all its social goals, analyze the resources it devotes to each goal, determine how well it is achieving the various goals, and make recommendations about which areas need additional attention.

In Practice

- International businesses' responses to addressing CSR range widely. Some adopt an obstructionist approach, doing as little as they can to further CSR, whereas other firms embrace CSR as an important part of their business model.
- Many firms routinely conduct corporate social audits to monitor their success in achieving their CSR objectives and to uncover areas of concern.

For further consideration: What factors affect a firm's approach to managing its CSR?

Difficulties of Managing CSR Across Borders

Another challenge facing corporations in establishing their policy toward CSR is that the role of the corporation in society varies across countries. MNCs, which by definition operate in multiple political and legal jurisdictions, are continually attempting to find the proper balance between the roles and behaviors expected by their home government and those expected by all of the host governments in the countries in which they operate. This is particularly complex in the case of CSR because corporations play different roles in the political process of individual countries. How does an MNC please all of them? Indeed, companies are often criticized both for too much involvement in local politics and for not enough involvement. Many critics argue, for example, that oil companies play too large a role in the formulation of energy and environmental policies in the United States. Yet other critics have complained that these companies do too little to influence public policy in such countries as Nigeria or Myanmar. Shell's official policy is to support CSR "within the legitimate role of business," although that policy probably creates more questions than answers in interpreting what it means in practice.

A model developed by two Dutch CSR experts, Rob van Tulder and Alex van der Zwart, showcases this problem.[39] Their approach suggests there are three main actors in the policy formulation process:

1. The *state*, which passes and enforces laws;
2. The *market*, which through the process of competition and the pricing mechanism acquires inputs and allocates outputs to members of the society; and
3. *Civil society*, which includes churches, charitable organizations, the Boy Scouts, labor unions, NGOs, and so on. Civil society in many ways manifests the cultural values of the citizens of the country.

The interplay among these three actors establishes public policy and the norms of social interaction, including, of course, accepted business behaviors. As is the case with culture, however, these social norms vary from country to country. Van Tulder and van der Zwart's model develops stereotypical behaviors in three regions of the world.

The Anglo-Saxon Approach

In van Tulder and van der Zwart's analysis, Anglo-Saxon countries view the state, the market, and civil society as separate, competitive, and antagonistic. Thus, when the government must contract with the private sector to purchase goods or services, such contracting should be done through an open and competitive bidding process. When business and government fail to maintain sufficient separation, Anglo-Saxons deem that failure as corruption. Similarly, when Americans look at the relationship between civil society and government, members of the former are labeled "special interest groups." As articulated by James Madison in the *Federalist Papers*, democracy entails political competition among these special interest groups. So the U.S.–Anglo-Saxon approach focuses on competition, not cooperation, among the three groups as the means to promote social goals.

The Asian Approach

The relationship between these three actors is different in Asia. Many Asian countries—Japan, Korea, China, and Indonesia come to mind—rely on close cooperation between the private sector and the government. Indeed, the economic clout of Japan's *keiretsu* and Korea's *chaebol* rests on their willingness to do the government's bidding and vice versa. Many Asian leaders view this cooperation as the linchpin of their successful development strategies—the so-called "Asian Way." Note two things: First, from the perspective of the Anglo-Saxon approach, this symbiotic relationship between business and government is viewed as "crony capitalism," a polite term for corruption. Second, civil society plays a minor role in this process.[40]

The Continental European Approach

In the European Union—particularly in continental European countries such as Austria, Germany, France, and the Netherlands—the three actors have much more cooperative ways of working with one another. In Germany, for example, large employer associations bargain with umbrella labor organizations under the watchful supervision of the government. Similarly, Germany's codetermination policy gives workers a well-defined role in the governance of large German businesses (see page 582). And, in general, the public policy process is based on creating consensus among the three actors. Cooperation, not competition, is the hallmark of this approach. Given this approach to the role of business in society, it is not surprising that Continental Europe was the birthplace of the CSR movement and the stakeholder model of capitalism.

Clearly each of the three approaches—continental European, Asian, and Anglo-Saxon—conceptualizes the responsibilities of government, business, and civil society quite differently. This leaves MNCs that operate in all three areas with the difficult and complex task of triangulating between their own interests, the proper way of doing things according to the perspective of their home society, and the proper way of doing things according to the perspective of the society of the host countries in which they operate.

In Practice

- Expectations regarding a corporation's role in society can vary widely from country to country. The Anglo-Saxon approach distrusts cooperation between business and government; the Continental Europe and Asian approaches embrace it.
- International businesses need to develop strategies and policies for dealing with these different expectations.

For further consideration: What do you think is the proper relationship between the state, the market, and civil society? Why?

Regulating International Ethics and Social Responsibility

Not surprisingly, there have been many attempts to mandate and regulate ethical and socially responsible behavior by businesspeople and businesses. A detailed analysis of the myriad laws and regulations is beyond the scope of this discussion. However, we will describe a few of the more important and representative regulations.

The **Foreign Corrupt Practices Act (FCPA)** was passed by the U.S. Congress in 1977. The FCPA prohibits U.S. firms, their employees, and agents acting on their behalf from paying or offering to pay bribes to any foreign government official to influence the official actions or policies of that individual to gain or retain business. This prohibition applies even if the transaction occurs entirely outside U.S. borders. The FCPA also applies to foreign companies who have accessed the U.S. public capital market and become subject to SEC jurisdiction. We already noted the fines paid by Siemens for violating the FCPA. Other examples abound. For instance, a former executive of Mobil Oil was sentenced to a jail term after participating in an agreement to pay $78 million to several government leaders in Kazakhstan in return for control of the country's giant Tengiz oil fields.[41] Similarly, Baker Hughes, a Texas-based oil field services provider, paid a $44 million fine to settle charges it violated the FCPA in Angola, Indonesia, Nigeria, Russia, and Uzbekistan, as well as Kazakhstan.[42] However, the FCPA does not outlaw routine payments, regardless of their size, made to government officials to expedite normal commercial transactions, such as issuance of customs documents or permits, inspection of goods, or provision of police services.[43]

In 2010, the British government passed the **Bribery Act**, which applies to corrupt actions done anywhere in the world by firms with a business presence in the United Kingdom. In many ways, this British law is more extensive and comprehensive than the FCPA. Like the FCPA, it applies to transactions involving government officials. Unlike the FCPA, the Bribery Act also applies to transactions between two businesses and it outlaws facilitation payments.[44]

The **Alien Tort Claims Act** was passed in the United States in 1789 but has recently emerged as a potentially significant law affecting MNCs with ties to the United States. Under some recent interpretations of this law, such multinationals may be responsible for human rights abuses by foreign governments if the companies benefited from those abuses. For instance, the U.S. Court of Appeals for the Ninth Circuit allowed citizens of Burma to proceed with a case accusing Unocal of knowingly using forced labor supplied by the Burmese military. (The case was settled out of court.) Other suits have been filed in New York and New Jersey accusing IBM, Citigroup, and other corporations of benefiting from apartheid in South Africa. In 2013, however, the U.S. Supreme Court dismissed a case filed against Shell by Nigerian petitioners for alleged abuses that occurred in Nigeria, determining that U.S. courts did not have jurisdiction in such matters. Because the U.S. legal system is based on common law, the limits of the Alien Tort Claims Act will be defined and refined as other cases filed under the Act reach closure.[45]

The **Anti-Bribery Convention of the Organization for Economic Cooperation and Development** was developed in and first ratified by Canada in 2000; it has since been ratified by 37 other countries. The convention is an attempt to eliminate bribery in international business transactions. Its centerpiece mandates jail time for those convicted of paying bribes.[46]

Finally, the **International Labor Organization (ILO)** has become a major watchdog for monitoring working conditions in factories in developing countries. Spurred by both Western corporations and the factories themselves, the ILO has begun to systematically inspect working conditions in countries such as Bangladesh, Cambodia, and the Philippines. Corporations find that such an independent inspection mechanism helps allay concerns from human rights and workers rights activist groups; factory owners are also finding that subjecting themselves to regular ILO inspections helps them establish new business relationships with MNCs.[47]

There are numerous other laws and international agreements to promote socially responsible international business practices. "Emerging Opportunities" describes one such agreement, which is attempting to control trade in conflict diamonds to bring peace to Sierra Leone, Congo, and other African nations.

EMERGING OPPORTUNITIES

CONFLICT DIAMONDS

According to Western custom, diamonds are a perfect way for a young man to demonstrate his undying love to his fiancée. But diamonds are also perfect for smuggling. They are small, easily concealed, and valuable relative to their bulk and weight. A nasty little secret of the diamond trade is that diamond smugglers have financed some of the world's most vicious civil wars, including those that devastated Sierra Leone, Côte d'Ivoire, Congo, and Angola. Officials of NGOs that are trying to aid the victims of these wars, such as CARE, Médecins Sans Frontières, Global Witness, and the International Red Cross, realized that peace would be impossible unless trade in these so-called "conflict diamonds" ceased. They began publicizing the linkage between diamonds and these civil wars. Experts estimate that conflict diamonds constitute between 2 and 20 percent of the world's trade in the precious stones.

The diamond industry quickly realized that they faced a public relations disaster, fearing that consumers might shun diamond earrings or bracelets if they knew that their glittery purchases were helping warlords to buy bullets and machine guns. In 2000, the major countries involved in the diamond trade as producers, traders, or consumers commenced the Kimberley Process (named after the famed South African mining town) to halt trade in conflict diamonds. Seventy-five countries have agreed that, beginning in 2003, trade in diamonds would be limited to those stones that carry a certificate of origin from their country of production, guaranteeing that they were produced legally and outside the zones of conflict. However, the real problem is in enforcing the good intentions of the Kimberley Process. Some NGOs fear that smugglers will bribe corrupt officials to issue the certificates, or that they will devise other ways to circumvent the agreement. (The plot of a 2002 James Bond movie, *Die Another Day*, involved just such a scheme.)

Other countries believe that conflict over conflict diamonds gives them an opportunity to promote their own industry. Canada, for instance, now produces 6 percent of the world's gem-quality diamonds, thanks to a discovery in the Northwest Territory in 1991. To demonstrate that their gems are produced in a conflict-free zone, one Canadian producer engraves a tiny polar bear in its diamonds, and another inscribes a maple leaf.

Sources: Based on "Zimbabwe auctions diamonds amid controversy," *Wall Street Journal*, August 11, 2010; "The 'Blood Diamond' resurfaces," *Wall Street Journal*, June 19, 2010; "The dark core of a diamond," *Time* (Global Business bonus section), May 2006, p. A3; "Accord on conflict diamond smuggling," *Financial Times*, November 11, 2005, p. 4; "Warning to 'conflict diamond' traders," *Financial Times*, April 29, 2003, p. 6; "Political correctness by the carat," *Wall Street Journal*, April 17, 2003, p. B1; "Talks end in agreement to track diamond shipments," *Houston Chronicle*, November 30, 2001, p. 36A; "Diamond town in the rough," *Wall Street Journal*, July 5, 2001, p. B1; Jon Lee Anderson, "Oil and blood," *The New Yorker*, August 14, 2000, pp. 45ff.

In Practice

- Numerous international agreements exist to regulate, monitor, and promote ethical business practices.
- Curbing bribery has been the focus of legislation in the United States and the United Kingdom, as well as an agreement among the Organisation for Economic Cooperation and Development (OECD) nations.

For further consideration: Would you be willing to buy a diamond for a friend or loved one if you knew it was a "conflict diamond"?

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CHAPTER REVIEW

Summary

Ethics are 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. But even though ethical behavior is in the eye of the beholder, it usually refers to behavior that conforms to generally accepted social norms. Unethical behavior is behavior that does not conform to generally accepted social norms. A society generally adopts formal laws that reflect the prevailing ethical standards—the social norms—of its members. Cultural differences often create ethical complications. Acceptable behavior in one culture may be viewed as immoral in another.

One important area of cross-cultural and international ethics is the treatment of employees by the organization. In practice, the areas most susceptible to ethical variation include hiring and firing practices, wages and working conditions, and employee privacy and respect. Numerous ethical issues also relate to how employees treat the organization. The central ethical issues in this relationship include conflicts of interest, secrecy and confidentiality, and honesty. A third major perspective for viewing ethics involves the relationship between the firm and its employees with other economic agents. The primary agents of interest include customers, competitors, stockholders, suppliers, dealers, and unions.

Although ethics reside in individuals, many businesses nevertheless endeavor to manage the ethical behavior of their managers and employees. They want to clearly establish the fact that they expect their managers and other employees to engage in ethical behaviors. They also want to take appropriate steps to eliminate as much ambiguity as possible in what the company views as ethical versus unethical behavior. The most common ways of doing this are through the use of guidelines or a code of ethics, ethics training, and organizational practices and the corporate culture.

Organizations need to define their policies toward corporate social responsibility—the set of obligations an organization has to protect and enhance the society in which it functions. Organizations may exercise social responsibility toward their stakeholders, toward the natural environment, and toward general social welfare. Some organizations acknowledge their responsibilities in all three areas and strive diligently to meet each of them, whereas others emphasize only one or two areas of social responsibility. And a few acknowledge no social responsibility at all.

As with attempts to manage ethical conduct, businesses usually make some effort to actively address social responsibility. This generally starts from their basic approach to social responsibility. It then extends to how they manage issues of compliance, the informal dimensions of social responsibility, and how they evaluate their efforts regarding social responsibility.

There have been many attempts to regulate ethical and socially responsible international business conduct. Five illustrative examples are the Foreign Corrupt Practices Act, the Bribery Act, the Alien Tort Claims Act, the Anti-Bribery Convention of the Organization for Economic Cooperation and Development, and the International Labor Organization.

Review Questions

5-1. Define business values.
5-2. Distinguish between ethical and unethical behavior.
5-3. Do national environments shape the ethical orientation of a firm?
5-4. How do organizations attempt to manage ethical behavior across borders?
5-5. What is social responsibility?
5-6. What is the difference between ethics and social responsibility?
5-7. Identify the major areas of social responsibility for international business.
5-8. What are the four general approaches a firm can take with regard to social responsibility?
5-9. Do sustainable ethical businesses exist?
5-10. Identify and briefly summarize representative laws and regulations that attempt to address international ethics and social responsibility.

Questions for Discussion

5-11. Although people from the same culture are likely to have similar views of what constitutes ethical versus unethical behavior, what factor or factors would account for differences within a culture?
5-12. Is it valid to describe someone as having "no ethics"? Why or why not?
5-13. What do you think would happen if an individual's belief system conflicted with a global firm's values?
5-14. Under what circumstances is a code of ethics most and least likely to be effective? Why?
5-15. What do you think is most likely to happen if the ethical behaviors and decisions of a new team of top managers of a firm are inconsistent with the firm's long-entrenched corporate culture?
5-16. Do you think social responsibility for an MNC is something best managed locally or best managed globally?
5-17. Discuss how a firm's global corporate strategy is shaped by its various local business environments.
5-18. What are the dangers or pitfalls that might be encountered if a multinational business attempts to be socially responsible, but only in ways that provide direct benefits to its profitability?
5-19. Under what circumstances, if any, might you see yourself as a whistle-blower? Under what circumstances, if any, might you keep quiet about illegal acts by your employer?
5-20. Do you think there should be more or fewer attempts to regulate international ethics and social responsibility? Why?
5-21. The oil industry has long been accused of degrading the natural resources of the countries it operates. Some aspects of this unethical behavior can be traced back to the governments in some countries that condone it, in the name of economic development. Do you think oil companies like Shell and BP should have an ethical business practice so as to protect the environment in the absence of specific government regulations or incentives in these markets? How does this impact oil companies since they seek to maximize their profits in a competitive market?
5-22. Are the ethics of gift-giving different between high-context and low-context cultures?
5-23. Consider the following scenarios:

- To assist the sale of your products in a particular foreign market, it is suggested that you pay a 10 percent commission to a "go-between" who has access to high-ranking government officials in that market. You suspect, but do not know, that the go-between will split the commission with the government officials who decide which goods to buy. Should you do it? Does it make a difference if your competitors routinely pay such commissions?
- You have a long-standing client in a country that imposes foreign exchange controls. The client asks you to pad your invoices by 25 percent. For example, you would ship the client $100,000 worth of goods but would invoice the client for $125,000. On the basis of your invoice, the client would obtain the $125,000 from the country's central bank. The client then would pay you $100,000 and have you put the remaining $25,000 in a Swiss bank account in the client's name. Should you do it? Would it make a difference if your client is a member of a politically unpopular minority and might have to flee the country at a moment's notice?

Building Global Skills

Identify an industry that interests you personally and that has a number of major MNCs. Potential examples include energy, automobiles, and consumer electronics. Visit the websites of three firms in that industry and learn as much as possible about their stances regarding ethical conduct and social responsibility. Identify commonalities and differences across the three firms. Next, develop observations about the likely effectiveness of the firms' efforts to promote ethical conduct and social responsibility based on their websites. Finally, respond to the following questions:

5-24. Symbolically, what potential role does the Internet serve in helping to promote ethical conduct and social responsibility as evidenced by the websites you visited?

5-25. Which firm has the most effective website vis-à-vis ethics and social responsibility? In your opinion, what makes it the best?

5-26. Which firm has the least effective website vis-à-vis ethics and social responsibility? In your opinion, what makes it the worst?

5-27. How do the websites affect your view of each company from the standpoint of a potential investor? A potential employee? A potential supplier?

5-28. If asked, what advice might you offer to each company to improve its attention to ethical conduct and social responsibility as reflected by its website?

CLOSING CASE BP: Safety First or Profits First?

On April 20, 2010, the *Deepwater Horizon*, a drilling rig operating in the Gulf of Mexico, exploded, killing 11 workers and injuring another 17. Investigators determined that the likely cause was a column of methane gas that rose through the borehole under extremely high pressure, expanded on reaching the surface, and then ignited, with catastrophic consequences. After burning for 36 hours, the rig collapsed and sank into the Gulf. It triggered one of the worst environmental disasters in recent U.S. history, devastated the tourism and fishing industries throughout the Gulf Coast, and raised serious questions about the efficacy of government regulation and the safety of deepwater drilling.

The Deepwater Horizon was owned and operated by Swiss-headquartered Transocean. Under contract to BP, it was in the final stages of completing an exploratory well in mile-deep water in the Macondo Prospect. Halliburton, an experienced oil well service company, had just finished cementing in the well. Later testimony indicated that the rig technicians had failed to react to a buildup of gas pressures in the well; they also ignored a critical test of the cement job itself. A few days after the explosion, Coast Guard officials noticed that oil was leaking from the drill site. Initial estimates provided by BP officials were 1,000 barrels a day; over time the estimate progressively rose to between 35,000 and 60,000 barrels per day. In total, about 5 million barrels of oil leaked into the Gulf before BP finally capped the well after 87 days on July 15.

Although officials of BP, Transocean, and Halliburton found fault with each other's performance—and independent investigations indicated that all three made mistakes—ultimate responsibility lay with BP, as owner of the Macondo well. Investigators uncovered a series of decisions by BP officials that—at least in hindsight—suggested that the company was more worried about controlling costs than promoting safety. The Macondo project was $58 million over budget and six weeks behind schedule, and internal memos indicated that BP managers on the rig were under increasing pressure to complete the project quickly. The National Commission on the BP Deepwater Oil Spill and Offshore Drilling, a group of independent experts selected by President Barack Obama, concluded that "systematic failures in risk management…place in doubt the safety culture of the entire industry" (report at p. vii).

Unfortunately, the Deepwater Horizon tragedy was not the first time that BP's commitment to safety was called into question. BP's Texas City refinery suffered a fire in 2004; in 2005 a deadly explosion at the same plant killed 15 individuals and injured 170 workers. A U.S. Department of Energy study cited deficiencies in the safety culture at BP as the root cause of the incident. The Occupational Safety and Health Administration (OSHA) fined BP $87 million after conducting a safety audit of the refinery in 2009, despite BP's claim that they had spent $1 billion improving the refinery. OSHA inspectors discovered problems with pressure-relief values during a 2006 inspection at BP's refinery in Toledo, Ohio, that the company jointly owned with Husky Oil. When OSHA returned to the Toledo facility in 2009, its inspectors determined that BP had replaced the problem valves that OSHA had cited in the 2006 inspection, but not other valves that suffered from the same problem. BP's safety performance at Prudhoe Bay in the Alaskan North Slope field has also raised concerns. In 2006, over 5,000 barrels of oil leaked from corroded pipelines there in two separate incidents; the leakage was attributed to poor maintenance and inadequate inspections. In 2011, BP agreed to settle a civil lawsuit over these spills for $25 million, after having previously paid a $20 million fine for violating the Clean Water Act.

To address these concerns, the BP Board of Directors replaced CEO John Browne with Tony Hayward in May 2007. Hayward was often quoted as saying he had two primary challenges, to cut costs and to improve the company's safety record, both of which were below industry standards. However, BP continued to have problems. The Macondo spill was preceded by a small spill at its Atlantis platform in the Gulf of Mexico in 2008. The spill—only 193 barrels—was caused by a rupture in a piece of steel tubing, which was connected to a defective pump, which the company had chosen not to repair to control costs. Company executives praised employees for the lean operations at the Atlantis operation—4 percent below budget—instead of criticizing them for the spill. Its North Slope operations also continued to experience problems. In September 2008, two segments of pipe flew 900 feet after a high-pressure natural gas pipeline ruptured. That pipeline had not been inspected for more than a decade. A two-foot gash in an oil pipeline in November 2009 resulted in a 1,000 barrel-spill of oil, gas, and water, damaging the tundra. Poor or deferred maintenance again appears to be the culprit.

BP's commitment to safety was further called into question when it suspended Phil Dziubinski, BP's ethics and compliance officer in Alaska—a position the company created as part of its renewed commitment to safety—the day after the Macondo well exploded. The company claimed the action was part of a corporate reorganization in which 200 of its professional staff were let go. Dziubinski believes he was drummed out of the company for pushing safety issues too aggressively. He was particularly concerned that the company's heavy use of overtime was endangering safety because of worker fatigue. Dziubinski filed suit against BP for wrongful dismissal. The case was later settled out of court.

Despite its safety performance, BP executives continue to assert that "BP's absolute No. 1 priority is safe and reliable operations."

Case Questions

5-29. BP replaced the deficient pressure-relief valves identified by OSHA during a 2006 inspection of its Toledo refinery. It did not replace valves suffering similar problems that OSHA inspectors did not identify. Was such a decision legal? Was such a decision ethical?

5-30. What would you have done if you were the manager of the Toledo refinery?

5-31. Suppose you (the manager of the Toledo refinery) had just received a memo from corporate headquarters that your plant operating costs were over budget. Would that affect your answer?

5-32. Should BP put safety first or profits first?

5-33. Some critics have argued that BP's commitment to safety was inadequate, despite the company's statements to the contrary. Suppose that critics were correct. If you were the new CEO of BP and were genuinely committed to improving safety, what steps would you take to do improve BP's safety culture?

Sources: Based on "Safety was a priority, BP tells spill trial," *Financial Times*, April 16, 2013, p. 24; "Worst is over for BP after opening week of Deepwater courtroom contest," *Financial Times*, March 2/March 3, 2013, p. 12; "BP drilled in 'unsafe' conditions, court told," *Financial Times*, February 28, 2013, p. 14; "BP agrees to penalty in North Slope spill lawsuit settlement," *Anchorage Daily News*, May 4, 2011 (online); "BP will pay fine in spills," *Wall Street Journal*, May 4, 2011, p. B3; "The shores of recovery," *The Economist*, April 23, 2011, p. 31; "BP's safety drive faces rough road," *Wall Street Journal*, February 1, 2011, p. A1; National Commission on the BP Deepwater Oil Spill and Offshore Drilling, *Deep Water: The Gulf Oil Disaster and the Future of Offshore Drilling: Report to the President*, January 2011; "In BP's record, a history of boldness and costly blunders," *New York Times*, July 12, 2010; "As CEO Hayward remade BP, safety, cost drives clash," *Wall Street Journal*, June 29, 2010; U.S. Department of Labor press release 10-234-CHI, March 8, 2010; U.S. Department of Energy, April 2007 at www.hss.doe.gov/csa/csp/advisory/SAd_2007-02.pdf.

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5-34. Discuss the primary challenges facing international business in managing CSR across borders.

5-35. What is the triple bottom line? How should international businesses balance these three components? Is the balance point the same for all businesses?

5-36. Mymanagementlab Only—comprehensive writing assignment for this chapter.

Endnotes

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PART 1 CLOSING CASES

KFC in China

KFC opened its first Western-style restaurant in Beijing in 1987. It has rapidly expanded using a blend of franchising and localization strategies. It has grown from small beginnings to become China's largest foreign fast food chain. It has over 2,200 branches in 450 Chinese cities. It is a far bigger enterprise than any of the other multinational fast food chains that have tried to trade in the potentially high-risk Chinese market.

The first KFC store in China was opened close to Tiananmen Square. It is still the largest KFC outlet worldwide. Such has been the transition in fortunes for KFC and other multinational fast food outlets that initially, when they were opened, the most frequent customers were foreigners living in China. Local consumers could not afford to eat there. Yum Brands owns the KFC and Pizza Hut brands locally. It quickly discovered that it is not enough to rely on a well-known foreign brand name to ensure growth. Instead, it is important to adapt to local tastes and lifestyles. KFC has, therefore, adapted its menu by adding a variety of dishes that are familiar to the Chinese.

Year-on-year, Yum Brands' sales in China have increased; it was the first foreign fast food company to move into China, and including the Pizza Hut stores, has 2,500 branches with annual sales of $2 billion. The closest multinational competitor is McDonald's with just 900 branches. There is still considerable room for expansion—Yum plans to target the estimated 250 million middle-class Chinese consumers—as China's fast food market is estimated to be worth $28 billion per year.

During 2008, with the Beijing Olympics and the higher profile that China enjoyed, Yum intended to add 425 new branches, while McDonald's aimed to top the 1,000 mark with 125 new stores. In 2007, Yum's operating profit rose by 30 percent to $375 million in China. This was a quarter of the entire multinational's operating profit. The Chief Executive of Yum, David Novak, predicted that by 2017 the Chinese operation would amount to 40 percent of the overall profits.

Perceptions of Pizza Hut, in particular, are very different in China than in many other markets. In Europe and the United States, for example, Pizza Huts are regarded as being relatively inexpensive, but in China they are considered to be up-market.

In a unique reverse strategy, the success of Yum's Chinese business particularly resulted from introducing healthier products and breaking away from the notion that KFC produces junk food. Novak explained to shareholders in December 2007: Let's learn from our most successful business. Let's learn from our China business. The idea will be to adapt the China model across the rest of the world and increase the emphasis on breakfast and evening sales and provide broader menus.

Yum is not content with simply taking China's fast food chicken market by storm. They are now planning the expansion of a traditional Chinese fast food chain called East Dawning. This will take on Kung Fu Catering Management and the hotpot chain, Inner Mongolia Little Sheep. Ten East Dawning branches have been operating in Shanghai since 2005. Yum tested the Beijing market prior to the Olympics. The branches offer traditional Chinese dishes. Initially, the novelty of KFC restaurants won over many Chinese customers. Fast food was considered to be exotic and Chinese consumers were curious. At first, KFC took advantage of the situation, charging relatively high prices. By the mid-1990s, there were about 100 fast food restaurants around Beijing. It quickly became obvious that the market was not growing fast enough, as many believed that the food was not as good as their own Chinese cuisine. During Chinese festivals traditional Chinese restaurants were full to bursting, while KFC restaurants and McDonald's were almost empty. There were a number of reasons for this—some economic, there is no longer a fascination for fast food just because it is foreign. KFC is a prime example of how its convenience fits in with Chinese lifestyle and the fact that it has adapted to the fast pace of modern Chinese life. Understandably, there have also been health concerns and in China there was a belief that too much fast food would cause obesity and other health problems. So far, KFC has tried to mitigate any particular problems in relation to health issues by focusing on the nutritional value. KFC's success in China has undoubtedly been a result of understanding the country and its culture. The company has recognized that the host culture is an important consideration and cannot be overwhelmed by standardized global marketing and advertising. Undoubtedly, KFC is the most popular international brand in China. The localization strategy has certainly worked. Yum Brands is also trying to replicate the success with KFC across their other brands. Sam Su, Vice Chairman of Yum Brands, believes that Pizza Hut will be the next major success story. China has rising incomes and economic growth – both key drivers in helping Pizza Hut to become a major brand.

Taco Bell is also being tested in the Chinese market, with a test restaurant in Shanghai. They hope the model will work across China and if it does it will be the next big success story.

Case Questions

P1-1. Real Kung Fu is a Chinese fast food chain with around 200 stores across China. What are their short-term growth plans, and possible problems?

P1-2. Where is Yum Brands based, and which countries does the Yum China's division cover?

P1-3. When did KFC open its first ever drive-through restaurant, and how many Pizza Hut home delivery services are operating in mainland China?

P1-4. Yum Brands aims to replicate the success of KFC with Pizza Hut and Taco Bell. Suggest steps they might take to achieve this.

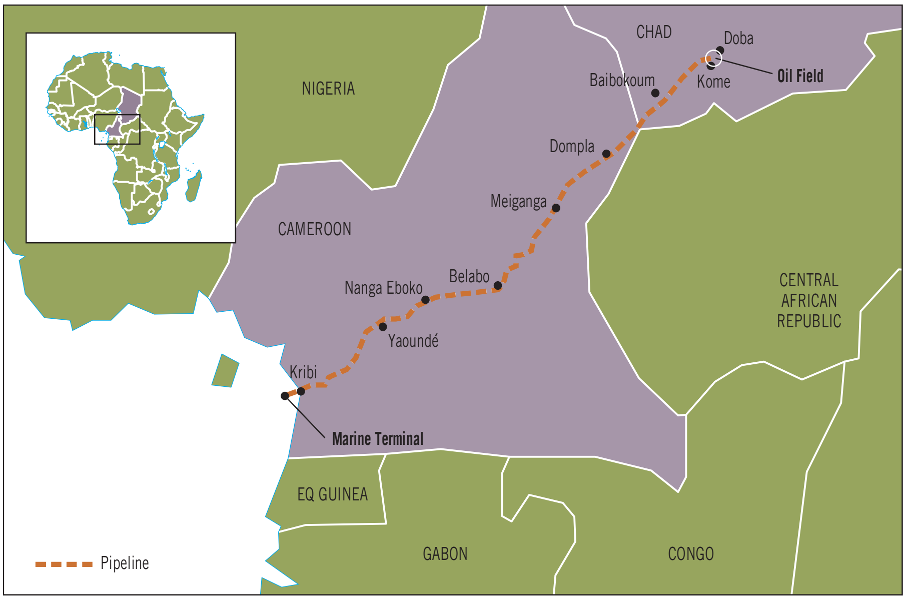
Sources: China Economic Net, www.en.ce.cn; *China Daily*, www.chinadaily.com; The China Ex Pat, www.thechinaexpat.com; *China Herald*, www.chinaherald.net; *People's Daily*, www.english.peopledaily.com.cn; All Business, www.allbusiness.com; Eats Online, www.eats.com.

A Pipeline of Good Intentions

Development economists and poverty specialists often talk about the "oil curse," a phrase reflecting the numerous instances when the discovery of oil in poor countries has paradoxically led to increases in poverty and social problems. When oil was discovered in the Doba basin in southern Chad in the 1990s, many predicted the oil curse would strike Chad as well. Chad, which is primarily desert with few natural resources, is one of the poorest countries on earth. With only a few hundred doctors to serve a population of 11 million, one-third of its children suffer from malnutrition. Since gaining independence from France in 1960, the country has been plagued by dictatorships and civil wars, as well as invasions by Libya and incursions by Sudanese rebel groups. Four times French troops have had to be sent to the former colony to restore a semblance of order.

Although the Doba basin was estimated to hold 2 billion barrels of oil, Chad is landlocked. To get the oil to market, an expensive, 650-mile (1,070-kilometer) pipeline would have to be built from Chad to a port in Cameroon, where the oil could then be shipped from the Gulf of Guinea to world markets (see Map 5.2). Despite a relatively low royalty rate to be paid to Chad's government—one-eighth of the value

MAP 5.2
Chad Pipeline



Case Questions

P1-5. What is the "oil curse"? Why do you think it develops?

P1-6. Why was the World Bank's participation in the Chad-Cameroon pipeline critical?

P1-7. 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?

P1-8. 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?

P1-9. Subsequent to the signing of the pipeline agreement, world oil prices have increased substantially. Given the abject poverty of Chad, should the oil companies offer to increase the royalties paid to Chad's government once its dispute with the World Bank is settled?

P1-10. In September 2008, Chad repaid all of the World Bank's loans, effectively nullifying all of the pledges it made to the bank regarding the use of its oil revenues. Had the various actors known that would happen when the project was first conceived, should they have proceeded in the first place?

Sources: www.worldbank.org; Chad/Cameroon Development Project Update 29, Annual Report 2010; International Advisory Group, Chad-Cameroon Petroleum Development and Pipeline Project: Final Report (September 3, 2009), Esso Exploration and Production Chad, Inc.; "A vaunted model development project goes awry," *The Economist*, September 27, 2008 (online); "A regime saved, for the moment," *The Economist*, February 9, 2008, p. 53; "Chad Export Project: Project Update No. 22," Esso Exploration and Production Chad, Inc. (2007); "An ill-advised leap into the unknown?" *Financial Times*, March 1, 2006, p. 7; "Exxon faces a dilemma on Chad project," *Wall Street Journal*, February 28, 2006, p. A4; "The 'resource curse' anew: Why a grand World Bank oil project has fast run into the sand," *Financial Times*, January 23, 2006, p. 13; "World Bank pulls Chad pipeline loan," *Houston Chronicle*, January, 2006, p. D3; "As Exxon pursues African oil, charity becomes political issue," *Wall Street Journal*, January 10, 2006, p. A1; "Chad Export Project: Project Update No. 19, Annual Report 2005," Esso Exploration and Production Chad, Inc. (2006); "A regime change," *The Economist*, June 4, 2005, p. 65; "African pipeline has yet to deliver lasting benefits," *Houston Chronicle*, June 29, 2003, p. 5D; "In war on poverty, Chad's pipeline plays unusual role," *Wall Street Journal*, June 24, 2003, p. A8.

The Oil Curse

Development economists and poverty specialists often view the discovery of oil as a curse rather than a blessing. Consider the case of Nigeria. Its 162 million citizens make it Africa's most populous country. Declared a British protectorate in 1914, it is home to more than 250 ethnic groups, although four groups—the Hausa and Fulani in northern Nigeria (29 percent), the Yoruba in the southwest (21 percent), and the Igbo (Ibo) and Ijaw in the southeast (18 percent and 10 percent, respectively)—account for the majority of the population.

Oil was first discovered in the Niger Delta in 1958, shortly before Nigeria became an independent nation in 1960. In 1967 the Ibo and other ethnic groups in the southeastern coastal region attempted to secede from Nigeria, declaring their lands the Republic of Biafra. Biafra's secession met with fierce opposition from the Hausa/Fulani and Yoruba leadership, who quickly realized that an independent Biafra would control the Niger Delta oil fields and the area's primary source of revenue. Federal troops suppressed the secession attempt in a bloody, two-year war. A cease-fire was instituted in early 1970, and Biafra was reabsorbed into Nigeria.

The Nigerian oil industry, then as now, is centered on Port Harcourt in the Niger Delta. Capable of producing 2.4 million barrels of oil a day, Nigeria is Africa's largest oil producer. Oil revenues account for 95 percent of the country's exports, 20 percent of its gross domestic product (GDP), and 80 percent of the government's revenues. However, the country remains poor, with an estimated per capita income of $1,280 and a life expectancy at birth of only 52.

Unfortunately, during its brief history Nigeria has been plagued by high levels of corruption, fueled in part by the misuse of its oil revenues. Nor has Nigeria been blessed with good governments. Among the worst was the military regime of Sani Abacha, a dictator who ruled the country from 1993 to 1998. One of the low points of Abacha's reign was the sham trial and execution of Ken Saro-Wiwa, a political activist who fought to protect the environment and the human rights of the people in the Niger Delta. After 16 years of military government, in 1999 Olusegun Obasanjo was elected president of the country in what has been described as a relatively fair election by local standards. He was reelected in 2003. In 2007, he was succeeded by Umaru Musa Yar'Adua in an election that international observers characterized as tainted. Yar'Adua died in office in 2010; his vice-president, Jonathan Goodluck, became president and was subsequently elected as president in 2011 in a relatively clean election.

Local citizens in the Niger Delta have benefited little from the oil boom. Despite the wealth generated by the Niger Delta's oil fields, much of the local population lives in desperate poverty, lacking adequate hospitals, schools, and electricity. Pollution from drilling operations and inevitable spills have despoiled the local mangrove swamps and harmed the fisheries and the fishing industry that depends on them.

Although Presidents Obasanjo, Yar'Adua, and Goodluck have tried to address the issues raised by community leaders