

# International Management



## **CHAPTER 2: MANAGING**

*Interdependence*

*Social responsibility and ethics*

# Disclaimer - Copyright

---

The information in this script is copyrighted. It is prohibited to publish information, copy or use them in any form for commercial purposes.

This file as well as all other files or documents which are handed out via password protected Moodle platform and/or linked in via Moodle are made only for the purpose of exam preparation for course listeners exclusively. Any file or hardcopy must be deleted after the exam or after the user did quit the university of applied science, Aschaffenburg.

It is prohibited to posted or publish any file or document or password of this lecture on the internet or to use any content for public presentations. There is a total ban on exploitation. In addition, no liability is accepted for errors. Lack of references to be completed in accordance with the instructions in the course.

It is emphasized that reading of these documents is no replacement for attending the lecture. In this respect, these documents represent only a skeleton of the substance, which has to be completed by the users own lecture notes and a dense and proper study of literature. All content is subject to change without notice.



# Learning Objectives

---

**2.1** To understand the social responsibility of corporations toward their various constituencies around the world, in particular their responsibilities toward human rights

**2.2** To acknowledge the strategic role that ethics must play in global management and provide guidance to managers to maintain ethical behavior amid the varying standards and practices around the world

**2.3** To recognize the importance of managing interdependence and include sustainability in their long-term plans

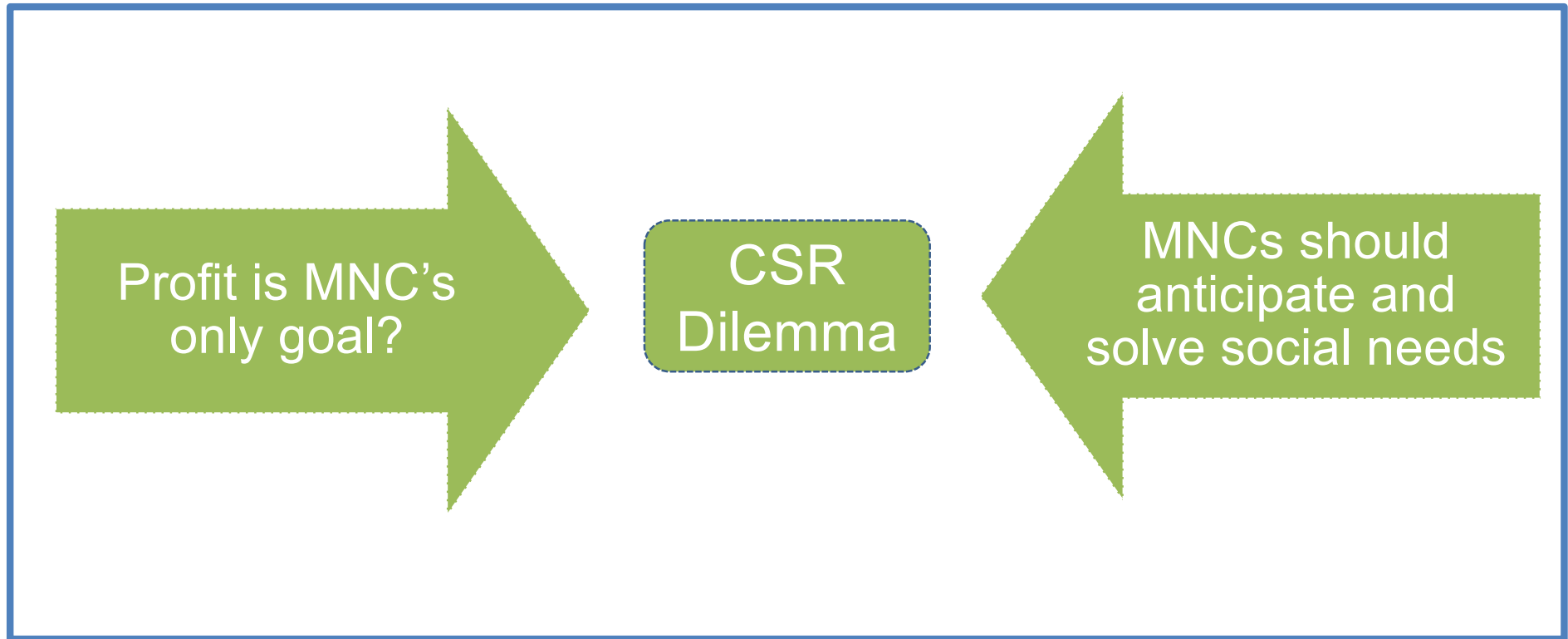
# Learning Objective 2.1



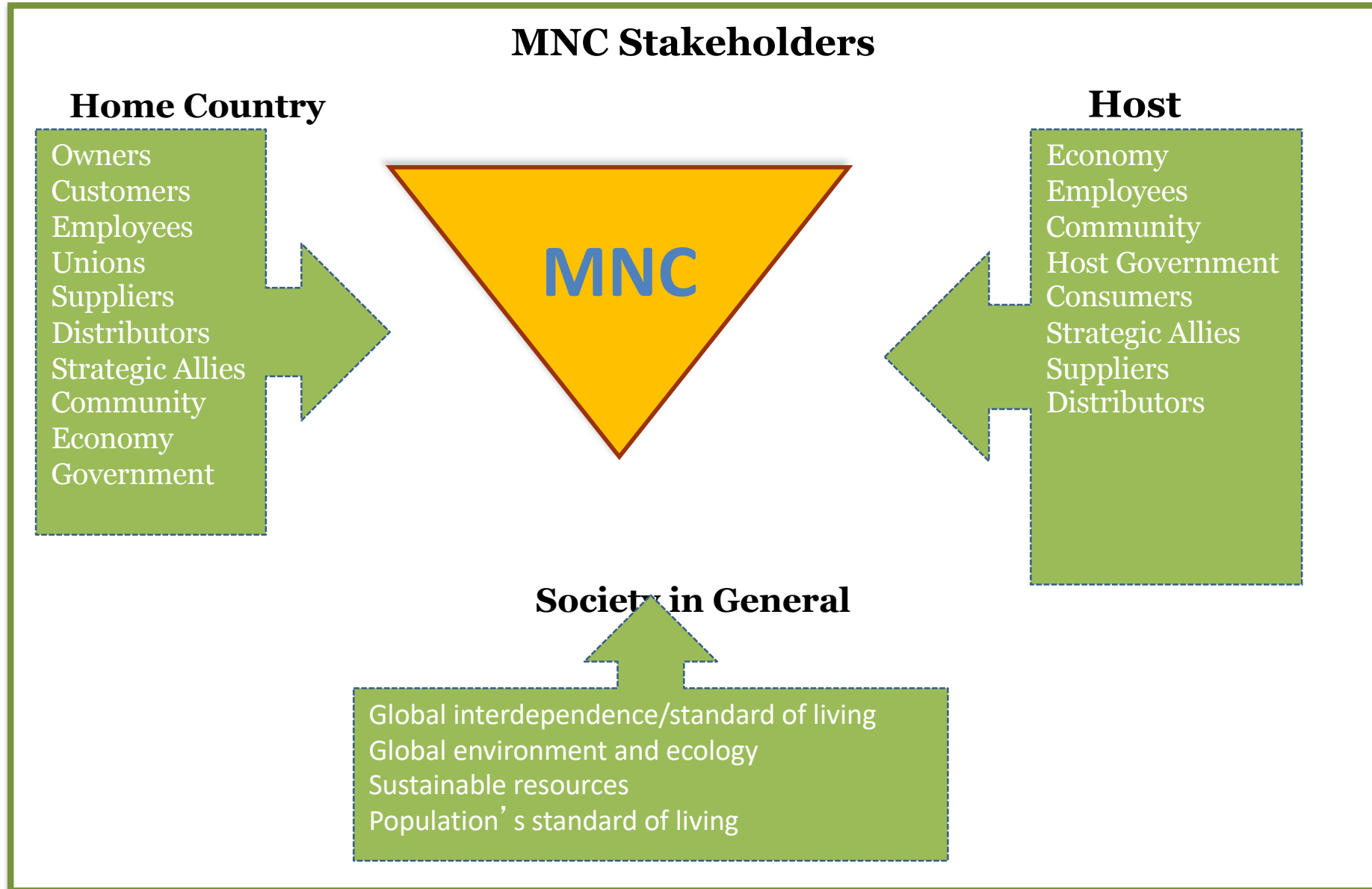
**To understand the social responsibility of corporations towards their various constituencies around the world, in particular their responsibilities towards human rights**

# The Social Responsibility of MNC's

---



# MNC Stakeholders in MNC



# What is CSR?



# Business Benefits from CSR

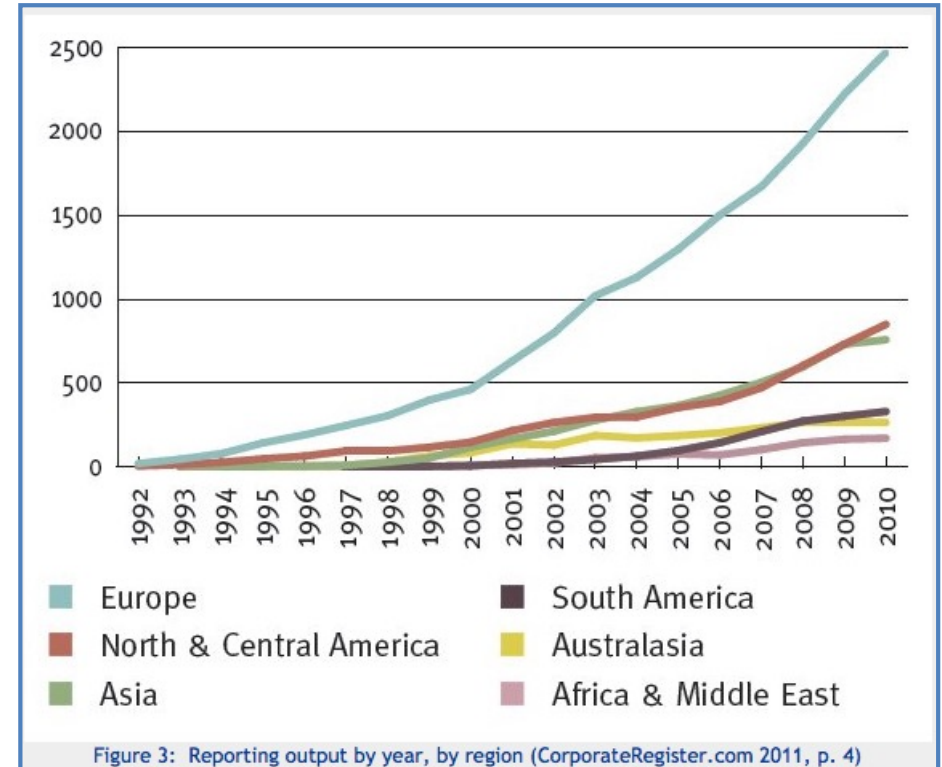
- Improved **access to capital**
- Secured license to operate
- **Revenue increase** and cost and risk reduction
- **Better brand value and reputation** with customer attraction and retention
- Improved employee recruitment, motivation, and retention





# Global Consensus or Regional Variation?

- Global Corporate Culture:
  - An integration of the business environments in which firms currently operate
- The United States and Europe adopt strikingly different positions that can be traced largely to history and culture.
  - Europe is leading in active corporate responsibility reporting



# Dealing with Confusion About Cross-Cultural Dilemmas

---

- ❖ Engaging stakeholders (and sometimes NGOs) in a dialog
- ❖ Establishing principles and procedures for addressing difficult issues such as labor standards for suppliers, environmental reporting, and human rights
- ❖ Adjusting reward systems to reflect the company's commitment to CSR

# General Guidelines for Code of Morality and Ethics in Individual Countries

---

## ❖ Moral Universalism

- ❖ Addressing the need for a moral standard that is accepted by all cultures

## ❖ Ethnocentric Approach

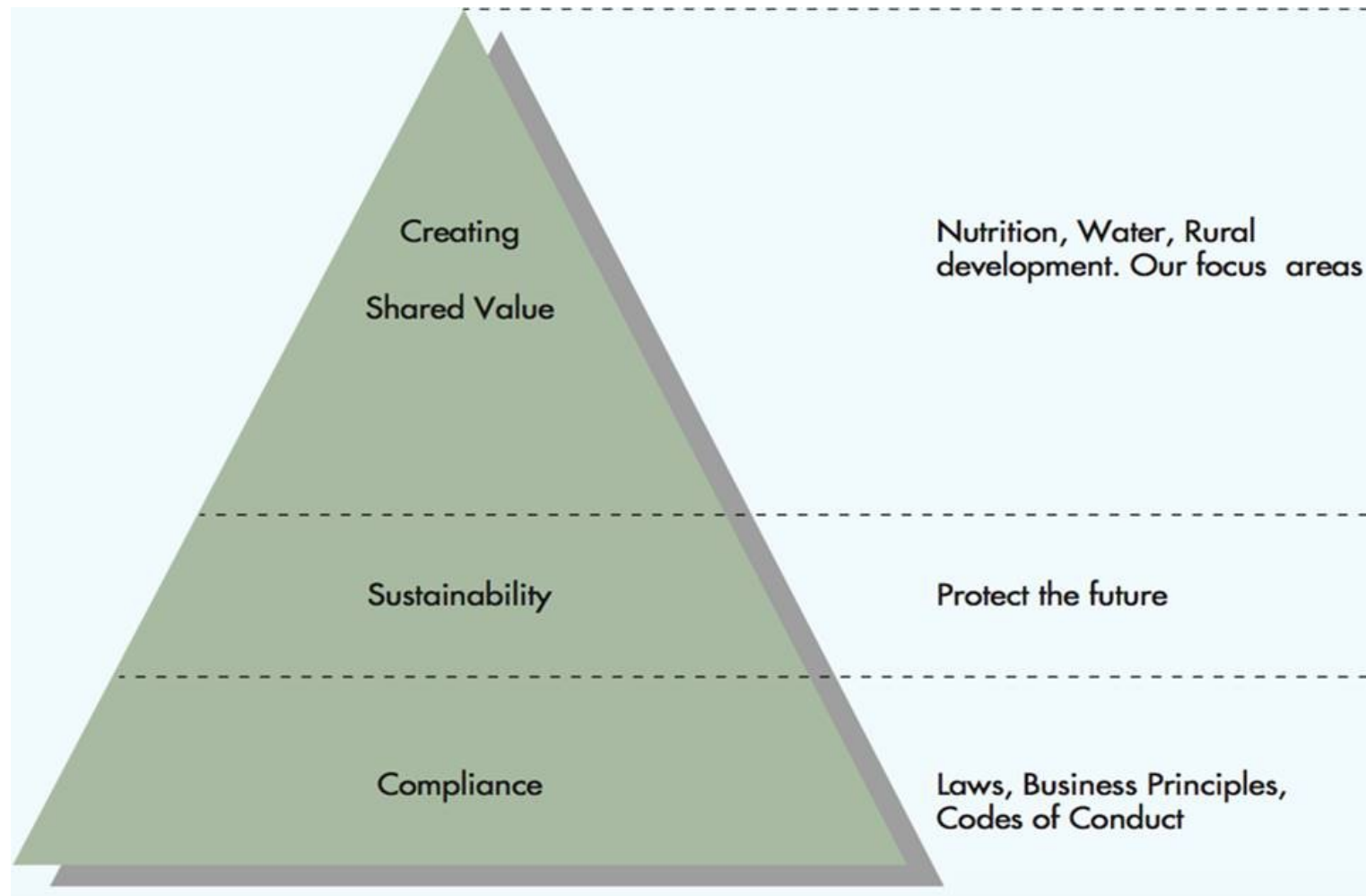
- ❖ Applying the morality used in home country—regardless of the host country's system of ethics

## ❖ Ethical Relativism

- ❖ Adopting the local moral code of whatever country in which a firm is operating

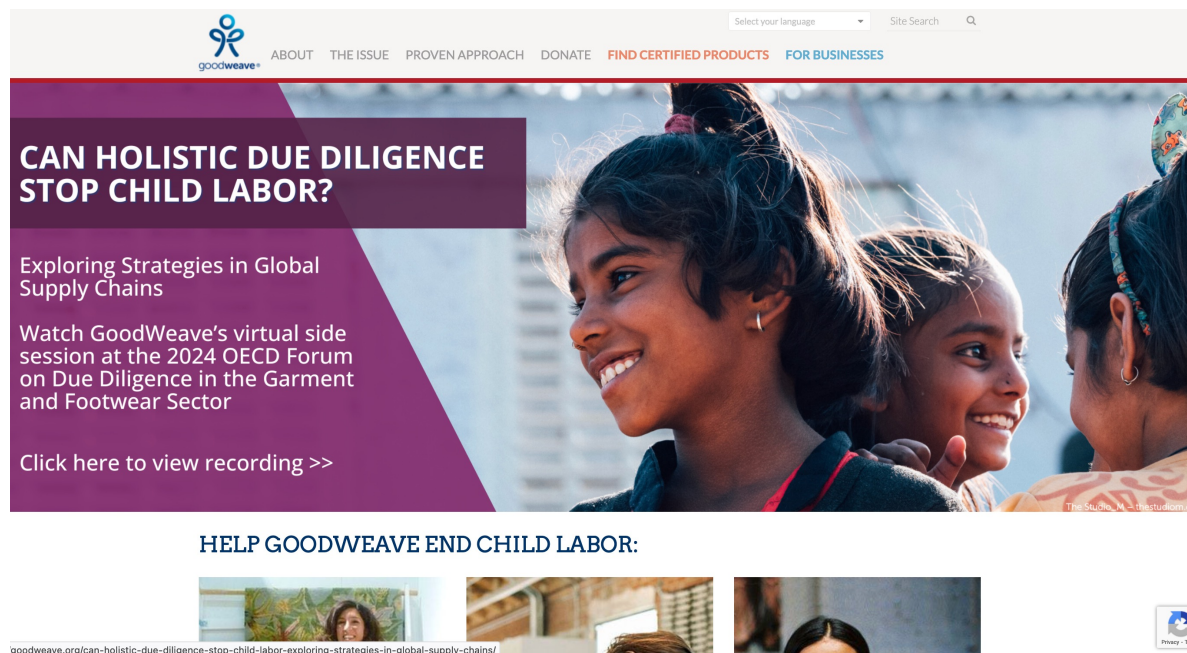
# Under the Lens: Specialty Products, Support and Shared Value are Key to Success: India

## Exhibit Nestlé Creates Shared Value



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

- ❖ [GoodWeave](#) International has been a key player —
- ❖ Setting child labor standards
- ❖ Establishing product certification—no child labor
- ❖ Worker-protection programs



## Learning Objective 2.2



To acknowledge the strategic role that ethics must play in global management and provide guidance to managers to maintain ethical behavior amid the varying standards and practices around the world

# Ethics in Global Management

---

## **International Business Ethics**

Refers to the business conduct or morals of MNCs in their relationships with individuals and entities

Ethics vary based on cultural value system and generally accepted ways of doing business in each country or society

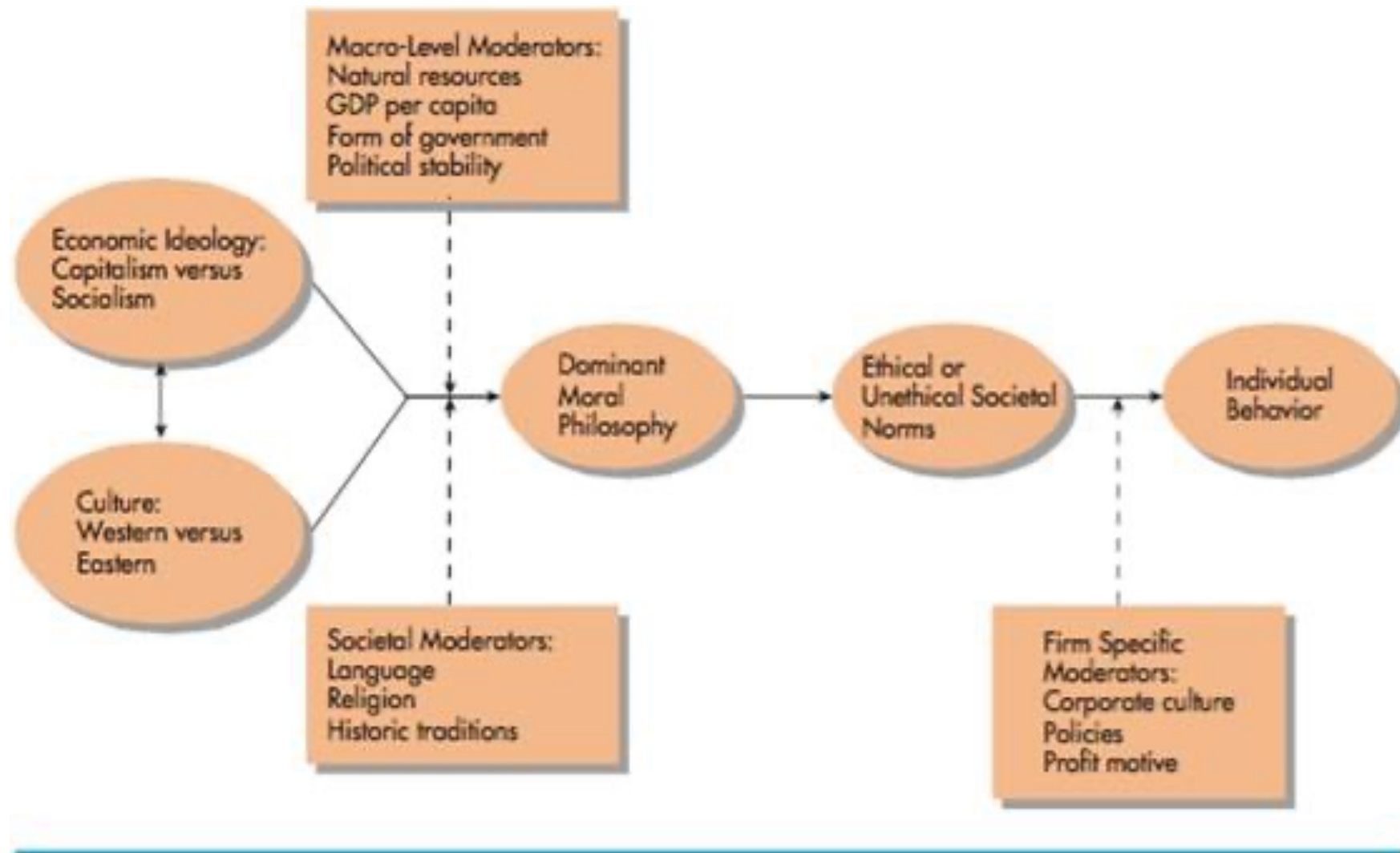
# Comparative Management in Focus: Doing Business in China

- ❖ The attraction of doing business in China:
  - ❖ Cheap labor cost – Up to 2015, but not anymore...
  - ❖ An rising middle-class, and expanding market
  - ❖ A growing economy with growth in higher skilled jobs and services
  
- ❖ Continuing concerns
  - ❖ Geopolitical situation
  - ❖ Challenges in IP protection
  - ❖ Rising cost





# A Moral Philosophy of Cross-Cultural Societal Ethics



# Comparative Management in Focus: Doing Business in China

**FIGURE 2-1** Women in Shoe Factory in China Shoe factory of an unnamed company in China, where women work very long hours. If they finish their lunch early, they may rest at their posts until the lunch time is over.



Source: © Michael Wolf/Redux Pictures

- Quite a few challenges, misunderstandings & mis-perceptions
  - Human rights
  - Freedom of information & expression
  - Western value



International Corporations largely profiting and benefiting from China's labor and consumer market

- Wal-Mart
- Microsoft
- Tesla
- VW + Mercedes + BMW

# International Codes of Conduct

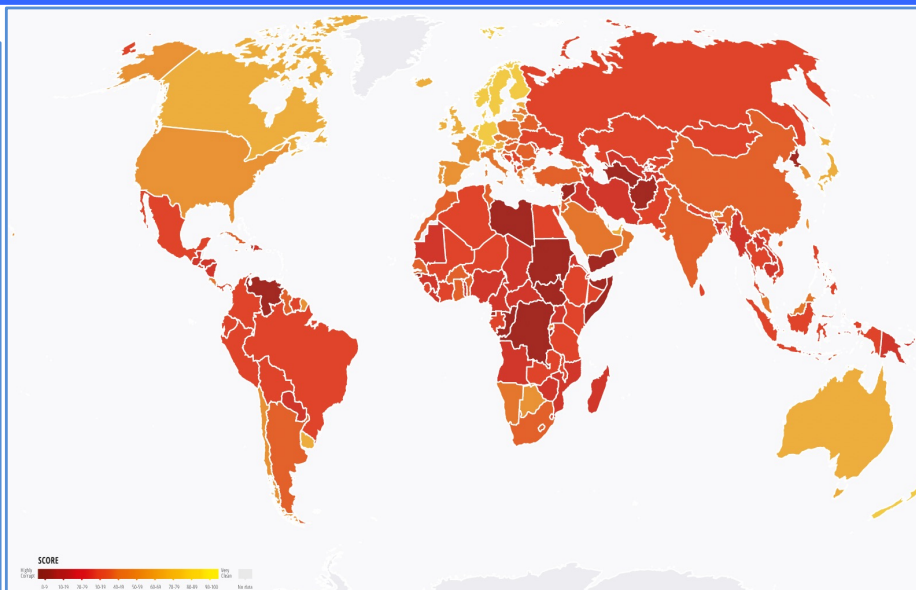
- ❖ The Sweatshop Code of Conduct
- ❖ The Electronic Industry Code of Conduct (EICC)
- ❖ Social Accountability 8000 (SA 8000)





# Global Corruption Barometer Corruption Perception Index (CPI)— Selected Ranks (Transparency International, 2022)

Score		Country	Rank
88	↑	Denmark	1
88	↑	New Zealand	1
85	=	Switzerland	3
85	↓	Finland	3
85	=	Singapore	3
85	=	Sweden	3
84	=	Norway	7
82	=	Netherlands	8
80	=	Germany	9
80	=	Luxembourg	9
77	=	Australia	11
77	=	Canada	11
77	=	United Kingdom	11
77	↑	Hong Kong	11
76	↓	Austria	15



Score		Country	Rank
19	=	Burundi	165
19	=	Congo	165
19	↑	Guinea Bissau	165
19	=	Turkmenistan	165
18	=	Democratic Republic...	170
18	=	Haiti	170
18	↑	Korea, North	170
17	↓	Libya	173
16	=	Equatorial Guinea	174
16	=	Sudan	174
15	↓	Venezuela	176
15	=	Yemen	176
14	↑	Syria	178
12	↑	Somalia	179
12	=	South Sudan	179

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

---

- ❖ SAP, Europe's largest software company is changing its global sales practices
- ❖ Allegations that its South African office paid kickbacks to a company linked with the country's influential family.
- ❖ SAP has begun disciplinary proceedings against employees in South Africa
- ❖ The South African press reported kickbacks of \$7.5m

# To Bribe or NOT to Bribe?

## Questionable Payments

- ❖ Paying mail carriers in Mexico to prevent them from “losing” mail
- ❖ Paying \$100 to get a computer picked up from a rainy dock
- ❖ Gift-giving to bond social ties
- ❖ Payment to officials for getting an operational permit



UEFA President Michel Platini (R) congratulates FIFA President Sepp Blatter after he was re-elected at the 65th FIFA Congress in Zurich, Switzerland, in this file picture taken May 29, 2015. — Reuters pic



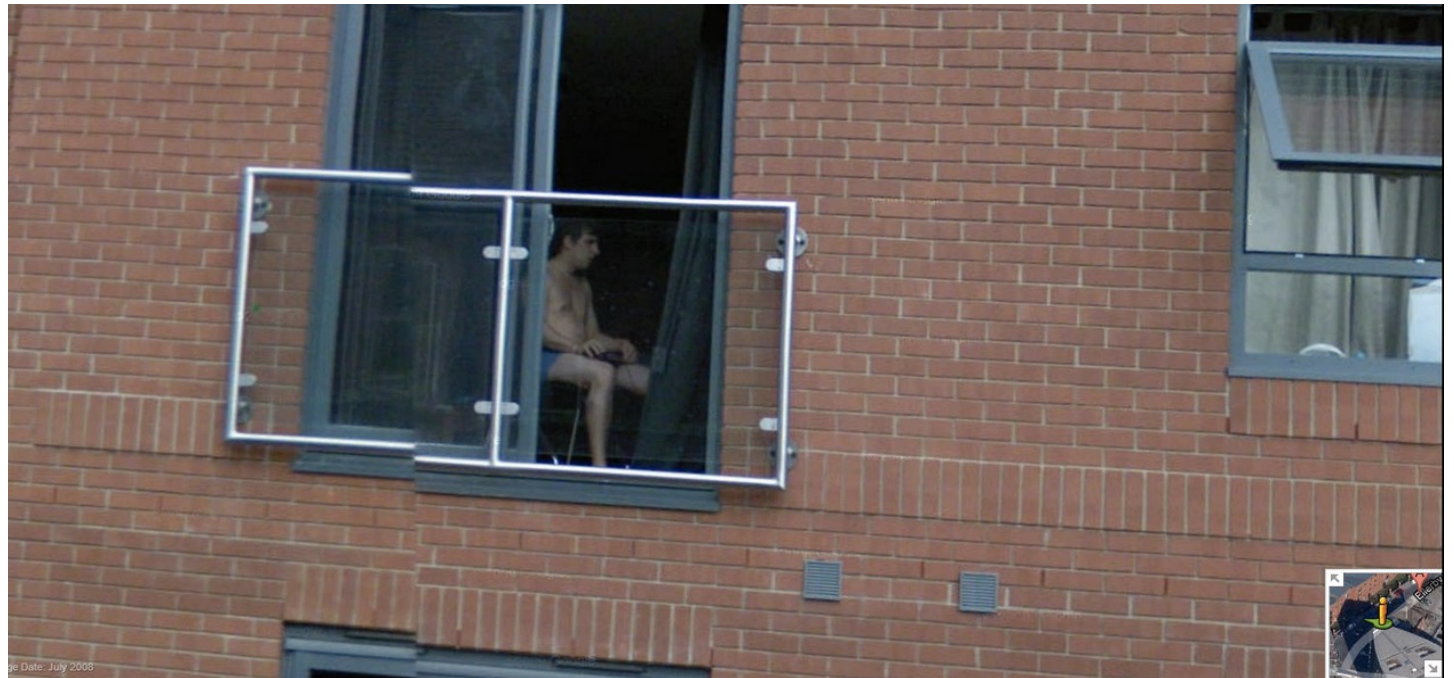
# Managing the Corruption

---

- ❖ Foreign Corrupt Practices Act (FCPA)
- ❖ Organization for Economic Cooperation and Development convention on bribery

# Ethical Challenges in Use of Technology

- ❖ A growing concern among Internet users and companies around the world is cyber security (i.e., protection of private information that has been posted online)
- ❖ Varied expectations about the use of technological devices/programs as they intersect with people's private lives
- ❖ EU Directive on Data Protection (Google mapping service, iPhone location tracking services)





# Three Questions to Test Ethical Corporate Actions

---

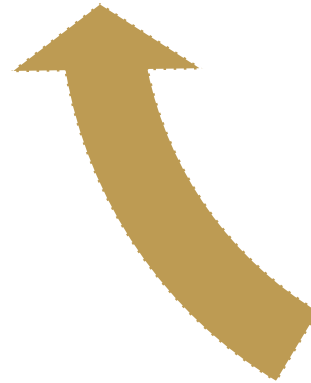
Can it be  
talked  
about?



Is it  
legal?



Does it  
work in  
the long  
run?



# Managing Corruption

---

## At the Corporation Level

- ❖ Corporate Attorney and Legal Offices
- ❖ Develop corporate wide code of conduct

## At the International Level

- ❖ Organization for Economic Cooperation and Development convention on bribery
  - ❖ The organization for Economic Co-operation and Development convention on bribery has been signed by 36 countries. Nonetheless, evidential problems hinder prosecution—unless there is a complaint or whistle blowing.
- ❖ Foreign Corrupt Practices Act (FCPA)
  - ❖ The FCPA was created to help Americans distinguish between harmless practices (e.g., gift giving) and bribery.
  - ❖ The FCPA prohibits illegal payments, or other gifts, or political contributions to foreign government officials for the purposes of influencing them in business transactions. Penalties include severe fines and sometimes imprisonment.

## The Process for Companies to Combat Corruption and to Minimize the Risk of Prosecution

- ❖ Having a global compliance system which shows that employees have understood, and signed off on, the legal obligations regarding bribery and corruption in the countries where they do business
- ❖ Making employees aware of the penalties and ramifications for lone actions, such as criminal sanctions
- ❖ Having a system in place to investigate any foreign agents and overseas partners who will be negotiating contracts
- ❖ Keeping an effective whistle-blowing system in place

# Steps to an Ethical Decision

---

Consult the laws of both the home and the host countries

Consult the International Codes of Conduct for MNEs

Consult the company's code of ethics and established norms

Weigh stakeholders' rights

Follow your own conscience and moral code

# Under the Lens: Volkswagen under the Spotlight

---

- ▼ Three years after the Dieselgate scandal auto companies are manipulating emissions data
- ▼ When Volkswagen was caught cheating on diesel emissions tests, engineers obtained cars from rival manufacturers to conduct tests on their emission
- ▼ Its aim was to show widespread cheating across the industry, so guilt could be spread around and penalties diluted

## Learning Objective 2.3



To recognize the importance of managing interdependence and include sustainability in their long-term plans

# Managing Subsidiary – Host-Country Interdependence

---

Require managers to go beyond issues of CSR to deal with specific concerns of MNC and host- country relationship.

MNCs must learn to accommodate the needs of other organizations and countries.

- ❖ e.g. In Japan, CSR traditionally means taking care of employees. In the US or Germany, it often means sharing responsibility for the community.
  - ❖ One reason for this difference is Western companies get tax deductions for corporate philanthropy/donation. and in Japan or China it is not.
  - ❖ For the Japanese companies operating in the western countries, its lacking philanthropy activities results in bad image or reputation of the brands.

## Common Criticism of MNC Subsidiary Activities (1 of 3)

---

- ❖ MNCs locally raise their needed capital, contributing to a rise in interest rates in host countries.
- ❖ The **majority of the stock of subsidiaries is owned by the parent company**. Host country people have little control over the operations within their borders.
- ❖ MNCs reserve the key managerial and technical positions for expatriates, instead of developing host-country personnel.
- ❖ MNCs **do not adapt technology** to the conditions in host countries.
- ❖ MNCs concentrate research and development activities at home, restricting technology transfer and know-how to host countries.



# Common Criticism of MNC Subsidiary Activities

## (2 of 2)

---

- ❖ MNCs create a demand for luxury goods in host countries that are not meeting the demands for necessities.
- ❖ MNCs start foreign operations by purchasing existing firms, **not by developing new facilities** in host countries.
- ❖ MNCs dominate major industrial sectors, contributing to **inflation**, by stimulating demand for scarce resources and earning excessively high profits and fees.
- ❖ MNCs are not accountable to host nations but only respond to home-country governments; they are not concerned with host-country plans for development.

# Major MNCs Benefits and Costs to Host Countries

Benefits	Costs
<ul style="list-style-type: none"><li>• Access to outside capital</li><li>• Foreign-exchange earnings</li><li>• Access to technology</li><li>• Infrastructure development</li><li>• Creation of new jobs</li><li>• More humane employment standards</li></ul>	<ul style="list-style-type: none"><li>• Competition for capital</li><li>• Increased interest rates</li><li>• Inappropriate technology</li><li>• Development investment exceeds benefits</li><li>• Limited skills development</li><li>• Few managerial jobs for locals</li></ul>

# Managing Subsidiary — Host-Country Interdependence

## The Risks of Interdependence

- ❖ Nationalism
- ❖ Protectionism
- ❖ Governmentalism

## Issues in Managing Environmental Interdependence

- ❖ Coca-Cola in Rajasthan
- ❖ BP in the Gulf of Mexico
- ❖ Export of pesticides
  - ❖ **The United States and Germany** being the main culprits.
  - ❖ The United States exports about 200 million pounds of pesticides each year that are prohibited, restricted, or not registered for use in the United States.
- ❖ Integrating goals of sustainability into strategic planning

Syngenta (CH)	19 %
Bayer Crop Science (D)	17 %
BASF (D)	11 %
Monsanto (USA)	10 %
Dow AgroSciences (USA)	9 %
DuPont (USA)	5 %
Sumitomo Chemical (J)	5 %
Nufarm (AUS)	4,5 %
Makhteshim-Agan Industries (IL)	4,5 %
Arysta LifeScience (J)	3 %
Other companies	10 %

Source: EvB/Forum Umwelt und Entwicklung 2012

Syngenta (CH)	19 %
Bayer Crop Science (D)	17 %
BASF (D)	11 %
Monsanto (USA)	10 %
Dow AgroSciences (USA)	9 %
DuPont (USA)	5 %
Sumitomo Chemical (J)	5 %
Nufarm (AUS)	4,5 %
Makhteshim-Agan Industries (IL)	4,5 %
Arysta LifeScience (J)	3 %
Other companies	10 %

Source: EvB/Forum Umwelt und Entwicklung 2012

## Why BASF, Bayer, and Syngenta?

As in other sectors, the pesticide industry has experienced a far-reaching process of concentration in recent years. Today, only a handful of companies dominate global market activities. In the pesticide sector, three corporations now account for nearly half or about 47% of pesticide turnover on the global market: Syngenta, with 19%; Bayer CropScience at 17%; and BASF, accounting for 11% (see Table 1). All three have their headquarters in Europe.

Each has a worldwide distribution network for marketing their pesticides, enabling them to exert considerable influence on the actual practice of pest management. This influence has increased, not only due to significant corporate growth as a result of acquisitions of industry competitors but also because advice on pest management by independent extension services has decreased sharply. Indeed, in many regions of the world, pesticide dealers – who are interested in selling pesticides – are the sole source of advice on pest management. Corporate influence has also been reinforced because the same corporations sell seeds. Bayer CropScience, for example, controls 3% of the world seed market; Syngenta, which holds first place on the world pesticide market, controls 9% of the global seed market. Moreover, research on plant protection is also increasingly influenced by the same corporations.

Moreover, crop protection research is influenced by these companies, as universities and other research institutions have limited funds to do independent research, thus these companies increasingly determine scientific agendas.

## Recommendations for MNCs Operating in and Doing Business with Developing Countries (1 of 2)

---

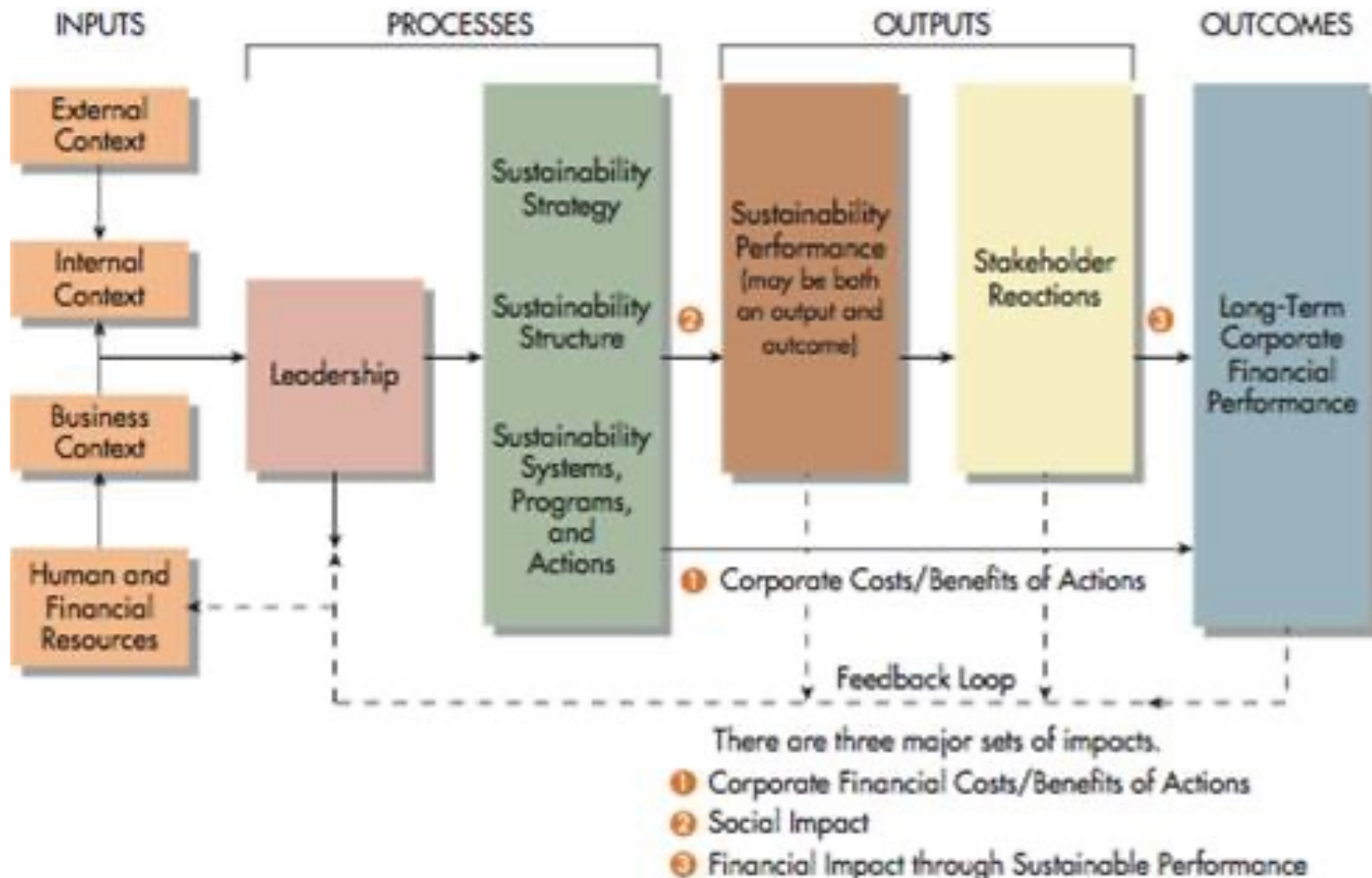
- ❖ Do no intentional harm. This includes respect for the integrity of the ecosystem and consumer safety.
- ❖ Produce more good than harm for the host country.
- ❖ Contribute by their activity to the host country's development.
- ❖ Respect the human rights of their employees.

## Recommendations for MNCs Operating in and Doing Business with Developing Countries (2 of 2)

---

- ❖ To the extent that local culture does not violate ethical norms, respect the local culture and work with and not against it.
- ❖ Pay their fair share of taxes.
- ❖ Cooperate with the local government in developing and enforcing just background institutions.

# Corporate Sustainability Model



## Conclusion (more than obvious...

---

- When research findings and corporate actions indicate **differential attitudes** toward ethical behavior and social responsibility across cultures
  - Social responsibility, ethical behavior, interdependence, and sustainability are important concerns to be built into management control
  - Social responsibility is part of the ongoing process of planning and controlling international operations for the long-term benefit of all
- ... but not obviously done by the management!)