

International Business Management

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Lecture 2

MGM 506

Socio-Ethical Issues and International Management



جامعة الجميع الذكية
EVERYONE'S SMART UNIVERSITY

Learning Objectives

- **The special concerns of developing countries**
- **The ecological aspects of international business**
- **Problems of corruption and bribery and their effect on international management**
- **The problems of expanding free trade**

Corruption, bribery, and the demand for large illegal payoffs are not uncommon in the international marketplace. While some cases of misdeeds receive wide publicity, many others go unnoticed.

Besides grand briberies, there is widespread petty corruption perpetuated by the functionaries at the lower levels of many government institutions.



With the rising volume of international trade and increased interdependencies among nations, corruption and bribery are but two of the many sociotechnical issues that international managers have to deal with.

Additionally, international managers are faced with many ecological problems stemming from worldwide industrial activities that threaten life on Earth.

Social Responsibilities of MNCs:

The term corporate social responsibility(CSR) refers to the obligations of business organizations toward society.

Society allows organizations to operate within certain parameters. These parameters are defined by society and, therefore, may vary across nations.

The variations, however, are typically not in substance but in procedures.

Social Responsibilities of MNCs:

Business is expected to operate in a manner consistent with society's interests. This is true for all nations and all businesses; MNCs are no exceptions.

In the United States, while some believe that the social responsibility of business is limited to the economic sphere, the majority accept that business has noneconomic obligations as well.



Although the domain of corporate social responsibility is not very well-defined, there are certain areas of agreement. For instance, in addition to providing employment for people and goods and services to consumers, business is expected to help preserve the environment, sell safe products, treat its employees equitably, and be truthful with its customers. In some cases, business is also expected to train the hardcore unemployed, contribute to education and the arts, and help revitalize urban slum areas.



The Stakeholder Perspective:

One way of analyzing MNC social responsibility is the stakeholder approach. Similar to a domestic firm, an MNC has stakeholders, whose prosperity and fortune are directly tied to the operation of the company. Actions taken by the company will have a direct impact on its stakeholders. The major stakeholders of a typical firm are stockholders, customers, suppliers, creditors, employees, the community within which the firm exists and from which it draws its inputs, and the general public.



The firm, be it domestic or international, is answerable to its stakeholders. Each stakeholder expects, and often demands, that the firm satisfies its claim in a responsible manner. Stockholders want higher returns on their investment in the firm. Customers want good-quality products that are worth their money. Suppliers depend on the firm for their continued operation and are interested in a dependable business partner. Creditors want the firm to safeguard their capital with sound business practices.

Employees want jobs that are economically and psychologically rewarding and secure. The local community expects the firm to act as a good neighbor and to be a responsible member of the community through its participation and contributions to various civic causes and activities. The general public is interested in the firm's continuous contributions to society as a whole and in its assumption of a fair share of the burden of government and society. The general public also wants the firm to safeguard the ecosystem through environ-mentally safe business practices.

- **NGOs expect that MNCs will safeguard the natural environment, act with integrity, be fair to all with whom they deal, help poor countries, respect human rights, apply the same standards of conduct used at home to all other countries, and contribute to the economic development of the host countries. Host governments' demands include increased employment and advancement for locals, a fair share of taxes, transfer of technology, obeying of local laws and respect for local customs and culture, fair competition with local firms, and negotiation of equitable business agreements. Often, these claims are in conflict with one another. Satisfying one claim has an impact on others.**



- **Ensuring that MNCs fulfill their social responsibility to the world community requires guidelines or a code of conduct, and it also requires some form of regulating and monitoring. Today, there exist no comprehensive guidelines governing the behavior of MNCs, and there is no global institution for monitoring them. Given the complexity of issues involved, it is doubtful that either will be developed soon. The monitoring aspect represents a less pressing problem.**



- **At present, national governments are doing this job. However, while developed countries are well equipped to monitor and force compliance, developing countries do not have the infrastructure to do so. In the absence of comprehensive guidelines, there are several institutions, both private and governmental, that have assumed a limited role in dealing with the conduct of MNCs**

- Among the institutions that have assumed leadership in promoting ethical conduct and establishing codes and guidelines are the International Chamber of Commerce (ICC),
- the Organization for Economic Cooperation and Development (OECD), the International Labor Organization (ILO), and the UN Commission on Transnational Corporations

- **The major areas that these codes cover are the relationship between national governments, the public, and the MNCs, environmental protection, consumer protection, employment practices, and human rights.**
- **MNCs are morally bound to recognize these codes and consider them in their international activities. The incentive to do so is both moral and economic**



- **De George has suggested that MNCs should act with integrity in their dealings with the people of the world (Table 2.2). Acting with integrity necessitates taking six step**

- **First, MNCs should act in accord with their own self-imposed values. This cannot be less than an ethical minimum but may well exceed it**
- **Second, in addition to satisfying the basic moral norms applicable everywhere, other equally obvious moral rules should be upheld**
- **Third, the firm should enter into business agreements by building on these rules**
- **Fourth, because developing countries are poor in background institutions (e.g., labor unions), MNCs have special obligations toward them**

- **Fifth, the firm should consider the ethical dimensions of its actions, projects, and plans before acting, not afterward.**

This means that the ethical dimensions should be an integral part of strategic planning

- **Sixth, each person should be given his or her due**

- In general, these six suggestions to MNCs are applicable to all nations regardless of whether they are developing or developed countries. However, the pressures and expectations of social responsibility of MNCs have escalated, particularly when they operate in developing countries. This is because developing countries are poor in background institutions (e.g., infrastructure, labor laws, and environmental regulations), and MNCs are increasingly expected to fill in this

- To deal with the special case of developing countries, De George suggests seven guidelines. These rules are not supposed to form an exhaustive list. Other rules could be added to them. The rules provide the basis for conducting business with developing countries, which do not have the infrastructure, institutions, and resources matching those of the MNCs. When operating in, and doing business with, developing countries, the MNCs should consider these guidelines:

- **By following these rules, an MNC sets a high moral standard and provides a sound basis for mutually beneficial business relationships. Ignoring them negatively affects the MNC for many years. As an example, let us apply these rules to extractive industries in developing countries. Critics have accused the MNCs of past and some present exploitation of developing countries. The charges are that the MNCs extract minerals at low costs, pay very low prices, and ship them abroad, where they are sold at handsome profits. Frequently, these raw materials are processed into products that are sold back to developing countries at inflated prices**



- **In this way, these countries are exploited twice: once when their natural resources are bought for a pittance and the second time when the products made from them are sold back to them at higher prices than those in developed countries, where competition is greater. When applied to extractive industries in developing countries, for example, the first rule obligates the MNCs to use environmentally safe extractive methods that would preserve the natural habitats and not harm the ecosystem. In negotiations for exploration and mining rights, the MNCs should not take advantage of the lack of administrative capability in developing countries**



Major social and ethical issues arising from the operations of MNCs

- **Ecological impact of industrial operations**
- Deforestation
- Desertification
- Pollution Poverty resulting from environmental degradation
- **The use of global commons**
- The oceans
- Outer space
- Antarctica



- **Bribery and corruption**
- White-mail bribe
- Lubrication bribe
- **The issue of free trade**

- **Ecological Concerns** The most pressing and thorny international management problem is the ecological impact of industrialization around the globe. All modern industries affect the environment to some degree. For generations, industrialization has taken place without much concern for its environmental consequences. Industrialization can be viewed as occurring in two waves. The first wave of industrialization concerned itself only with economic development.



- **The developed countries of today, the first group of nations to industrialize, either were not completely aware of the negative impact of industrialization on the environment or considered the impact so negligible that they were not much worried about the consequences. Either way, the course of industrialization continued unabated with minimum concern for the environment. But after decades of industrialization and economic development, the resulting adverse environmental impact is very much evident**



- **Human activities are radically disturbing the symbiotic relationship between the atmosphere, soil, water, plants, and animals. Desertification, deforestation, pollution, and the poverty associated with environmental degradation are posing life-threatening problems to developing countries.**
- **The disappearance of rainforests in the tropics, the loss of plant and animal species, and changes in rainfall patterns are disasters for the entire human race and for life on Earth.**



- **Increase in toxic chemicals, toxic wastes, and acidification is creating life-threatening challenges to industrial nations. Regardless of the level of economic development and geographical location, all nations suffer from the release of carbon dioxide and other gases into the atmosphere due to industrialization.**
- **These fumes react with the ozone layer and may produce irreversible damage to the ecosystem**



- **The Use of Global Commons** Developing countries have long complained about their relationship with developed countries. They assert that the relationship is more favorable to developed countries. They feel that rich nations are taking advantage of their lack of technological sophistication. Developing countries claim that not only are their natural resources being exploited to the benefit of industrialized countries, but also the “global commons” are exploited disproportionately by the MNCs from rich nations.



- **The global commons most in contention are the oceans, outer space, and Antarctica. At present, the ability to exploit these resources is limited to the MNCs from developed countries.**
- **As more nations industrialize and develop technological capabilities, the rate of exploitation will increase. The consequences of unrestricted exploitation of these resources can be disastrous**

- **The Oceans** In the Earth's wheel of life, the oceans provide the balance ... they play a critical role in maintaining its life-support systems, in moderating its climate, and in sustaining animals and plants.... The oceans also provide the ultimate sink for the by-products of human activities. Huge closed septic tanks, they receive wastes from cities, farms, and industries. Without an international ecosystem approach to protecting the oceans from excessive exploitation, contamination and abuse may endanger life as we know it on Earth



- **Outer Space.** Telecommunication and the use of space are other areas of contention between the rich and poor countries. As new technologies are developed, international management will have to deal with additional difficulties. Radio frequencies and space are becoming crowded. Every day, a new satellite is launched into space to orbit the Earth.
- These satellites are used for various purposes, from weather forecasting to crop estimation to telecommunication. In particular, the geostationary



Bribery and Corruption Often, in the course of doing business and carrying out normal daily transactions abroad, there is no escaping from encounters with briberies and corruption.

Bribery and corruption are commonplace when doing business in many places. No geographic location or country has a hold on corruption



- Besides its harmful effect on the moral fabric of society, corruption has economical costs. The bribes that bureaucrats receive to approve licenses inflate business costs. Tax officials who take bribes and allow incomes to go unreported deprive the national treasuries of significant revenues. Bribery is also responsible for depressed investment and economic growth. The real cost of corruption must also include the loss of confidence in the system and the stifling of entrepreneurial initiatives. The cost of bribes and illegal payments



- **There are two types of bribes: the white mail bribe and the lubrication bribe or “speed money.” The lubrication bribe is paid to facilitate the process of normal bureaucratic functioning, such as the processing of a visa, clearing of import papers, and issuing of a driver’s license. It does not involve any act that is not allowed by law. It is facilitation money and is given in situations where delay could disrupt normal business functions and, therefore, be costly. The lubrication bribe has been almost institutionalized in some developing countries.**



- **While lubrication money is paid to low-level bureaucrats, the white mail bribe is elicited by high-level government officials. There are also other differences between the two types of bribes. The differences are in the method, the amount of payment, and the outcome. Lubrication money is a relatively small amount, and transactions take place directly between the client and the functionary for the purpose of starting the bureaucratic wheel rolling. Except for the payment, it involves no illegal act.**



- **The white mail bribe involves large amounts of money and generally includes an elaborate system for concealing it. The recipients of white mail are high-level government officials, and often, it involves illegal transactions.**
- **Because of their illegality, the MNCs making these payments hide them with false accounting, fictitious bookkeeping entries, and bogus documentation**

- **The Issue of Free Trade.** The premise of expanding international trade is that all participants will benefit from it. To increase international trade, we have to remove the barriers to free trade. To begin to do this, bilateral and multilateral trade agreements have been established. The most important multilateral trade agreements take place under the auspices of the WTO.

- **These agreements are aimed at reducing tariff and nontariff trade barriers. Free trade and open markets have consequences for domestic industries. Foreign competition forces inefficient domestic businesses out of the market and out of being**

Resources:

Kamal Fatehi & Jeongho Choi

International Business Management

Succeeding in a Culturally Diverse World, Second Edition

Chapter 2