Cross-cultural Study of Multinational Companies' Policy Positions on International Business Ethics

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Abstract

There has been increased focus on the way companies deal with ethical issues in international business operations. Cultural differences play critical roles in dictating the firms' strategic orientations, shaping their organizational mentality and determining the policies and procedures to manage the overseas operations. The purpose of this study is to investigate how firms with overseas facilities deal with issues related to international business ethics. Specifically, issues such as whether or not there are certain set criteria of socially responsible practices in managing the overseas operations, and the discrepancies between their practices in the home country and host country facilities, are examined in this study. Cross-cultural data are collected from stratified random samples of US subsidiaries in Taiwan and Taiwanese companies with DFIs in foreign locations. A series of measurements is developed to assess the management's attitude toward ethical practices in the international operations. The companies' positions in setting certain standards with respect to policies on issues related to host nations' labor and environments are also examined. A comparative analysis of the two groups of MNCs reveals that US companies are more inclined to choose an integrity strategy over the compliance strategy.

Introduction

Cases and teachings entailing ethical conducts of profit-oriented organizations have always stirred up controversial debate in class discussions. Traditionally, corporate policies were designed to safeguard the company's lawful interests in the host country environment. The priority is to do what is legally right. Such "compliance approach [Paine 1994]" may still be followed by a large number of businesses to this date. However, adherence only to the laws aims at the lower boundary of the acceptable behaviors, and may lead to serious repercussions when ignorance results in unforeseeable damages. Nestle's baby infant formula incident, Nike's worker abuse, and the lawsuit against brought against Texaco by the Ecuadorians, are representations of legally sound strategies gone awry.

Paine [1994] proposes a far more effective "integrity approach" to switch from "conformity with externally imposed standards" to "self-governance according to chosen standards". Recent studies [Gaither 1999] have also offered concrete evidence that being socially responsible is good for business because it leads to increased productivity and profits. In some cases, "self interest" has become the best motivating factor when companies begin to develop policies and procedures to address issues related to employee well being and firms' social responsibilities. Such changes, though evident in the developed countries, are still slowly evolving elsewhere. In addition, large multinational companies from industrialized nations operate in many different markets around the world; their strategic capabilities on efficiency and flexibility also allow

them to exploit the less developed legal infrastructure and consumers' awareness in certain locations. On the other hand, many rising companies from developing countries have also been expanding internationally. It is not clear if and how these companies adjust their practices to the different standards when they set up DFIs (Direct Foreign investments) in locations with more rigorous requirements.

Culture and Ethics

Another element worth noting is the cultural impact on policy decisions involving ethically related issues. Many studies [Donaldson 1989, Rest 1986, Robertson1995, Robertson/Hoffman/Herrmann 1999, Vitell et al 1993, Wines/Napier 1992] have analyzed the impact of national culture on ethical decision making. But limited empirical findings and the shortage of studies [Robertson 1993] on cross-national research of business ethics remain to be major concerns. One of Hofetede's [1984] four cultural dimensions, individualism / collectivism, has been investigated and supported by several studies. According to Hofstede, people from individualist cultures are primarily concerned with the pursuit of their own interests while collectivist cultures emphasize group values. Some researchers extend from this premise to hypothesize that individualist societies are less ethical, and their research findings also support such contention [Robertson 1999]. When corporations of the individualistic cultures contribute to the social causes such as environmental cleanups, community improvements, educational or drug programs, it is regarded as false altruism. Their seemingly altruistic efforts are believed to be just public relations ploys or directly self-serving projects [Mander 1992]. But a socially beneficial act of an integrity strategy motivated by self-interest can be at least more effective than the compliance strategy; hence more ethical. If self-interest is a motivating factor for businesses from the individualistic cultures, maybe the argument that people of individualistic cultures are less ethical then those of collectivist cultures need to be re-evaluated.

This study does not attempt to make a statement on which and what national cultures are more or less ethical. Instead, the purpose is to investigate what standards companies choose to follow in dealing with specific issues when they operate in the overseas market. Do they follow the local standards, domestic standards, or the best practice in the policy decision making on wage rates, employee benefits and health insurance, safety, and control of the environmental pollution. Two groups of companies from Hofstede's individualistic and collectivist cultures are investigated to see if differences exist between their attitudes and policy directions.

Methodology

The study was conducted in Taiwan based on stratified samples of US subsidiaries in Taiwan, and Taiwanese firms with DFIs in the overseas locations. Hofstede's [1984] study indicates that people from the US score very high in individualism, while those from Taiwan score very low – in fact, lower than the Japanese who are known for their collectivism. Contrasting of these two groups may reveal the difference, if any, between their attitudes and polices on international business ethics.

Questionnaires were mailed to the executive's office of two hundred randomly selected companies. The respondent was asked if the company has developed code of conduct, standards, or policies to ensure ethical and moral business practices. The first part of the questionnaire included inquires on firm's choice of local standards, domestic (home country) standards, or best practice on setting polices related to wage rates, benefits, health insurance coverage, safety and environmental protection in the host countries' facilities.

A series of measurements on 5-point Likert scale were used to investigate management's attitude towards compliance and integrity strategies. The responding firm was asked how important the company believed in

doing what is "legally right" and "what is right". The other questions include: whether or not a company should try to make this a better world other than just maximizing its profits, how much of management's concerns for ethical business practices can be attributed to the motive of self-interest, is emphasis on ethical issues counter-productive, and if the company takes a long term perspective in make such decisions.

The last part of the questionnaire covered items related to company characteristics such as the type of industry, size, number of foreign markets with subsidiaries or production facilities, how many years it had been operating in the international markets, and the percentage of the overseas sales.

Data Analysis

The overall sample size after discarding unusable surveys was 43, with 26 Taiwan and 17 US companies. Among the US respondents, 16 (94%) had developed codes of conduct, polices and standards for their international operations, whereas only 12 (46%) of the Taiwanese respondents had done so. The overall correlation analysis reveals several statistically significant relationships between the variables of "code/policy" and "doing what is morally right (.007)", " business is more than profit maximization (.003)", "long term perspective (.025). The implication is that those firms with strong commitment to the integrity approach tend to have developed codes of conduct, policies and standards to manage their international business decisions on ethically related issues. Analysis on the variables of company characteristics produced mixed results. The type of industry and size of the firm showed no significance. But Table 1 shows that variable "code" and "number of foreign subsidiaries", "years of international operations" are positively correlated; meaning that as companies become more internationalized, they are more likely to develop codes, polices and standards on international business ethics. According to Table 1, "health insurance" and "% of overseas sales" are positively correlated; indicating that as the importance of the firm's international markets goes up, management will be more concerned about the local employees' well being. The positive correlation between "environmental control" and "years of international operations" hints the move of a more experienced international business toward the integrity approach on environmentally related issues.

Table 1 Company Characteristics and Decisions on Overseas Facilities (Statistical Significance of the Correlation Analysis

	No. of Foreign Subsidiaries	Years of International Operations	% of Overseas Sales
Health Insurance	NS	NS	.024
Environmental Control	NS	.029	NS
Code on Ethical Conduct	.009	.007	NS

Variables "self-interest" and "doing what is morally right (.017)", "more than profit maximization (.017)" are also significantly correlated. This may have a profound implication that businesses from individualistic cultures making morally sound decisions stemmed from self-interest are not any less ethical than those from the collectivist cultures. National cultural difference, however, remains to be the most important factor in this study. The variable "nation" is significantly correlated with variables "health insurance

(.009)", "safety (.004)", "environmental control (.022)", "defining ethics (.040)", "code (.000), "doing what is right (.051)", and " emphasis on ethics is counterproductive (.009)". The following cross-tabulations detail the differences between the two groups of decision-makers.

Compliance vs. Integrity Strategy

The distributions of the responses on decisions regarding the host national labor and environment indicate that the majority of the responding firms opted for the local standards on issues related to wage, benefits and health insurance. But when it comes to work safety and impact on the local environment, the numbers of those choosing local standards and best practices are almost equal. Since the percentages of those chose domestic standards are very small, and it is not clear whether domestic standards are higher or lower than local standards in some cases, Table 2 only exhibits the percentage distributions on local standards (compliance strategy) and best practices (integrity strategy). It should be noted that even when a company from less developed country adopt the more rigorous standards in the host country, it is still following a compliance strategy. The stipulation of "best practices" in a firm's well developed code of conduct is the manifestation of an integrity strategy which transcends both local and domestic standards.

Table 2 Compliance Strategy vs. Integrity Strategy

	Local Standards (Compliance)	Best Practices (Integrity)
Wage	76.7%	18.6%
Benefits	69.8%	27.9%
Health Insurance	74.4%	18.6%
Safety	41.9%	44.2%
Environment	44.2%	44.2%

A closer look at the cross-tabulation in Table 3 shows higher percentages of companies with developed code/policy/standards adopting integrity strategy on decisions related to health insurance, safety, and the environment. But the differences between companies with and without code/policy/standards are negligible on wage and benefits. One of the necessary conditions for multinational companies to invest in the overseas markets is the locally specific advantages offered by the host country such as lower labor cost, market access, or investment incentives. Paying host national employees locally prevailing wages and benefits is not considered exploitative even for businesses with the best intent. The other three aspects of health insurance, safety and environment, however, are covered by higher standards.

Table 3 Compliance vs. Integrity Strategy with or without Established Code of Conduct, Policy and Standards

	With Code		Without Code	
	Local Standards (Compliance)	Best Practices (Integrity)	Local Standards (Compliance)	Best Practices (Integrity)
Wage	79%	18%	73%	20%
Benefits	71%	25%	66%	33%
Health	64%	25%	93%	7%
Safety	35%	50%	53%	33%
Environment	43%	46%	47%	40%

The most striking differences are found between the two cultures. Table 4 exhibits much higher percentages of the Taiwan firms following the compliance strategy, whereas the percentages of US companies choosing the integrity strategy are higher in almost every decision area. The following analysis on the attitudinal measures may help understand the underlying rationales of business from these two different national cultures.

Table 4 Compliance vs. Integrity Strategy of the US and Taiwan Firms

	Taiwan		US	
	Local Standards (Compliance)	Best Practices (Integrity)	Local Standards (Compliance)	Best Practices (Integrity)
Wage	87%	11%	65%	29%
Benefits	67%	27%	70%	30%
Health	88%	8%	53%	35%
Safety	58%	31%	18%	65%
Environment	58%	35%	23%	59%

Doing What is Morally Right

The means of the attitudinal measures from the US respondents are all higher than those from the Taiwan firms, except " ethics is difficult to define in international business operations " and "too much emphasis on ethics can be counterproductive", making US firms more ethically inclined than their Taiwan counterparts. Three of the independent sample t-tests between the US and Taiwan firms are statistically significantly: "ethics is difficult to define in international operations (.040)", "it is important to follow the principle of

doing what is right (.05)", and "too much emphasis on ethics can be counterproductive (.009)" Both of the two groups believe very strongly in "doing what is legally right". This still puts US firms more on the end of the integrity approach, since the belief on "doing what is right" supercedes "doing what is legally right".

The independent sample t-tests between the groups with and without code/policy/standards produce two significant results. Those without codes of conduct have difficulty defining ethics in international business operations (.042), and those have developed codes feel more strongly in doing what is morally right (.031)

Conclusion

The study has potential no-response error due to the low rate of response. The responded companies are likely to be either better informed about the subject matter or have established certain programs, policies and procedures on international business ethics. More than 90% of the US firms in the sample have developed specific codes and policies, and therefore are more likely have moved from the conventional compliance strategy to the integrity strategy.

It is also clear that business from the individualistic cultures are not necessarily less ethical. Prompted by self-interest, corporations will develop specific codes and guidelines to ensure better international business practices. In addition, the degree of internationalization and the importance of international markets may have played important roles. Although national differences are obvious, they also include impacts other than just the cultural difference between individualism and collectivism. As firms become more seasoned players in the global marketplace, such as most of the US multinational corporations studied in this research, they have also learned to be more responsible internationally.

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