Block 5

Emerging Issues in International Business

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BLOCK 5: EMERGING ISSUES IN INTERNATIONAL BUSINESS

The fifth block to the course on International Business discusses implementation and control in international business, emerging issues in international business, and ethics in international business. The block contains three units. The first unit explains how firms implement and control their international operations. The second unit deals with emerging issues in international business such as the use of Internet and e-commerce. The third unit discusses ethics in international business.

The first unit, *Implementation and Control in International Business* discusses how firms implement their international operations in international business. The unit discusses which functions in international business require centralized or decentralized decision making. The factors affecting decision making determined by a multinational enterprise are also discussed. The dimensions incorporated by firms adopting networked global organizations are also discussed. The unit also emphasizes on the control systems that are used by firms to verify whether their actions are in accord with their established plans. The unit discussed different types of controls used by firms in international business.

The second unit, *Global Internet and E-Commerce* discusses the factors of e-readiness. It discusses the impact of e-commerce in international business. The unit finally discusses the challenges faced by global e-commerce.

The third unit, *Ethics in International Business* discusses the different ethical issues in the context of international business. It goes on to explaining the ethical dilemmas confronted by managers. It then explains the roots of unethical behavior. It also deals with the different philosophical approaches to business ethics. The unit finally discusses the ways to carry out ethical decision making.

Unit 15

Implementation and Control in International Business

Structure

15.1 Introduction
15.2 Objectives
15.3 Implementation of International Operations
15.4 Controlling International Operations
15.5 Summary
15.6 Glossary
15.7 Self-Assessment Test
15.8 Suggested Readings/Reference Material
15.9 Answers to Check Your Progress Questions

"Truly successful decision making relies on a balance between deliberate and instinctive thinking"

- Malcolm Gladwell

15.1 Introduction

The previous block gave an overview of the different functional areas in the context of international business. It dealt with the global research and development, global human resource management, global marketing and supply chain, accounting in international business, and financial management in international business.

As firms evolve from purely domestic to multinational, their control systems should change in order to reflect new strategies. The type and degree of control exercised from headquarters maximizes the effort in an organization.

This unit will discuss how firms implement and control their international operations in international business.

15.2 Objectives

By the end of this unit, you should be able to:

- Explain how firms implement their international operations.
- Discuss how firms control their international operations.

15.3 Implementation of International Operations

Though organization structures provide frameworks for decision making, they neither indicate where the authority of decision making and control rests within an organization nor do they reveal the level of coordination between units.

15.3.1 The Locus of Decision Making

If the subsidiaries have a high degree of autonomy, the system is called decentralization. In such systems, controls are simple and loose, and each subsidiary operates as a profit center. On the other hand, if subsidiaries have tight controls and strategic decision making is concentrated at headquarters, the system is called as centralization. Typically, firms are neither completely centralized nor decentralized. For instance, some functions of the firm such as finance require centralized decision making while others such as promoting a product requires decentralized decision making. Research and development (R&D) in organizations is usually centralized. Sometimes due to pressure from the government, some firms have added R&D function on a regional or local basis. However, in many instances, the variations are product and market based. For instance, Corning Incorporated's TV tube marketing strategy requires local decision making for service and delivery and global decision making for pricing.

Example

As per a report in Beverage digest dated 15th February 2019, the international soft drink giant PepsiCo has reorganized its North America Beverages Operation with new regional Structure to infuse flexibility Speed, Alignment, customer satisfaction, strategic decision etc. The reorganized set up will be called PepsiCo Beverages North America. The company has announced the significant restructuring of its U.S operations to boost its performance in all areas such as operations, finance and strategy. PepsiCo has been restructured its operations to provide a high degree of autonomy to its divisional unit where all the strategic decisions are taken and executed by its regional unit

Source: ICFAI Research Center

The key advantage of allowing maximum flexibility at the country-market level is that subsidiary management is aware of its market and can rapidly react to the changes. Problems associated with acceptance and motivation is avoidable when decision makers are also responsible for implementation of strategy. However, many multinationals facing global competitive threats and opportunities adopt global strategy formulation, which needs a high degree of centralization. As a result, what emerges can be called as coordinated decentralization, which means that the headquarters provide the overall corporate strategy while the subsidiaries are free to implement it within the range agreed on in consultation with the headquarters and the subsidiaries.

Example

Indiancompanies.in dated 22nd May 2021 has reported that Tata Motors, a leading global automobile manufacturer is a part of the Tata group has many subsidiaries namely Tata Daewoo Jaguar Land Rover, Tata Technologies,

Contd…

Tata Hispano, Tata Hitachi Construction Machinery and Tata Passenger Electric Mobility, etc. As a policy decision, the parent company considers every subsidiary to operate as a profit center and their management high degree of autonomy in managing the subsidiary. However, there are certain situations when the subsidiaries need decision-making support from the headquarters.

Here, 'To face global competitive threats and opportunities' is the situation apt where the subsidiaries need decision-making support from the headquarters, in the case of Tata subsidiaries, centralized decision making in such situations will be helpful.

Source: ICFAI Research Center

Firms moving in this mode may face significant challenges. Some of the difficulties could be lack of widespread commitment to dismantling traditional national structures, driven by poor understanding of the global forces at work. Barriers to power from perceived threats to the personal roles of national managers may challenge the proposals without any valid reasons. Finally, some organizational initiatives such as corporate chat rooms or multicultural teams may be jeopardized by the fact that people may lack the necessary skills (e.g. language) or that an infrastructure (e.g. intranet) may not exist in a suitable format.

15.3.2 Factors Affecting Decision Making

The locus of decision making in a multinational enterprise (MNE) can be determined by several factors such as its degree of involvement in international operations, the product marketed by the firm, the size and importance of the firm's market, and the human resource capability of a firm.

Low degrees of involvement give high degree of autonomy to the subsidiaries as long as they meet their profit targets.

The country of origin of a firm and the political history of the area can influence decision making.

The variety and type of products marketed affect the organizational decisions. Typically, companies marketing consumer products have product organizations with high degrees of decentralization, allowing for maximum local flexibility. However, companies marketing technologically sophisticated products such as General Electric which markets turbines – have centralized organizations with product responsibilities worldwide.

Example

As per an article in ivypanda.com dated 23rd September 2019, the electronic giant Samsung which has over 200 subsidiaries across the globe uses innovative strategies and practices in order to produce new products with its research and development (R&D) as its center of excellence in its headquarters in South Korea.

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Over the last two decades, the company has been combining various decisions in its business strategies with its technology centered products to address the changing expectations of its global customers from its H Q. Companies marketing technologically sophisticated products have centralized organizations with product responsibilities worldwide and Samsung products are R & D oriented.

Source: ICFAI Research Center

Firms going global require transferring world headquarters of vital business units abroad. For instance, Philips has moved headquarters of several of its global business units to the US.

In any organization, the human factor is critical. Managers at the headquarters and at the country organizations should bridge the physical and cultural distances separating them. If country organizations have managers who are competent and do not require to consult headquarters to meet their challenges, they may be granted high degrees of autonomy. In case of global organizations, local management needs to understand overall corporate goals in that decisions that meet the long-term objectives might not be favorable for the individual local market.

Example

Indian companies in dated 22nd May 2021 has reported that Tata Motors, a leading global automobile manufacturer is a part of the Tata Group has many subsidiaries namely Tata Daewoo Jaguar Land Rover, Tata Technologies, Tata Hispano, Tata Hitachi Construction Machinery and Tata Passenger Electric Mobility, etc. As a policy decision, the parent company considers every subsidiary to operate as a profit center and their management high degree of autonomy in managing the subsidiary.

Here, decentralization is the **locus of decision-making** in these subsidiaries. Because in companies where the subsidiaries have a high degree of autonomy, the system is called decentralization as observed in the case of Tata Motors and its subsidiaries.

Source: ICFAI Research Center

15.3.3 The Networked Global Organization

Firms adopting the networked global organization have incorporated three dimensions into their organizations:

(1) Developing and communicating a clear corporate vision;

(2) The effective management of human resource tools for broadening individual perspectives and developing identification with corporate goals; and

(3) Integrating individual thinking and activities into the broad corporate agenda.

The first dimension relates to an obvious and consistent long-term corporate mission that guides individuals working anywhere in an organization. Johnson & Johnson's corporate credo is an example of this. Another example is given below:

Example

As reported in Zeebiz .com dated 1st June 2019, Tata motors has reinforced its commitment towards nation building, touching lives of over 7 lakh people in the areas of promoting Health, Education, Employability and the Environment on line with the vision of the Tata Group founder, Jamshedji Tata. consistent long-term corporate mission that guides individuals working anywhere in Tata group. The corporate vision of Tata Group percolated to all its member organizations.

Source: ICFAI Research Center

The second dimension relates both to the development of global managers who have the ability to identify opportunities in spite of environmental challenges as well as creating a global perspective among country managers. The third dimension relates to the development of a cooperative mind set among country organizations for ensuring effective implementation of global strategies. Managers might believe that global strategies intrude their operations if they lack an understanding of the corporate vision, if they have not made their contribution to the global corporate agenda or if they are not assigned direct responsibility for its implementation. Territorial, defensive attitudes can lead to the emergence of the "not-invented-here" syndrome, that is, country organizations object or reject a sound strategy.

The network avoids problems such as duplication of effort, inefficiency and resistance to ideas developed somewhere else. Headquarters considers each unit as a source of ideas, capabilities, skills, and knowledge that can be used for the benefit of the entire organization. This means that subsidiaries should be upgraded from adaptors and implementers to contributors and partners in the development and execution of worldwide strategies. R&D units should be converted into centers of excellence and leading subsidiary groups should be given the leadership role in order to develop new strategies for the entire organization.

Example

Tata.com, in its website dated 12.01.22, has published an article on Jaguar Land Rover that it has completed twelve years of association with the Tatas. Moreover, the company not only has increased the sales from less than 2,00,000 units a year to more than 6,00,000 units, but also has set new standards for engineering excellence, automotive technologies and advanced design, which is also being used by the other group companies of Tata Motors.

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Further, the company made an investment of GBP 3.8 billion in FY19 in new automotive technologies, production and R&D facilities in line with its Electric and Shared (ACES) strategy. Thus the company is committed to deliver long-term growth through award-winning products and services for its customers, considers each unit as a source of ideas, capabilities, skills and knowledge that can be used for the benefit of the entire organization and each subsidiary contributes to the development of the entire organization.

Here, 'Integrating individual persons thinking and activities into the broad corporate agenda' is the dimension that Tata Motors- Jaguar Land Rover has set in its **networked global organization, as such** each of its subsidiary shall contribute to the development of the entire organization as done by Tata Jaguar Land Rover.

Source: ICFAI Research Center

15.3.4 Promoting Internal Cooperation

The global business entity can achieve success only if it moves intellectual capital within the organization. One of the tools is teaching. For instance, at General Electric, top leadership spends considerable time at training centers interacting with employees at all levels of the organization. In each training class, a real, current company problem is given to solve and the reports make or break the careers of employees. Participants in teaching situations are encouraged to maintain the international networks developed by them during the session.

Another method to promote internal cooperation for global strategy implementation is to use international team or councils. In case of a new process or a product, an international team of managers may be assembled for developing strategy. Some firms also make use of councils to share best practice e.g. an idea that may have saved time or money, or a process that is more efficient than existing processes. Most of the professionals at leading global companies will be members of multiple councils. While technology has made such teamwork possible, human relations are still paramount. Team members can be bound to a particular task only through trust and

The term network also implies two way communications between headquarters and subsidiaries and between subsidiaries themselves. While communication can be in the form of newsletters or regular or periodic meetings, new technologies are able to link far-flung entities and are eliminating the barriers related to time and distance. Intranets integrate the information assets of a company into a single accessible system using Internet-based technologies such as e-mail, World Wide Web, and news groups. Some companies also establish virtual teams. For instance, Levi Strauss & Co. can join an electronic discussion group with colleagues around the globe.

The benefits of intranet are:

(1) Increased productivity as there is no time lag between an idea and the information needed to evaluate and implement that idea;

(2) Enhanced knowledge capital;

(3) Facilitates teamwork; and

(4) Incorporation of best practice that enable managers and personnel in different functional areas to make decisions anywhere in the world.

15.3.5 The Role of Country Organizations

The role that a particular country organization can play depends on that market's overall strategic importance as well as organizational competence. From these criteria, four roles emerge – strategic leader, contributor, implementer, and black hole.

The role of a strategic leader could be played by a highly competent national subsidiary that is located in a strategically crucial market. Such as country organization serves as partner of headquarters for developing and implementing a strategy.

A contributor is a country organization that has a distinct competence, such as product development. Country organizations have increasingly become a source of new products. For instance, IBMs breakthrough in superconductivity research was generated in its Zurich lab. Country organizations may be designed as worldwide centers of excellence for a particular product category. For products or technologies having multiple applications, leadership may be divided among different country operations.

Implementers offer the critical mass for a global effort. These country organizations exist in smaller, less-developed countries where there is less corporate commitment for market development.

The black hole situation is one in which the international firm has a low competence country organization or no organization in a highly strategic market. One of the ways of remedying a black hole situation is to enter into strategic alliances. For instance, AT&T, which had restricted itself to its domestic market for a very long time needed to go global rapidly. Some of the alliances it formed were with Olivetti in office automation and computers and with Philips in telecommunication.

Example

Pneumatic Tools Pvt. Ltd., (PTPL) is a Mumbai-based company manufacturing high precision pneumatic tools that can be used in sophisticated machines. Though the company had excellent products in its stable, it could not expand beyond the boundaries of India due to low competence country organization. Here, Black hole is the kind of **country organization** PTPL is based.

Source: ICFAI Research Center

The blackhole situation is one in which the firm has a low competence country organization and functions within a set of boundaries and may not be able to become MNC similar to PPTL.

Depending on the role of the country organization, its relationship varies with the headquarters from exercising loose controls to tighter controls in order to ensure that strategies are implemented effectively. In any case, it is imperative for country organizations to have enough operating independence for catering its local needs and for motivating country managers. The country organization initiative helps global companies to tap opportunities in markets worldwide. For instance, the unmet demand of customers in a given market may not only result in the launch of a local product but may lead to global roll-out of the product. Strategy formulators ensure that appropriate implementation is achieved at the country level.

Example: Walmart's Implementation Problems in Brazil

US-based Walmart, the world's largest retailer had its operations throughout the world. Most of its global operations were successful. In some markets, the retailer could not succeed. One such market was South America where the retailer failed to make its mark. Analysts attributed several reasons for the failure. A major reason was that the retailer did not adapt to the local tastes in the Sao Paulo market in Brazil. In addition, the market conditions and aggressive competition from local as well as foreign retailers such as France-based Carrefour SA and Brazil-based Grupo Pao de Acucar SA added to its troubles. Moreover, the retailer's insistence on doing things "the Walmart way" had alienated local suppliers and employees.

Some vendors felt that Walmart's problems in Brazil were due to its inability to meet the customer demands. Since the retailer did not own a distribution system it could not control the delivery of the products to its stores in time.

Some analysts felt that Walmart's problems in Brazil also stem partly from its own mistakes. The retailer sold some food products which were hardly consumed by the consumers. In Brazil, the retailer installed a computerized bookkeeping system that failed to take into account Brazil's complicated tax system. In addition, Walmart failed to adapt to the Brazil's rapidly changing credit culture under which the retailer had to identify postdated checks. The retailer's strategy of charging a membership fee for its Sam's Club stores did not go well in Brazil since the customers were not used to paying membership fees. The customers were also not in the habit of buying bulk purchases unlike its customers in the US. Analysts felt that Walmart's failure to understand the local tastes and lifestyles of customers had led to its implementation problems in Brazil.

Compiled from various sources.

Activity 15.1

ABC, a consumer packaged company in the US has subsidiaries in the UK. In its subsidiaries the company developed teams which analyze opportunities for standardizing the marketing program. These teams are chaired by a brand manager from the headquarters. Identify the role played by the subsidiaries as a country organization. Also discuss other roles played by country organizations.

Answer:

15.4 Controlling International Operations

Controls are the means used by organizations to verify and correct actions that differ from the established plans. Control serves as an integrating mechanism within an organization. Controls are designed to increase predictability, reduce uncertainty, and ensure that behaviors that originate in different parts of the organization are compatible and in support of common organizational goals despite physical and temporal distances.

15.4.1 Types of Control

In the design of control systems, a major decision concerns the object of control. The two major objects identified are output and behavior. Output controls include sales data, production data, balance sheet, product-line growth, and performance reviews of personnel. Output measures are accumulated at regular intervals and are forwarded from the foreign subsidiary to the headquarters, where they are assessed and reviewed based on comparisons to the budget or plan. Behavioral controls require influence to be exerted over behavior before or after – it leads to action. Behavioral controls can be achieved either through preparation of manuals on areas such as sales techniques which can be made available to subsidiary personnel or through efforts to fit the new employees into the corporate culture.

For instituting these measures, instruments of control need to be decided. Generally, the alternatives are bureaucratic/formalized control or cultural control. Bureaucratic controls comprise explicit and limited set of regulations and rules outlining the desired performance levels. On the other hand, cultural controls are less formal and result from shared beliefs and expectations among organizational members.

Example

Airtel on its website dated 30th August 2021 published a report on the mandatory training imparted to their employees.

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The report mentions that employees undergo several mandatory trainings to ensure the safe and efficient delivery of Airtel services, sales techniques and reduce organizational risks while helping them to stay compliant with local and national policies and government guidelines. Detailed manuals are provided to every retail outlet for the employees to follow. There are nine training interventions and 20,537 training hours imparted to the employees across its global subsidiaries by the organization as per the report. Here the control exercised by Airtel through training is the behavioral control.

Source: ICFAI Research Center

Bureaucratic/Formalized Control

The elements of a bureaucratic/formalized control system are (1) an international budget and planning system; (2) the functional reporting system; and (3) policy manuals used for directing functional performance.

Budgets refer to "shorter term guidelines regarding investment, cash, and personnel policies." Plans refer to "formalized plans with more than a one-year horizon." The budget and planning process is the major control instrument in headquarters-subsidiary relationships. Through the system and execution vary, the aim to achieve a good fit with the objectives and characteristics of the firm and its environment.

The period of the budget is typically one year as it is tied to the multinational's accounting system. The budget system is used for several purposes: (1) funds allocation among subsidiaries; (2) planning and coordinating global production capacity and supplies; (3) evaluating performance of the subsidiary; and (4) communication and information exchange among product organizations, subsidiaries, and corporate headquarters. Long-range plans vary from two years to ten years, and are more judgmental and qualitative in nature. Shorter periods such as two years are usually the norm, considering the added uncertainty associated with diverse foreign environments.

Another control instrument used by headquarters is functional reports. They vary in number, frequency, and complexity. The structure and elements of the report is highly standardized in order to allow for consolidation at the level of headquarters.

Since the frequency of reports required from subsidiaries is likely to increase as a result of globalization, it is necessary that subsidiaries see the underlying principle for the time consuming exercise. Two approaches facilitate this process: participation and feedback. These approaches also enhance communication between headquarters and the subsidiaries.

Cultural Control

Many multinationals emphasize corporate values and culture, and evaluations are done on how the individual or an entity fits in with the norms. Cultural controls require an extensive socialization process in which informal, personal interaction is central. Substantial resources are spent for training the individual to share the corporate culture.

The key instruments of cultural controls are careful selection and training of corporate personnel and the institution of self-control.

MNEs exercise cultural controls in selecting home-country nationals and to some extent, third-country nationals. Expatriates are used in subsidiaries for control purposes as well as to effect change processes. Firms control the management efforts through compensation and promotion policies, as well as through policies concerning replacement.

15.4.2 Exercising Controls

In most of the organizations, different functional areas are subject to different guidelines as they are subject to different constraints. For instance, the marketing function incorporates many behavioral dimensions than finance or manufacturing. Thus, many MNEs employ control systems that are responsive to the needs of the function. It is hypothesized that manufacturing subsidiaries are controlled more than the sales subsidiaries as production readily lends itself to centralized direction, and engineers and technicians adhere more firmly to standards and regulations compared to sales people.

In the international environment, new dimensions such as inflation, differing rates of taxation, and exchange rate fluctuations may distort the performance evaluation of any individual or organizational unit. For an MNE, measuring whether a business unit in a particular country is earning a superior return of investment relative to risk may be irrelevant to the contribution an investment may make worldwide or to the firm’s long-term results. In the short term, the return may be negative. Therefore, the control mechanisms may inappropriately indicate reward or punishment. To design a control system that is acceptable worldwide, great care should be taken to use only relevant data. Therefore, major concerns include data collection process and the analysis and utilization of data. Evaluators need management information systems that provide for comparability and equity in administering controls.

In designing a control system, management needs to consider the costs of establishing and maintaining versus the benefits that would be gained. Control systems require investments in management structure and systems design. If controls are misguided or consume too much time, they can slow or undermine the process of strategy implementation and thus the overall firm capacity. The result could be lost opportunities or increased threats.

The impact of the environment should also be taken into account. First, the control systems should measure only those dimensions over which the organization has actual control. Second, control systems should be in harmony with local regulations and customs. Thus MNEs are faced with many challenges in exercising appropriate and adequate controls in their organizations.

Example: Governance and Control at AXA

France-based AXA Group (AXA) specializes in insurance and investment management solutions. Its operations were spread across Western Europe, North America, and the Asia Pacific. Since the mid-1980s, AXA had begun spreading out its operations across the world mainly through acquisitions. But it remained a highly focused company with insurance and investment products as its core business area. AXA’s strategy was to be a leader in financial protection. In light of the rapid globalization, Henri de Castries, (Castries), Chairman, Management Board and CEO of AXA, realized that there was a need for more coordination between the subsidiaries and headquarters if the company was to be run efficiently. In order to achieve synergies, AXA centralized some of the functions, while decentralizing some. It made efforts to leverage on the strengths of each of its global subsidiaries.

In 1997, AXA established a dual corporate governance structure with a management board and supervisory board managing its activities. The management board looked after the company’s day-to-day activities, while the supervisory board was responsible for the efficient operation of the company. To achieve the objective of becoming a global company, there were several management issues that AXA had to face. These included cultural and communication issues, legal compliance, capital allocation, and integrating people and processes.

AXA operated in many countries across the world and had to take into account several kinds of statutory, regulatory and legal, systems and accounting and tax systems as these differed from country to country.

AXA decided to reduce the complexity of its global operations by maintaining a balance between centralization and decentralization. It centralized its operations to the extent it felt was necessary. Claude Brunet (Brunet), Member of the AXA Management Board described this as “everything decentralized but strategy”. AXA had strong governance practices at both the central and local levels. Since 1997, it had been governed by a supervisory and a management board. This system demarcated the power of the management from that of the supervisors.

At the headquarters, the functions that remained strongly centralized included AXA’s corporate strategy, brand management, some key processes like approval for new products, and standard Key Performance Indicators (KPIs).

Contd….

The capital allocation was centralized in order to minimize cost of capital and ensure financial strength. The risk management function also remained centralized. AXA had a centralized risk management department, which developed and deployed several risk measurement and monitoring methods. Each operating unit also had risk management teams to support the central risk management team. AXA also centralized functions like procurement and technology services.

AXA ensured that the principles of good corporate governance were implemented across the group. All the subsidiaries were governed by a board, which included non-executive directors. An audit committee with independent members also oversaw the functioning of the subsidiaries. All the subsidiaries were made aware of the group's strategy, operational objectives, reporting lines and accountability for organizational objectives. Formal guidelines for business and operations were in place along with a written code of ethics, anti-fraud, and anti-laundering policies.

All the subsidiaries of AXA prepared three-year forecasts. AXA aimed at exercising control over the forecasts developed by the subsidiaries by subjecting the forecasts to critical review. After the review, any adjustments that were required were made. A consolidated forecast was prepared that was used as the group's budget. Based on these, the objectives and annual targets of each of the operating units were arrived at.

The subsidiaries of AXA presented details of their strategic position, performance review, quantitative targets like revenue, expenses, profitability, etc., about each of their business segments. Also forming part of the presentation was sensitivity analysis considering macro-economic conditions and specific plans for HR, IT, and other aspects.

Through this procedure, group management could exert control over the strategies, plans, and resources of the principal subsidiaries and set targets that were in tandem with the ambitions of the group.

All employees at the subsidiaries were informed about the corporate strategy, the target of the group, and their own individual unit. The managers were asked to inform employees about the details of what was expected of them and the resources that they had at their disposal to carry out the task. The managers were required to encourage teamwork and empower employees.

The subsidiaries had their own local strategies. This was necessary because local laws, practices, and distribution models guided insurance companies. They also had their own product strategies, market development, distribution, and risk management practices.

Contd….

In the Asia Pacific markets like Malaysia, Singapore, Hong Kong, Thailand, and Indonesia, functions like sales and marketing, underwriting, and regulatory issues were managed locally. AXA's subsidiaries had their own strategic plans, which were in accordance with the strategic plans of the group.

All the subsidiaries were free to have their own distribution practices. They could distribute through traditional methods like distribution partners or through Bancassurance. AXA Japan had different distribution methods for corporate customers and for new markets. The distributors were placed under four categories – AXA Advisors, who sold medical and term insurance, AXA Partners, who sold group policies, AXA Corporates and Agents, who sold term products, and AXA New Markets, which looked after the savings products.

AXA reaped several benefits by striking a balance between centralization and decentralization of its operations. The company had firm control over some of the most important activities and was able to steer the subsidiaries toward the growth path. At the same time, the subsidiaries were free to carry out their day-to-day operations. Due to geographical diversification, the group's volatility of earnings went down. AXA was able to replicate the best practices in one country in other countries and thus obtain a competitive advantage over local players.

Compiled from various sources.

Activity 15.2

MS Ltd. (MS) is a consumer appliances company in Japan. In order to build common vision and values, the company provided cultural training to new recruits for the first few months. During the training, the new recruits study the company credo and the founder William Jack's philosophy. The management required the recruits to translate the internalized lessons into their daily behavior and operational decisions. Identify the control used by MS. Also discuss other types of controls.

Answer:

Check Your Progress - 1

1. If the subsidiaries have a high degree of autonomy, the system is called____.
   a. Centralization
   b. Decentralization
   c. Formalization
   d. Standardization

2. If subsidiaries have tight controls and strategic decision making is concentrated at headquarters, the system is called as _.
   a. Formalization
   b. Decentralization
   c. Standardization
   d. Centralization
3. __________means that the headquarters provide the overall corporate strategy while the subsidiaries are free to implement it within the range agreed on in consultation with the headquarters and the subsidiaries.
   a. Coordinated centralization
   b. Networked global organization
   c. Coordinated decentralization
   d. None of the above
4. Firms adopting the networked global organization have incorporated which of these dimensions into their organizations?
   i. Developing and communicating a clear corporate vision
   ii. The effective management of human resource tools
   iii. Following a top-down approach
   iv. Integrating individual thinking and activities into the broad corporate agenda
   v. Motivating employees
   a. i, ii, and iv
   b. ii, iii, and v
   c. iii, iv, and v
   d. i, iii, and v
5. __________integrate the information assets of a company into a single accessible system.
   a. Internet
   b. World Wide Web
   c. Intranets
   d. Videoconferencing
6. The role of a ______ could be played by a highly competent national subsidiary that is located in a strategically crucial market.
   a. Black hole situation
   b. Contributor
   c. Implementers
   d. Strategic leader

7. A _ is a country organization that has a distinct competence, such as product development.
   a. Contributor
   b. Strategic leader
   c. Implementers
   d. Black hole situation
8. __________are country organizations that exist in smaller, less-developed countries where there is less corporate commitment for market development.
   a. Contributor
   b. Black hole situation
   c. Implementers
   d. Strategic leader
9. The ______ is one in which the international firm has a low competence country organization or no organization in a highly strategic market.
   a. Implementer
   b. Contributor
   c. Strategic leader
   d. Black hole situation
10. __________controls include sales data, production data, balance sheet, product-line growth, and performance reviews of personnel.
    a. Behavioral
    b. Cultural
    c. Output
    d. Functional
11. __________can be achieved either through preparation of manuals on areas such as sales techniques which can be made available to subsidiary personnel or through efforts to fit the new employees into the corporate culture.
    a. Behavioral controls
    b. Functional controls
    c. Cultural controls
    d. Output controls
12. The elements of a bureaucratic/formalized control system include
    i. An international budget and planning system
    ii. The functional reporting system
    iii. Policy manuals

iv. Corporate agenda

v. Cultural norms

a. i, ii, and iv

b. ii, iii, and v

c. i, ii, and iii

d. iii, iv, and v

13. __________refer to shorter term guidelines regarding investment, cash, and personnel policies.

    a. Balance sheet

    b. Income statement

    c. Cash flow statement

    d. Budgets

14. ___refer to formalized plans with more than a one-year horizon.

    a. Plans

    b. Budgets

    c. Strategies

    d. Mission

15. The key instruments of ____ are careful selection and training of corporate personnel and the institution of self-control.

    a. Formalized controls

    b. Output controls

    c. Functional controls

    d. Cultural controls

15.5 Summary

- If the subsidiaries have a high degree of autonomy, the system is called decentralization. In such systems, controls are simple and loose, and each subsidiary operates as a profit center. On the other hand, if subsidiaries have tight controls and strategic decision making is concentrated at headquarters, the system is called as centralization.

- The locus of decision making in a multinational enterprise (MNE) can be determined by several factors such as its degree of involvement in international operations, the product marketed by the firm, the size and importance of the firm's market, and the human resource capability of a firm.

- Firms adopting the networked global organization have incorporated three dimensions into their organizations: (1) developing and communicating a clear corporate vision; (2) the effective management of human resource tools for broadening individual perspectives and developing identification with corporate goals; and (3) integrating individual thinking and activities into the broad corporate agenda.
- The global business entity can achieve success only if it moves intellectual capital within the organization.
- The role that a particular country organization can play depends on that market's overall strategic importance as well as organizational competence. From these criteria, four roles emerge – strategic leader, contributor, implementer, and black hole.
- Controls are the means used by organizations to verify and correct actions that differ from the established plans.
- Bureaucratic controls comprise explicit and limited set of regulations and rules outlining the desired performance levels. On the other hand, cultural controls are less formal and result from shared beliefs and expectations among organizational members.

15.6 Glossary

Budgets: Budgets refers to shorter term guidelines regarding investment, cash, and personnel policies.

Centralization: If subsidiaries have tight controls and strategic decision making is concentrated at headquarters, the system is called as centralization.

Decentralization: If the subsidiaries have a high degree of autonomy, the system is called decentralization. In such systems, controls are simple and loose, and each subsidiary operates as a profit center.

Intranets: Intranets integrate the information assets of a company into a single accessible system using Internet-based technologies such as e-mail, World Wide Web, and news groups.

Plans: Plans refers to formalized plans with more than a one-year horizon.

15.7 Self-Assessment Test

1. Describe in brief how multinationals implement their international operations in international business.
2. Describe the different types of control. Also explain how multinationals exercise controls.

15.8 Suggested Readings/Reference Material

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7. John Wild and Kenneth Wild (2019). International Business – The Challenges of Globalization. Pearson Education

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3. Brett Steenbarger. Why diversity matters in the world of Finance. 2020. https://www.forbes.com/sites/brettsteenbarger/2020/06/15/why-diversity-matters-in-the-world-of-finance/?sh=36dba0637913
4. IFC. Social and Green Bonds. https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/investor+relations/ir-products/socialbonds
5. Business Insider. Global ecommerce market report: ecommerce sales trends and growth statistics for 2021. https://www.businessinsider.com/global-ecommerce-2020-report?IR=T

15.9 Answers to Check Your Progress Questions

1. (b) Decentralization

If the subsidiaries have a high degree of autonomy, the system is called decentralization.

2. (d) **Centralization**

If subsidiaries have tight controls and strategic decision making is concentrated at headquarters, the system is called as centralization.

3. (c) **Coordinated decentralization**

Coordinated decentralization means that the headquarters provide the overall corporate strategy while the subsidiaries are free to implement it within the range agreed on in consultation with the headquarters and the subsidiaries.

4. (a) **i, ii, and iv**

Firms adopting the networked global organization have incorporated three dimensions into their organizations: (1) developing and communicating a clear corporate vision; (2) the effective management of human resource tools for broadening individual perspectives and developing identification with corporate goals; and (3) integrating individual thinking and activities into the broad corporate agenda.

5. (c) **Intranets**

Intranets integrate the information assets of a company into a single accessible system using Internet-based technologies such as e-mail, World Wide Web, and news groups.

6. (d) **Strategic leader**

The role of a strategic leader could be played by a highly competent national subsidiary that is located in a strategically crucial market.

7. (a) **Contributor**

A contributor is a country organization that has a distinct competence, such as product development.

8. (c) **Implementers**

Implementers are country organizations that exist in smaller, less-developed countries where there is less corporate commitment for market development.

9. (d) **Black hole situation**

The black hole situation is one in which the international firm has a low competence country organization or no organization in a highly strategic market.

10. (c) **Output controls**

Output controls include sales data, production data, balance sheet, product-line growth, and performance reviews of personnel.

11. (a) Behavioral controls

Behavioral controls can be achieved either through preparation of manuals on areas such as sales techniques which can be made available to subsidiary personnel or through efforts to fit the new employees into the corporate culture.

12. (c) i, ii, and iii

The elements of a bureaucratic/formalized control system are (1) an international budget and planning system; (2) the functional reporting system; and (3) policy manuals used for directing functional performance.

13. (d) Budgets

Budgets refer to shorter term guidelines regarding investment, cash, and personnel policies.

14. (a) Plans

Plans refer to formalized plans with more than a one-year horizon.

15. (d) Cultural controls

The key instruments of cultural controls are careful selection and training of corporate personnel and the institution of self-control.

Unit 16
Global Internet and e-Commerce

Structure

16.1 Introduction

16.2 Objectives

16.3 Internet and E-Commerce

16.4 E-Readiness

16..5 The Impact of E-Commerce in International Business

16.6 Challenges for Global E-Commerce

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16.10 Suggested Readings/Reference Material

16.11 Answers to Check Your Progress Questions

"If your business is not on the internet, then your business will be out of business"

- Bill Gates

16.1 Introduction

The previous unit discussed how firms implement and control their international operations in international business.

Firms in international markets use Internet and e-commerce as a supplementary tool in their global sales and service. The different transactions in e-commerce such as Business-to-Business, Business-to-Consumer, and Consumer-to-Consumer had spurred the growth of global e-commerce.

e-readiness offers guidance in terms of the future growth of e-commerce in any region or country. Cross-border e-commerce opens new opportunities for small and medium international enterprises (SMIEs). As in other international business realms, international e-commerce requires a balance of globalization and localization.

This unit will define Internet and e-Commerce. It then goes on to explaining the factors of e-readiness. It then discusses the impact of e-commerce in international business. The unit finally discusses the challenges faced by global e-commerce.

16.2 Objectives

By the end of this unit, you should be able to:

- Define Internet and E-Commerce.
- State the different factors of e-readiness.

- Examine the impact of e-commerce in international business.
- Identify the challenges for global e-commerce.

16.3 Internet and e-Commerce

The Internet is "the worldwide network of computer networks known as the world wide web (WWW)." WWW comprise all the resources and users on the Internet that use Hypertext Transfer Protocol (HTTP). HTTP uses a set of rules to exchange files such as text, video, sound, graphic images, and other multimedia filed on the WWW.

Example

E-commerce industry has witnessed tremendous growth in recent years. For example, according to Kearney, a global management consulting firm, the value of the e-commerce market in India is expected to touch $40 billion by 2030, up from $4 billion in 2019, driven by a rapid increase in internet user base and as more people embrace the world wide web (WWW). The underlying technology for enabling the WWW is a set of rules that allow the exchange of files such as text, video, sound, graphic images, and other multimedia files on the web.

Source: ICFAI Research Center

Here, HTTP is the correct usage of term to describe this **enabling technology. HTTP** has acted as an enabler for all exchanges on WWW and has evolved further for enhanced security features.

Electronic commerce (E-commerce) is "the conduct of transactions to buy, sell, distribute, or deliver goods and services over the Internet." E-commerce transactions can be business-to-business (B2B), Business-to-Customer (B2C), or Customer-to-Customer (C2C). B2B involves inter-firm transactions, including government procurement. B2C transactions are between firms and individuals buying goods or services over the Internet. Ordering a book online is an instance of a B2C transaction. C2C transactions involve individual transactions via online auctions. All the three transactions occur domestically as well as globally.

Example

Kraftly (now Shiprocket Social) was founded as an e-commerce lifestyle website for homepreneurs and women, who needed a platform to sell their crafts and creations, which earlier were sold only in exhibitions. It emerged as a channel especially for sellers from Tier 2 cities to showcase and sell their products, without need for any documentation, entry barriers, rules or regulations. A mobile app was also made available through which they could take a picture of the product and upload them. This is an example of C2C business.

Source: ICFAI Research Center

Global e-commerce is "the conduct of electronic commerce, whether B2B, B2C, or C2C across national boundaries." A customer in the US buying pharmaceuticals from a Canadian site is an example of Global e-commerce.

e-commerce has been the fastest growing segment of the Internet economy. Leading industry observers suggest that B2B transactions will be the major driver for the growth of e-commerce.

Activity 16.1

In Corp. is a US-based leading semiconductor company that manufactured microprocessors for personal computers (PCs) and laptops. With the advent of the Internet, the company set up an online store and sold its products through its web site. The company adopted this model as it could transact with several companies worldwide who could buy products from its web site and also make the payments online. Several PC and laptop manufacturers worldwide bought microprocessors from the company's website. Identify the e-commerce transaction involving In Corp. and other PC and laptop manufactures. Also define other ecommerce transactions.

Answer:

16.4 e-Readiness

McConnell International has developed a classification of e-readiness factors that includes connectivity, e-leadership, information security, human capital, and e-business climate.

16.4.1 Connectivity

Connectivity is the existence and affordability of a transportation and communication network. The US is less competitive when it comes to telephone systems. In China, Israel, Japan, and Germany, all phones are connected to digital exchanges vis-à-vis about 90 percent in the US.

The cost of Internet access is prohibitive in countries such as in most of Latin America. In the UK, the lower cost of dial-up connection is much behind of the remarkable increase in Internet usage.

Another facet of connectivity is distribution. The wide variety of overnight and ground delivery services in the US are either unavailable or very expensive in many parts of the world. In developing countries such as China, conventional, ground distribution is also problematic outside a few urban areas. Products are delivered by bicycles or by pedicarts. The cash is collected upon delivering the product.

Example

The country's leading retail firm Future Group and Amazon India announced a partnership in January 2020 in an effort to leverage each other's strengths and for building a network of grocery stores that will be used for last-mile delivery of food and grocery. Amazon also claims that more than 18,000 stores have signed up for its "I have space" programme in India which allows local store owners to provide pickup and delivery services to customers across different cities within a 2 – 4 kilometer radius of their store.

Source: ICFAI Research Center

16.4.2 Information Security

Information security refers to "the existence of security and other protections pertaining to information dissemination." The single most important obstacle to online shopping is the concerns related to security. Confidentiality is "a product of the availability of secure severs as well as transcription technologies." All governments do not help in fixing the security concerns. For ensuring support from the government, Chinese regulations forbid using the foreign-designed encryption software. The Chinese government assigns domain registration names in Chinese language exclusively to domestic firms though this serves as a barrier to foreign entrants as a security measure.

Example

An e-commerce website must protect its assets from unauthorized access, use, alteration, or destruction. Recently cybercrime is on the rise even for some major companies like Equifax, Yahoo, Facebook, etc., who find themselves as a victim of cyber-attacks. One important aspect of website security is to ensure that customer data is protected from unauthorized access by an unauthorized person on the Internet.

Here, confidentiality is the correct term to describe this aspect of **information security.** e-commerce websites must ensure appropriate mechanisms to protect the confidentiality of customer data to avoid security breaches as experienced in the case of Equifax, Yahoo, Facebook, etc.

Source: ICFAI Research Center

Example

Equifax, one of the largest credit bureaus in the U.S., faced a situation which led to exposing details of about 147.9 million consumers as per a statement in September 2017. An authorized access due to a U.S. website application vulnerability allowed access to certain files.

Contd….

Based on the company's investigation, the unauthorized access occurred from mid-May through July 2017 and details such as Social Security Numbers, birth dates, addresses, and in some cases driver's license numbers were compromised.

Source: ICFAI Research Center

Privacy Protection

Most of the potential customers are reluctant to provide information and buy online out of fear that their information may be given to other vendors, or may be inappropriately used. These concerns can be alleviated with the help of privacy laws. However, these laws may limit the information flow and the effective consume targeting that is likely to enhance the volume of online transactions.

European laws give more protection to Internet users that the US laws. The European laws are based on "safe harbor" principles that require a firm to seek explicit agreement before transferring potential data to another firm. Also the data subject gets reasonable access to personal data for reviewing and correcting it. Data collection is permitted when the subject has given his/her consent, the data is needed to complete a contract such as billing, the data is needed by law or for protecting the subject's vital interests, or the data is needed for the purpose of enforcement of laws.

In 2000, the US data privacy protection was termed inadequate by the European Parliament. Under a tentative agreement negotiated by the US Department of Commerce, US firms can (1) subject themselves to the data protection authority in one the nations in the European Union (EU); (2) show that they are subject to similar US privacy laws; (3) sign up with a self-regulatory organization which offers adequate privacy protection; or (4) agree to refer privacy disputes to the European panel of regulators.

16.4.3 e-Business Climate

An e-business climate comprises of the regulatory and institutional frameworks facilitating or hindering e-commerce. The usage of credit cards is critical in e-commerce. The credit card usage is low in developing nations such as China and also in man developed nations. In some countries such as Japan, the fee charged for credit card processing is extremely high, while in other nations has the lowest cost of transaction of any payment system.

Example
According to Payments Trend Report 2018, prepared by an Indian payment technology and transaction processing company Financial Software and Systems (FSS), debit cards continued to be the preferred payment instrument for shoppers on ecommerce websites as compared to credit cards.
Contd….

There were 589 million debit card transactions reported on the FSS gateway compared with 201.4 million credit card transactions. Further, in an attempt to boost digital payments infrastructure, Merchant Discount Rates (MDR) charges on payments via electronic modes viz. Ru-Pay powered debit cards, UPI and UPI QR codes have been waived off by the Indian Government from January 1, 2020, and plans have been initiated to expand this waiver to all debit card networks including Visa and Mastercard.

Source: ICFAI Research Center

16.4.4 National e-Readiness

e-commerce readiness is "an index comprised of the three aforementioned criteria of connectivity, information security, and e-business climate, plus e-leadership (the extent of which e-commerce is a national priority) and human capital (the availability of human resources to support e-commerce." Wide variations exist between nations. For instance, Taiwan and South Korea are among the most prepared economies, though, Asian economies are generally hampered by problems related to data security. Buoyed by widespread and inexpensive Internet access, South Korea also enjoys strong support from the government in realms such as the acceptance of electronic signatures.

Example

E-commerce sector is on the priority list for the Indian Government. In order to provide a boost to the Indian economy and encourage foreign investment in the form of FDIs in e-commerce, the Indian Government has launched various initiatives such as digitization of retail, ease of doing business, opening of digital commerce network and rationalizing the licensing procedure. In addition, the Government has made hefty investments to boost the e-commerce industry by rolling out the 5G fiber network.

e-leadership is the type of **e-readiness factor** highlighted here. The Indian Government has exhibited e-leadership by taking initiatives that are focused on the promotion of e-commerce in the country.

Source: ICFAI Research Center

16.5 The Impact of E-Commerce on International Business

The Forrester report suggests, "The Internet removes barriers to communication with customers and employees created by geography, time zones and location, creating a "frictionless" business environment. For this to happen, barriers need to be removed on both sides of the border". For instance, an EU ruling that says that customers can sue non-EU retailers in their national courts can put a constraint on the e-commerce evolution there.

16.5.1 Prospects for Large MNEs

For the larger multinational enterprise (MNE), the Internet and e-commerce create an opportunity that allows for quicker global products dissemination but they also facilitate rapid imitation on the part of competitors. Theoretically, Internet creates pressure toward price parity that poses a problem for the MNE with different distributors that price different prices in diverse markets. However, there is some evidence that Internet may encourage collusion. For instance, in Germany, Philips and Sony faced some legal problems when trying to stop online sales of Primus Online by offering less expensive products.

Example

The smartphone is a cutting-edge product and the smartphone market has experienced dramatic changes in the past decade, and a number of Multi-National Enterprises (MNEs) are now operating in this industry. One such MNE is Xiaomi Inc., which instead of focusing on innovating their own hardware adopted a design similar to Apple's iPhone and UI technology. Xiaomi also caught up with Google's business model and introduced a low price premium smartphone into the market.

The problem posed by the Internet and e-commerce for international business described here is the 'rapid imitation on the part of competitors'. Because Xiaomi Inc. imitated Apple's technology and Google's business model for reaching the global smartphone market.

Source: ICFAI Research Center

The motivation to locate activities internationally may change under Internet and ecommerce. Zaheer and Manrakhan noted potential vital impacts such as a reduction in transaction costs and improvement of coordination and monitoring by the MNE, and the ability to export human skills.

16.5.2 Prospects for SMIEs

The reduction in barriers should open door for small and medium international enterprises (SMIEs) especially from developed countries that have been kept off from international trade and investment. For such firms, the transaction costs should be lowered and should also improve their international competitiveness. Many SMIEs have taken advantage of the new opportunities. Latinexus is Latin American electronic marketplace that aims to offer an even playing field for SMIEs by proving the same cost benefits and broad audiences available to blue chip firms. Some SMIEs piggyback on intermediaries such as L L Bean and Amazon in order to reach international customers.

However, for physical goods, barriers in the form of logistic challenges in dealing with dispersed and multiple customers remain significant for the smaller firm.

The size and volume matter even more in e-commerce operation. The handling of large and diverse number of customers might lie beyond the ability of many SMIEs lacking managerial and strategic capabilities.

16.5.3 Prospects for Intermediaries

Initially it was believed that the Internet would make intermediaries superfluous, however the impact diverged. The number of intermediaries has been reduced for digitalized products as well as services such as retail, brokerage, and auctions; however, intermediaries remained rooted in other areas. A new breed of value-adding intermediaries have emerged which are no longer involved in the physical distribution of goods, but in the coalition, collection, interpretation, and dissemination of vast amounts of information.

16.5.4 Other Impacts

The impact of e-commerce extends to other realms as well. For instance, it has made difficult determining the origin of a product or a service, with concomitant implications for tariffs, taxation, and customers. This is because the manufacturer, the server, the physical distributor may be located in different countries. E-commerce should speed up mobility of people as a production factor. Jobs in customer service and back-office may shift to lower-cost countries particularly where language is not an obstacle (e.g. from the US to Ireland, India, and Canada).

16.6 Challenges for Global E-Commerce

Entering global e-commerce is not easy. Dominant Internet portals such as AOL reveal that penetrating the UK, Germany, and other European markets is difficult. As in other realms of international business, finding the right balance between globalization and localization has proven to be complex.

16.6.1 Standardization Forces

Consumers from other nations mostly use the US sites. Canadians were known to do most of their online shopping on US sites. Latin Americans prefer using US ecommerce sites over the ones developed in their own countries because of convenience, lower prices, and above all trust.

At times, standardization appears to be appealing. The position of English as a lingua franca has been strengthened considerably on the Internet, supported by the dominance of English as a second language and by the dominance of US-hosted websites. However, there are predictions that other languages, mainly Chinese, will soon take over as the most popular language on the Internet.

Example

SunTec India is a multi-process IT and e-commerce Outsourcing Service Provider. The company offers e-commerce data quality services such as parsing, classification and normalization of product data.

Contd....

Since product data could come from multiple sources, manufacturers, or even different countries, it is important to maintain consistency across the e-commerce data components, for instance, abbreviations, measurement units, URLs, attribute tags, meta-information like title, keywords, and price formatting, etc. Here, standardization challenges for global e-commerce are addressed by the services offered by SunTec India.

e-Commerce data standardization is indispensable in optimizing many business processes, especially in international businesses. SunTec India offers standardization services for e-commerce platforms that help in providing clean, consistent and standardized data across an e-commerce store.

Source: ICFAI Research Center

16.6.2 Localization Challenges

The risks of overlooking customization can be substantial. Many US firms had underestimated the customization they would require in e-trading with foreign markets, whether tangible (currencies, tariffs, tax) or intangible (buying habits, culture).

Website Localization

Many companies trading on the Internet had to suffer when they did not adapt localization strategies while doing business in a foreign market. For instance, online auction site e-Bay has to withdraw itself from the lucrative Japanese e-commerce market as it took missteps such as emphasizing collectibles as opposed to new goods believing that the Japanese market would mirror the development of its US site. It did not.

Cultural "faux pass" are widespread. A British consulting firm used snapshots of colorful candy for symbolizing "miscellaneous", which was recognized widely in England but not in the US, where a small yellow folder icon is used commonly. Language blunders are also common. In the US, "Getgift.com" makes sense but its Swedish translation is "go get poison for goats".

A key response to localization pressures has been to set up local web sites. MNEs should set up their local premises in foreign countries in order to have a local presence. Reebok and UPS offer their services around the globe. A research suggests that MNEs localizing their web sites had higher media visibility, wider global reach, higher revenues, and more alliances.

The need for customization goes beyond language. It should also include local content, design, and cultural awareness. Some vendors such as the Swedish furniture maker IKEA have localized its websites. Its German site is traditional, Italian site is stylish, and the Saudi Arabian site shows a reassuring family shopping scene. A number of start-up firms help SMIEs in customizing their Internet ware. For instance, Thinkamerican.com assists small apparel brands in the US to sell in Japan. The company does language translation, in addition to translating sites into Japanese while keeping a watch in cultural errors.

Example

Amazon offers a language translation service known as Amazon Translate that uses Neural Machine Translation technology to deliver fast and accurate language translation. Neural machine translation is more natural sounding translation than traditional statistical and rule-based translation algorithms. Amazon Translate also allows to easily translate massive volumes of user-generated content in real-time. E-commerce websites such as Hotels.com which is offering services in international markets is using this service to automatically make content such as feed stories, profile descriptions, and comments, available in the user's preferred language with a click of a “translate” button.

Source: ICFAI Research Center

Activity 16.2

ABC Auctions Ltd. is a US-based online auction site. The company was very successful in online auctions in the US as well as in Canada. But the company could not reap benefits in its Chinese venture since the company used the same website for online auctions. The customers often complained that the transactions had to be done using a credit card which is widely practiced in China. Moreover, all the products were listed in English as opposed to Chinese which made the transactions even more complicated for the Chinese consumers. What can the company do to replicate its success in the Chinese online auctions market?

Answer:

Logistics

Logistics is a key area where many firms have failed to make the adjustments necessary in terms of global e-commerce or in terms of customizing the system for dealing with the requirements of a particular country.

Example

ASOS, a British fashion giant, is classified as the best online shopping site in the UK and overseas. Its online store has become a global ecommerce company with around 60% of its business coming from abroad. The company ships to numerous international destinations across the globe within 48 hours.

Contd….

To achieve this efficiency, company took various initiatives such as setting up of 4 new international carriers for shipments to Germany, Australia and a few other countries, a new French returns solution via LaPoste and fully tracked drop-off at more than 13,000 post offices and outlets.

Source: ICFAI Research Center

16.6.3 Taxation Issues

The Supreme Court in the US ruled that states do not require an out-of-state firm for collecting a sales tax on goods coming into the state unless a firm has “nexus” or physical presence within the state. Some states suggested that local Internet service providers should be considered as electronic retailers and be subject to local taxation.

In the international arena, the implications of e-commerce taxation are more ominous. While cross-border catalog sales have existed for many years, they have not generated ay substantial interest among governments. This has been changed by e-commerce. A web site is not considered as fixed business place that could trigger taxation. It could be subject to taxation if it is in conjunction with a server location and other operations in the country. E-commerce makes it easy for MNEs to shift their domicile to low-tax locations and to offshore tax havens as it makes difficult for other countries to claim physical presence of the firm in their territory. In such an environment, problems such as transfer pricing become acute.

Other taxation issues are also raised by the Internet. For instance, the distinction between income and royalty taxation is difficult to determine when a customer downloads software from a vendor. Individual income tax might be avoided in countries which have a territorial tax base, whereas countries having a global taxation base, such as the US, might find it difficult to enforce their tax legislation.

The e-commerce tax represents a significant challenge for the MNE as well as the SMIE. The MNEs can employ various tax strategies to meet this challenge. Additional strategic opportunities such as placing servers in low-tax jurisdictions are provided by global e-commerce. It also creates some additional risks. For instance, most of the tax treaties do not refer to e-commerce activities, and they may be open to challenge.

Check Your Progress - 1

1. The ______ is the worldwide network of computer networks known as the world wide web (WWW).

   a. Hyper Text Transfer Protocol

   b. E-Commerce

   c. E-Business

   d. Internet

2. __________ is the conduct of transactions to buy, sell, distribute, or deliver goods and services over the Internet.
    a. E-commerce
    b. E-leadership
    c. E-Business
    d. E-portal
3. __________involves inter-firm transactions, including government procurement.
    a. Business-to-Consumer
    b. Business-to-Business
    c. Consumer-to-Consumer
    d. Connectivity
4. __________transactions are between firms and individuals buying goods or services over the Internet.
    a. Consumer-to-Consumer
    b. Business-to-Business
    c. Business-to-Consumer
    d. Manufacturer to Retailer
5. __________transactions involve individual transactions via online auctions.
    a. Business-to-Business
    b. Consumer-to-Consumer
    c. Business-to-Consumer
    d. All of the above
6. __________is the conduct of electronic commerce, whether B2B, B2C, or C2C across national boundaries.
    a. Domestic e-commerce
    b. Global e-commerce
    c. E-readiness
    d. E-leadership
7. __________is the existence and affordability of a transportation and communication network.
    a. E-commerce readiness
    b. Confidentiality
    c. Connectivity
    d. E-business climate

8. __________refers to the existence of security and other protections pertaining to information dissemination.
   a. Information security
   b. Confidentiality
   c. Privacy laws
   d. Internet security
9. __________is a product of the availability of secure severs as well as transcription technologies.
   a. E-readiness
   b. Connectivity
   c. Data security
   d. Confidentiality
10. A/An _____ comprises of the regulatory and institutional frameworks facilitating or hindering e-commerce.
    a. Global e-commerce
    b. E-readiness
    c. E-business climate
    d. World wide web
11. __________is an index comprised of the three aforementioned criteria of connectivity, information security, and e-business climate.
    a. E-commerce readiness
    b. Human capital
    c. E-business
    d. None of the above

16.7 Summary

- The Internet is “the worldwide network of computer networks known as the world wide web (WWW). Electronic commerce (E-commerce) is “the conduct of transactions to buy, sell, distribute, or deliver goods and services over the Internet.”
- McConnell International has developed a classification of e-readiness factors that includes connectivity, e-leadership, information security, human capital, and e-business climate.
- For the larger multinational enterprise (MNE), the Internet and e-commerce create an opportunity that allows for quicker global products dissemination but they also facilitate rapid imitation on the part of competitors.

- The reduction in barriers should open door for small and medium international enterprises (SMIEs) especially from developed countries that have been kept off from international trade and investment.
- MNEs should set up their local premises in foreign countries in order to have a local presence.

16.8 Glossary

Business-to-business: Business-to-Business (B2B) involves inter-firm transactions, including government procurement.

Business-to-consumer: Business-to-Consume (B2C) transactions are between firms and individuals buying goods or services over the Internet.

Consumer-to-consumer: Consumer-to-Consumer (C2C) transactions involve individual transactions via online auctions.

Electronic commerce: Electronic commerce (E-commerce) is the conduct of transactions to buy, sell, distribute, or deliver goods and services over the Internet.

E-Commerce readiness: E-Commerce readiness is an index comprised the three aforementioned criteria of connectivity, information security, and e-business climate, plus e-leadership and human capital.

Global e-commerce: Global e-commerce is the conduct of electronic commerce, whether B2B, B2C, or C2C across national boundaries.

Information security: Information security refers to the existence of security and other protections pertaining to information dissemination.

Internet: The Internet is the worldwide network of computer networks known as the world wide web (WWW).

16.9 Self-Assessment Test

1. Define Internet, E-Commerce, and Global E-Commerce.
2. Explain the different factors of e-readiness.
3. Explain the impact of e-commerce on international business.
4. Explain the challenges for global e-commerce.

16.10 Suggested Readings/Reference Material

1. Charles W L Hill and G Thomas M Hult (2021). International Business – Competing in the Global Marketplace. 12th edition, McGraw Hill India.
2. Oded Shenkar, Yadong Luo, Tailan Chi (2021). International Business, 4th edition, Routledge
3. Alan C Shapiro (2019). Multinational Financial Management, 11th Edition, Wiley
4. Prakash G Apte (2017). International Financial Management, 8th edition, McGraw-Hill India

5. H.G.Mannu (2018). International Economics. Vikas Publishing House
6. Francis Cheunilam (2020). International Business – Text and Cases. 6th edition. Prentice Hall India Learning Private Limited
7. John Wild and Kenneth Wild (2019). International Business – The Challenges of Globalization. Pearson Education

Additional References:

1. Serenity Gibbons. How to expand your business internationally without compromising your core model. Forbes (2020). https://www.forbes.com/sites/serenitygibbons/2020/03/24/how-to-expand-a-business-internationally-without-compromising-your-core-model/?sh=66335a6f741d
2. IFRS Foundation. Use of IFRS standards around the world. 2018. https://cdn.ifrs.org/-/media/feature/around-the-world/adoption/use-of-ifrs-around-the-world-overview-sept-2018.pdf
3. Brett Steenbarger. Why diversity matters in the world of Finance. 2020. https://www.forbes.com/sites/brettsteenbarger/2020/06/15/why-diversity-matters-in-the-world-of-finance/?sh=36dba0637913
4. IFC. Social and Green Bonds. https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/investor+relations/ir-products/socialbonds
5. Business Insider. Global ecommerce market report: ecommerce sales trends and growth statistics for 2021. https://www.businessinsider.com/global-ecommerce-2020-report?IR=T

16.11 Answers to Check Your Progress Questions

1. (d) Internet

The Internet is the worldwide network of computer networks known as the world wide web (WWW).

2. (a) Electronic commerce

Electronic commerce (E-commerce) is the conduct of transactions to buy, sell, distribute, or deliver goods and services over the Internet.

3. (b) Business-to-Business

Business-to-Business involves inter-firm transactions, including government procurement.

4. (c) Business-to-Consumer

Business-to-Consumer transactions are between firms and individuals buying goods or services over the Internet.

5. (b) Consumer-to-Consumer

Consumer-to-Consumer transactions involve individual transactions via online auctions.

6. (b) Global e-commerce

Global e-commerce is the conduct of electronic commerce, whether B2B, B2C, or C2C across national boundaries.

7. (c) Connectivity

Connectivity is the existence and affordability of a transportation and communication network.

8. (a) Information security

Information security refers to the existence of security and other protections pertaining to information dissemination.

9. (d) Confidentiality

Confidentiality is a product of the availability of secure severs as well as transcription technologies.

10. (c) e-business climate

An e-business climate comprises of the regulatory and institutional frameworks facilitating or hindering e-commerce.

11. (a) e-commerce readiness

e-commerce readiness is an index comprised of the three aforementioned criteria of connectivity, information security, and e-business climate.

Unit 17

Ethics in International Business

Structure

17.1 Introduction
17.2 Objectives
17.3 Ethical Issues in International Business
17.4 Ethical Dilemmas
17.5 The Roots of Unethical Behavior
17.6 Philosophical Approaches to Ethics
17.7 Ethical Decision Making
17.8 Summary
17.9 Glossary
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17.12 Answers to Check Your Progress Questions

"The business of business should not be about money. It should be about responsibility. It should be about public good, not private greed."

– Anita Roddick

17.1 Introduction

The previous unit defined Internet and e-Commerce. It then explained the factors of e-readiness. It then discussed the impact of e-commerce in international business. The unit finally discussed the challenges faced by global e-commerce.

Ethics refers to "accepted principles of right or wrong that govern the conduct of a person, the members of a profession, or the actions of an organization." Business ethics are "the accepted principles of right or wrong governing the conduct of business-people." An ethical strategy is "a strategy, or course of action, that does not violate these accepted principles." Ethical issues should be incorporated into the decision-making processes in international business.

This unit will discuss the different ethical issues in the context of international business. It then goes on to explaining the ethical dilemmas confronted by managers. It then explains the roots of unethical behavior. It then deals with the different philosophical approaches to business ethics. The unit finally discusses the ways to carry out ethical decision making.

17.2 Objectives

By the end of this unit, you should be able to:

- Outline different ethical issues in international business. Identify ethical dilemmas confronted by managers.

- Trace the roots of unethical behavior in organizations
- Discuss the various philosophical approaches to business ethics
- Discuss the different ways an international business and its managers can use to ensure that ethical issues are considered in business decisions.

17.3 Ethical Issues in International Business

Most of the ethical issues arise due to differences in economic development, legal systems, politics, and culture among nations. Consequently, what may be considered a normal practice in one nation may be considered unethical in another nation. As managers working in a multinational enterprise (MNE) work across national borders and cultures, they need to be sensitive to these differences and should have the ability to choose the ethical actions in circumstances where differences across nations creates the potential for ethical problems. The most common ethical issues in an international business setting are discussed below.

17.3.1 Employment Practices

Ethical issues may be associated with employment practices in other nations. If a firm finds that the working conditions in the host nation are inferior to that of its home nation, it has to decide what standards it should apply in international business – those of the host nation, home nation, or something in between. While it is suggested that work and pay conditions should be same across nations, international manages have to decide to what level divergence can be allowed. For instance, 12-hour workdays, low pay, and failure to protect workers against toxic chemicals may be a common practice in developing nations, does it mean that the MNE should also tolerate such conditions in the foreign subsidiaries or overlook it by using local subcontractors.

17.3.2 Human Rights

Basic human rights are not respected in many nations. Rights taken for granted by nations such as freedom of speech, freedom of movement, freedom of association, freedom of assembly, freedom from political repression, etc. are not universally accepted.

17.3.3 Environmental Pollution

Ethical issues arise when environmental regulations are inferior to those of the home nation. Developed nation have many regulations that govern the emission of pollutants, the use of toxic materials in the workplace, dumping of toxic chemicals, etc. These regulations are often lacking in developed nations. This results in higher levels of pollution due to operations of multinationals than it would be allowed at home.

Critics argue should a multinational be free to pollute in a developing nation? What is the moral thing to do in such circumstances? Is there a danger that an MNE moves its production to the host nation as costly pollution controls are not required and hence the company is free to damage the environment, and perhaps lower their production costs and gain a competitive advantage by endangering the lives of local people? Pollute in order to gain a competitive advantage or ensure that the foreign subsidiaries adhere to the common standards regarding pollution control?

These questions take on added importance as some parts of the environment are a public good that no one owns but anyone can damage. No one owns the ocean and the atmosphere but polluting both harms all. The oceans and the atmosphere can be viewed as a global common from which everyone benefits but for which no one is responsible specifically. In such cases, a phenomenon known as the tragedy of the commons becomes applicable. This occurs when a resource is commonly held by all, but is not owned by anyone, is overused by individuals that results in degradation. The phenomenon was named by Garrett Hardin.

In the modern world, corporations can contribute to the global tragedy of the commons by moving their production to locations where there are no strict pollution control standards and where they can freely dump pollutants in oceans or rivers, thereby harming these valuable global commons.

17.3.4 Corruption

Corruption has been a problem which is prevalent in almost every society. There have been and always be corrupt government officials. By making payments to such officials, international businesses have gained economic advantages. For instance, in the 1970s, Carl Kotchian, Lockheed President had made a payment of US$ 12.5 million to Japanese agents and government officials in order to secure a larger order for Lockheed’s TriStar Jet from Nippon Air. When this was discovered, the US officials charged Lockheed with tax violations and falsification of its records.

The Lockheed case gave an impetus for the passage of the Foreign Corrupt Practices Act (FCPA) in the US in 1977. The act outlawed the paying of bribes to foreign government officials for gaining business. Some US businesses had argued that the act would put US firms at a competitive disadvantage. Subsequently, the act was amended to allow for “facilitating payments”. Facilitating payments, also known as grease payments or speed money are not payments for securing contracts nor they help in gaining preferential treatment; rather they are payments to ensure receiving a standard treatment that a business should receive from a foreign government but may not due the obstruction of a foreign official.

In 1997, the trade and finance ministers from the member states of the Organization for Economic Cooperation and Development (OECD) followed the US lead and adopted the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. In 1999, the convention went into force and obliged member states to make the bribery of foreign public officials a criminal offense. The convention excludes the facilitating payments made to government officials.

While the facilitating payments are excluded from both the FCPA and the OECD convention on bribery, the ethical implications of making such payments are unclear. In many countries, payoffs in the form of speed money to government officials are a part of life. Such investments bring substantial benefits to the local populace in terms of jobs and income. Some economists argue that corruption in the form of smuggling, black-marketeering, and side payments to government officials to "speed up" approval for business investments may enhance welfare. Such arguments persuaded the US Congress to exempt facilitating payments from the FCPA. In contrast, other economists have argued that corruption reduces the return on business investments and leads to slow economic growth.

Example

Cognizant, US based software multinational company (MNC), planned to build its campus in the outskirts of Chennai city in Tamil Nadu (TN) State, India. It gave the construction project to Indian based Larsen and Toubro (L & T) Company. For building the campus, Cognizant requires certain approvals from the Tamil Nadu Government. To get the approvals, it was alleged that Cognizant paid a bribe about $2 million to the TN Government officials. The allegation was made by the US District Court of New Jersey Court in February 2019vide its order. The US Court summoned two senior US executives of Cognizant and finally adjudged for payment of $25 million as fine by the company. Cognizant paid the fine.

Source: ICFAI Research Center

17.3.5 Moral Obligations

Multinationals have power that comes from their control over resources and their ability to move production from one location to another. That power may be constrained by laws and regulations and by the market discipline and the competitive process. Nevertheless, it is substantial. Moral philosophers argue that with power comes the social responsibility for multinationals to give something back to the society that enabled to grow and prosper. Social responsibility refers to "the idea that businesspeople should consider the social consequences of economic actions when making business decisions and that there should be a presumption in favor of decisions that have both good economic and social consequences." Advocates of this approach argue that businesses particularly large successful ones need to recognize their noblesse oblige and give something back to the society that have made them successful. Noblesse oblige is a French term that refers to "honorable and benevolent behavior considered the responsibility of people of high (noble) birth." Some multinationals, however, abuse their power for private gain.

Some multinationals have acknowledged a moral obligation to use their power for enhancing social welfare in the communities where they carry out their business. For instance, BP, one of the world's largest oil companies has made "social investments" a part of its company policy in countries where it does business. In Algeria, BP has invested in a major project to develop gas fields near the desert town of Salah. The company noticed that there was lack of clean water in Salah and subsequently built two desalination plants to offer drinking water to the local community and distributed containers to residents.

Activity 17.1

ABC Construction Ltd. (ABC), a US-based construction company set up its subsidiaries in India. The company faced lot of competition from local construction companies in India. In a bid to gain contracts, the company paid money to the government officials to get their tenders approved. When a third party conducted an audit it found that some illegal practices were carried out by ABC to bag the contracts. What is the ethical issue the company is engaging in? Also state and discuss other ethical issues in international business.

Answer:

17.4 Ethical Dilemmas

The ethical obligations of an MNE toward employment conditions, human rights, corruption, environmental pollution, and the use of power are not clear cut always. There may be no agreement about accepted ethical principles. From an international business perspective, some argue that what is ethical depends on one's cultural perspective. Consider the practice of "gift-giving" between parties to a business negotiation. While this may be considered right and proper behavior in many cultures in Asia, some westerners view this practice as a form of bribery, and therefore find it unethical.

Managers need to confront real ethical dilemmas though real-world decisions are complex and difficult to frame. Doing the right thing or even knowing what the right thing may be is often not very easy.

Example

On 18th April 2019, Mindtree Limited's (Indian Multinational Information Technology and Outsourcing Company) Board of Directors announced a total dividend of 270% (@.₹ 27/- per share) on ₹10 per share, including a special dividend of 200%, final dividend of 40% and interim dividend of 30% for fiscal 2019.

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> The dividend will fetch the promoters alone (who hold 13.32% stake) around ₹60 crore. The dividend package is the highest in the firm's two-decade-long history. This generous dividend payout plan has attracted the regulator's glare. The Securities and Exchange Board of India (SEBI - Regulator) questioned the company about its hefty dividend payout plan and also asked to provide a copy of its dividend policy. Further, another dimension was the company was resisting being a target of a takeover bid by India's largest engineering and construction conglomerate - Larsen and Toubro Ltd (L&T). In market parlance, this dividend announcement could be the company's strategy to try and prevent a hostile takeover (so termed) because it made the stock less attractive to an acquirer (i.e., L&T) as its price becomes more expensive.

Source: ICFAI Research Center

17.5 The Roots of Unethical Behavior

Why do managers behave in an unethical manner? There is no simple answer to this question but few generalizations can be made. First, business ethics is not dissociated with personal ethics, which are the generally accepted principles of right and wrong that govern the conduct of individuals. An individual with a strong sense of personal ethics is less likely to behave in an unethical manner in a business setting. Thus it can be inferred that to establish a strong sense of business ethics, the society should emphasize strong personal ethics.

Home-country managers working overseas in MNEs might experience lot of pressure to violate their personal ethics. They are away from their social context and supporting culture, and they are geographically and psychologically distant from the parent company. They may be placed in a culture that does not follow the same ethical norms that are crucial in the manager's home country. Moreover, they may be surrounded by local employees who have less rigorous ethical standards. The parent company may pressurize expatriate managers to meet unrealistic goals by acting in an unethical manner. Local managers might encourage the expatriate to adopt such behavior.

Second, many studies of unethical behavior in a business setting conclude that business people sometimes do not realize that they are behaving unethically, chiefly because they fail to ask, is this decision or action ethical? The fault lies in the processes that do not incorporate ethical considerations into business decision making.

Third, the climate in some business settings does not encourage people to think through the ethical consequences of business decisions. The unethical behavior in businesses can be attributed to the organizational culture that deemphasizes business ethics. Organizational culture refers to "the values and norms that are shared among employees of an organization." Together, norms and values shape the culture of a business organization, and that culture has a key influence on the ethics of business decision making.

17.6 Philosophical Approaches to Ethics

The different approaches to business ethics are discussed below.

17.6.1 Straw Men

Business ethics scholars have raised the straw men approaches to business ethics chiefly to demonstrate that they offer inappropriate guidelines for ethical decision making in an MNE. Four such approaches discussed in business ethics are described below:

The Friedman Doctrine

In 1970, Milton Friedman wrote an article that since then has become a classic straw man that business ethics scholars outline. Friedman's basic position is that the only social responsibility of business is to increase profits as long as the company stays within the rules of law. He explicitly rejects the idea that businesses must undertake social expenditures beyond those mandate by law and required for efficient business functioning. His belief is that businesses should maximize their profits in order to give maximum returns to its stockholders.

Though Friedman is talking about social responsibility as opposed to business ethics per se, most business ethics scholars equate social responsibility with unethical behavior and thus believe that Friedman argues against business ethics. However, the assumption that Friedman argues against business ethics is quite untrue. In other words, Friedman states that businesses should not engage themselves in fraud and deception and should behave in an ethical manner.

Nevertheless, arguments made by Friedman do break down under examination. This is true in the context of international business where the "rules of the game" are not well established or vary from country to country. For instance, child labor may not be against the law in a developing nation but it is immoral to use child labor as the practice conflicts with widely held views of what is right and proper thing to do.

Cultural Relativism

Cultural relativism is another straw man raised by business ethics scholars. Cultural relativism is "the belief that ethics are nothing more than the reflection of a culture –all ethics are culturally determined – and that accordingly, a firm should adopt the ethics of the culture in which it is operating." Cultural relativism rejects the idea that universal morality notions transcend different cultures. However, it is noted that universal morality notions are found across cultures.

Some ethicists argue that there is residual value in this approach. As societal values and norms vary across cultures, customs also differ, so it might follow that certain business practices are ethical in one country but may not be in another.

The facilitating payments allowed in FCPA can be seen as acknowledgement that in some countries, the payment to government officials is essential to get business done, is least ethically acceptable if not ethically desirable.

Righteous Moralist

A righteous moralist claims that the home country ethical standards of the MNE are appropriate for firms to follow in foreign countries. Typically, this approach is associated with managers from developed nations. The righteous moralist argues that the right thing to do is to follow the prevailing cultural norms.

The major criticism of this approach is that its proponents go too far. While some universal moral principles should not be violated, it does not always follow that the appropriate thing to do is adopt home-country standards.

Example

Wild bit, a US-based software company has operations in 10 countries as of Jan 2022. All its employees work for 4 days per week in the US. It has implemented the same policy for all the employees in all the countries in which it is operating. Righteous Moralist is the **straw man approach** shown in this case.

In this approach, a company follows the ethics and practices of its home country in all the foreign countries. In the above case, Wild bit has implemented its 4 days per week policy in all its foreign country branches; hence, it is a righteous moralist company.

Source: ICFAI Research Center

Naïve Immoralist

A naïve immoralist states that if an MNE manager sees that firms from other nations are not following ethical norms in the host nation, that manager should not either. This approach can be illustrated using the drug lord problem. For instance, in one variant of this problem, an American manager in Columbia routinely pays the local drug lord in order to guarantee that his plant will not be bombed and that none of his employees would be abducted. The manager argues that such payments are ethically defensible, not because everyone else is doing but because doing so may cause greater harm.

The objection is twofold. First, to say that the action is justified ethically if everyone is doing it is insufficient. The firm has a clear choice. It need not abide by the local practices and it can decide not to make any investments in a country where the practices are repulsive. Second, the MNE should recognize that it does have the ability to change the practice prevalent in a country. It can make use of its power for a positive moral purpose.

Another solution to the drug lord problem is to refuse to invest in a country where the rule of law is so weak that drug lords demand protection money. The drug lord problem constitutes one of those ethical dilemmas where there is no obvious right solution, and managers need a moral compass for helping them find an acceptable solution to the dilemma.

17.6.2 Utilitarian and Kantian Ethics

The Utilitarian and Kantian approaches were developed in the 18th and 19th centuries. The utilitarian approach to business ethics dates to philosophers such as David Hume, Jeremy Bentham, and John Stuart Mill. Utilitarian approaches to ethics hold "that the moral worth of actions or practices is determined by their consequences." An action is considered to be desirable if is leads to the best possible balance of good consequences over bad consequences. Utilitarianism commits to maximizing good and minimizing harm. As a business ethics philosophy, it focuses attention on the need to carefully weigh all the social benefits and costs of a business action and pursue only those actions where the benefits outweigh the costs. From the utilitarian perspective, the best decisions are those that produce the greatest good for most number of people.

Many businesses have adopted tools such as risk assessment and cost-benefit analysis that are firmly rooted in a utilitarian philosophy.

The approach has some drawbacks. One problem is measuring the costs, benefits, and risks of an action before deciding to pursue it. Second, the philosophy omits the consideration of justice. The action that does good for many people may result in unjustified treatment of a minority. Such action is unethical because it is unjust.

Kantian ethics are based on the philosophy of Immanuel Kant. Kantian ethics hold that "people should be treated as ends and never purely as means to the ends of others." People are not instruments; they have dignity and need to be respected. Employing people in sweat shops, making them work for long hours for low pay and poor working conditions, is a violation of ethics, according to Kantian philosophy, as it treats people like cogs in a machine and not as moral beings who have dignity. Though contemporary moral philosophers tend to view Kant's ethical philosophy as incomplete – for instance, his system does not have any place for moral emotions or sentiments such as caring or sympathy – the notion that people should be respected and treated in a dignified manner still resonates in the modern world.

Example

According to Bloomberg intelligence (2021), Ted Johnson became a delivery partner at Amazon with 80 leased vans and 160 drivers. After 3 years, he closed the business and lost about $1,00,000. He criticized the machines and algorithms used by Amazon in managing the operations of its partners.

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He said Amazon through its video cameras, telematics devices and smartphone apps, etc. used to monitor drivers' every move, dictates the number of packages to be delivered by a driver in a 10-hour shift. 'We were treated like robots,' Johnson said.

This is Kantian **ethical approach** that made the practice of Amazon unethical in the above case. This approach holds that people must be treated with dignity and should not be treated like machines, or cogs in machines, or robots to work for longer hours. It is unethical as per this approach. Hence, the above case indicates the unethical practice of Amazon as per the Kantian approach.

Source: ICFAI Research Center

Example

In April 2019, the LinkedIn Technology Information Limited, Bengaluru Office, was awarded LEED Platinum certification by the USA[1] for its improved environmental and human health performance. The company worked successfully as its office space achieved 42 per cent energy savings, used 46 per cent less water compared to a traditional building and had 100 per cent height adjustable workstations. It was designed to have easy access to public transport, carpooling parking and bicycle storage facility for employees who would like to cycle to work. The company declared that over 60 per cent of its global office footprint has this green building certification.

Source: ICFAI Research Center

17.6.3 Rights Theories

Rights theories developed in the 20th century recognize that human beings have basic rights and privileges that transcend national cultures and boundaries. Rights set up a minimum level of morally acceptable behavior. Moral theorists argue that basic human rights form the basis for the moral compass that should be navigated by managers when they make decisions that have an ethical component. Precisely, the managers should not pursue actions that violate the basic human rights.

Example

World Finance (2021) reported that major pension funds and investment companies such as BlackRock, Hargreaves Lansdown, Aviva, et al are investing in businesses which are ethical and sustainable in terms of ESG (environmental, social and governance) and avoiding investing in ethically questionable businesses.

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[1] The LEED (Leadership in Energy and Environmental Design) rating system, developed by the US Green Building Council (USGBC), is the foremost programme for buildings, homes and communities that are designed, constructed, maintained and operated for improved environmental and human health performance.

It is due to a shift in the attitude of investors after observing the mounting physical toll of climate change in fires, droughts, flooding and hurricanes. Now, they are evaluating the businesses from an ethical perspective based on their conscience before making investment decisions. Moral Compass is the **criterion** that investors opted in making the investment in the above case

Moral Compass is the inner guide of a person which tells a person what is right and what is wrong in a given situation. In the above case, after observing the impact of businesses on the climate, investors have decided to finance only those businesses which comply with ESG norms. They have used a moral compass.

Source: ICFAI Research Center

The notion that basic rights that transcend national cultures and boundaries was the underlying motivation for the United Nations Declaration of Human Rights, which are ratified by all countries worldwide and lays down basic principles to be adhered to irrespective of the culture in which one is doing business.

Within the framework of the rights theory, certain people or institutions are obligated to offer benefits or services that secure the rights of others. Such obligations fall upon more than one class of moral agent. (A moral agent is "any person or institution that is capable of moral action such as government or corporation.").

Example

A joint report by ILO and WHO (2021) stated that long working hours are causing deaths of employees from heart disease and stroke. The study found that working 55 or more hours per week is associated with an estimated 35% higher risk of a stroke compared to working 35-40 hours a week. Further, the number of people working for long hours is increasing, the risk of early death is also increasing. Governments and employers have to take appropriate measures to stop this trend.

In the given situation, the government and employers have to play the role of moral agents to stop employee deaths.

Source: ICFAI Research Center

17.6.4 Justice Theories

Justice theories focus on attaining a just distribution of economic goods and services. A just distribution is one that is considered to be fair and equitable. A justice theory attributed to philosopher John Rawls argues that all the economic goods and services should be equally distributed except when an unequal distribution will work for everyone's advantage.

According to Rawls, valid justice principles are the ones which are agreed upon by all people if they could impartially and freely consider the situation. Impartiality is guaranteed by a conceptual device called veil of ignorance. Under the veil of ignorance, everyone is imagined to be ignorant of all of his/her particular characteristics, for instance, race, nationality, sex, intelligence, family backgrounds, and special talents. Rawls then asks under the veil of ignorance what system would people design. Under these conditions, people unanimously agree upon on two fundamental principles of justice.

The first principle is that every person should be allowed the maximum amount of basic liberty compatible with a similar liberty for others. This refers to political liberty, liberty of conscience and freedom of thought, freedom of speech and assembly, the freedom and right to hold personal property, and freedom from arbitrary arrest and seizure.

The second principle is that once equal basic liberty is assured, inequality in basic social goods – such as income and wealth distribution, and opportunities should be allowed only if such inequalities benefit everyone. Precisely, Rawls formulates what he calls the difference principle, which states that inequalities are justified if they benefit the position of the person with least advantage.

In the context of international business ethics, Rawl’s theory generates an interesting perspective. Managers can question themselves whether the policies adopted by them in foreign operations can be considered just under the veil of ignorance. For instance, is it just to pay foreign workers less than what workers are paid in the firm’s home country? Rawl’s theory would suggest that it is just as long as the inequality benefits the least-advantaged members of the global society. Alternatively, it is difficult imagining that mangers operating under a veil of ignorance will design a system where foreign employees would be paid subsistence wages for working for long hours in sweatshop conditions and where they were exposed to toxic and hazardous materials. Such working conditions are unjust in Rawl’s framework and hence, it is unethical to adopt them. While operating under a veil of ignorance, most people would probably design a system that imparts some level of protection from environmental degradation to vital global commons, such as the tropical forests, oceans, and atmosphere. Thus, Rawl’s veil of ignorance is a conceptual tool contributing to the moral compass that can be used by managers for navigating themselves through complex ethical dilemmas.

17.7 Ethical Decision Making

International business and managers can focus on several things to ensure that ethical issues are considered in business decisions. They are discussed below.

17.7.1 Hiring and Promotion

Businesses should strive to hire people having a strong sense of personal ethics and who would not engage in illegal or unethical behavior. Similarly, a business is expected not to promote people and fire people, whose behavior does not match with the generally accepted ethical standards. Many people hide their lack of personal ethics from public view as unethical people are not trusted any longer.

Businesses can give potential employees psychological tests for discerning their ethical predisposition, and they can check with the prior employees about someone's reputation. The latter has an influence on the hiring process.

Promoting people who have displayed poor ethics should not occur in a firm where the organization culture values the need for ethical behavior and where leaders act accordingly.

17.7.2 Organization Culture and Leadership

Businesses need to build an organization culture that values ethical behavior. Such culture helps in fostering ethical behavior. Three things are crucial for building such a culture. First, businesses should articulate values that emphasize ethical behavior. Many companies draft a code of ethics, which is a formal statement of the ethical priorities adhered by the business. Second, leaders should life and meaning to the values articulated in a code of ethics. This can be done by emphasizing their significance and acting upon them. Some companies like Nike have hired independent auditors to ensure that the subcontractors in the company are living up to the code of conduct.

Finally, building an organizational culture that places a high value on ethical behavior requires benefits and incentive systems, including promotions that benefit people engaging in ethical behavior.

17.7.3 Decision-making Processes

Businesses should think through the ethical implications of decisions in a systematic way. This requires a moral compass and both rights theories and Rawl's theory of justice in order to provide such as compass. Beyond these theories, some ethics experts have proposed a straightforward practical guide – or ethical algorithm – for determining whether a decision is ethical. These experts need to answer questions such as:

- Does my decision fall within the accepted standards or values that can be applied in an organizational environment?
- Am I willing to see the decision communicated to all stakeholders affected by it?
- Will the people with whom I share a significant personal relationship such as family, friends, or even managers in other businesses, give approval to the decision?

Others have recommended a five-step process in order to think through the ethical problems.

In Step 1, businesspeople should identify a decision which would affect a stakeholder and in what ways it would affect. Stakeholders in a firm are individuals or groups having a claim, interest, or stake in the company. Internal stakeholders are individuals or groups working for or owning the business. They include employees, stockholders, and board of directors. External stakeholders are other individuals or groups having a claim on the firm. The group comprises customers, lenders, suppliers, unions, local communities, governments, and the general public.

Each stakeholder group supplies important resources to the organization and in exchange expects its interest to be satisfied.

Stakeholder analysis involves analysis certain amount of moral imagination. This means standing in the stakeholder's shoes and asking how a decision proposed may impact that stakeholder.

Example

The CEO of British Petroleum (BP) – Bernard Looney said in an interview with Mc Kinsey (2021) that BP wants to become a more diverse and lower-carbon company and their shareholders want value for what they have invested. After assessing that trillions of dollars are going to be invested in the future in the affordable, reliable and cleaner energy sector, BP has decided to enter this sector to create value for its shareholders.

In the ethical algorithm this is step 1. In this step of the ethical algorithm, the company assesses whether its decision falls within the accepted norms of the organization or not. Thus, the above case belongs to step 1.

Source: ICFAI Research Center

Step 2 involves judging the ethics of the proposed strategic decision using the information gained in Step 1. Managers should determine whether a proposed decision would violate the fundamental rights of any stakeholder. For instance, the customers should have the right to know about the potentially dangerous features of a product. Mangers should also ask themselves whether they would allow the proposed strategic decision if they were designing a system under Rawl's veil of ignorance. For instance, if the decision is whether to outsource work to a subcontractor with low pay and poor working conditions, managers might ask themselves whether such action could be allowed under a veil of ignorance, where they themselves might ultimately be the ones working for the subcontractor.

At this stage, the judgment should be guided by various moral principles that should not be violated. The principles might be the ones articulated in the code of ethics or other documents of the company. In addition, certain moral principles that are adopted by members of the society such as prohibiting stealing should not be violated. The judgment at this stage will also be guided by the decision rule that is selected for assessing the proposed strategic decision. Though maximizing profits is the decision rule stressed by businesses, it should not be noted that no moral principles are violated.

Step 3 requires managers to establish moral intent. This means that businesses should place moral concerns ahead of other concerns in cases where either the key moral principles or the fundamental rights of stakeholders have been violated. At this stage, input from top management will be valuable.

Step 4 requires the firm to engage in ethical behavior.

Step 5 requires the business to audit its own decisions, reviewing them to ensure they were consistent with the ethical principles as stated in the company's code of ethics. This final step is critical and is often overlooked. Without auditing past decisions, businesspeople will not know if their decision process is working and if changes are needed for ensuring greater compliance with the code of ethics.

17.7.4 Ethics Officers

Businesses have ethics officers to ensure that their business behaves in an ethical manner. These individuals are entrusted with the responsibility to ensure that all employees are trained to be ethically aware, that the company's code of ethics is adhered to, and that ethical considerations enter the business decision-making process. Ethics officers may also audit decisions to ensure that they are consistent with the code of ethics. In many businesses, ethics officers act as an internal ombudsperson with responsibility to handle confidential inquiries from employees, investigating complaints, report findings, and making recommendations for change.

17.7.5 Moral Courage

It is crucial to recognize that employees in an international business may need moral courage significantly. Moral courage helps a manger to walk away from a decision that seems to be profitable but unethical. Moral courage gives strength to an employee to say no to a superior who instructs him/her to pursue an action that is unethical. Moral courage gives employees the integrity to go to the media and publicly display the unethical behavior in a company.

Companies can encourage the moral courage of employees by committing themselves to not to retaliate against employees exercising moral courage, saying no to superiors, or complaining about their unethical actions.

Activity: UT Ltd., an aerospace company has had a formal code of ethics since 1990. The top management of the company carried out an audit to ensure that the decisions take by managers was complying with the code of ethics. The management found that the mangers took decisions without

any ethical consideration. The company wanted to take some steps to ensure that the decisions taken were ethical and should benefit the company as well as its various stakeholders. Suggest methods to the company which ensure that the ethics is considered in business decision-making. **Answer:**

Check Your Progress - 1

1. The tragedy of the commons phenomenon was named by ___.
   a. Garrett Hardin.
   b. Carl Kotchian
   c. John Rawls
   d. David Hume
2. Which act outlawed the paying of bribes to foreign government officials for gaining business?
   a. Code of ethics
   b. Organization for Economic Cooperation and Development
   c. Foreign Corrupt Practices Act
   d. None of the above
3. __________are also known as grease payments or speed money.
   a. Moral compass
   b. Veil of ignorance
   c. Bribes
   d. Facilitating payments
4. __________refers to the idea that businesspeople should consider the social consequences of economic actions when making business decisions and that there should be a presumption in favor of decisions that have both good economic and social consequences.
   a. Ethical responsibility
   b. Social responsibility
   c. Economic responsibility
   d. Ethical conduct

5. __________ refers to honorable and benevolent behavior considered the responsibility of people of high (noble) birth.
   a. Moral obligation
   b. Noblesse oblige
   c. Moral compass
   d. Cultural relativism
6. __________refers to the values and norms that are shared among employees of an organization.
   a. Organization development
   b. Organization structure
   c. Organizational culture
   d. Business ethics
7. The different approaches to business ethics include
   i. Straw men
   ii. Utilitarian and kantian ethics
   iii. Motivation theories
   iv. Organization culture
   v. Rights theories and justice theories
   a. i, ii, iii, and iv
   b. ii, iii, iv, and v
   c. i, iii, iv, and v
   d. i, ii, iii, and v
8. According to _____, the only social responsibility of business is to increase profits as long as the company stays within the rules of law.
   a. Naïve immoralist
   b. Cultural relativism
   c. Righteous moralist
   d. Friedman doctrine
9. __________is the belief that ethics are nothing more than the reflection of a culture – all ethics are culturally determined – and that accordingly, a firm should adopt the ethics of the culture in which it is operating.
   a. Cultural relativism
   b. Utilitarian approach
   c. Naïve immoralist
   d. Righteous moralist

10. A _ claims that the home country ethical standards of the MNE are appropriate for firms to follow in foreign countries.
    a. Righteous moralist
    b. Naïve immoralist
    c. Kantian ethics
    d. Utilitarian approach
11. A _states that if an MNE manager sees that firms from other nations are not following ethical norms in the host nation, that manager should not either.
    a. Kantian ethics
    b. Cultural relativism
    c. Righteous moralist
    d. Naïve immoralist
12. __________approaches to ethics hold that the moral worth of actions or practices is determined by their consequences.
    a. Utilitarian
    b. Kantian
    c. Rights theory
    d. Justice theory
13. __________hold that people should be treated as ends and never purely as means to the ends of others.
    a. Kantian ethics
    b. Organizational culture
    c. Utilitarian approach
    d. Business ethics
14. __________recognize that human beings have basic rights and privileges that transcend national cultures and boundaries.
    a. Theory of justice
    b. Straw men Rights
    c. Theories Utilitarian
    d. Approach
15. A _ is any person or institution that is capable of moral action such as government or corporation.
    a. Moral compass
    b. Moral agent
    c. Ethics officers
    d. Righteous moralist

16. ___focus on attaining a just distribution of economic goods and services.
    a. Rights theories
    b. Motivation theories
    c. Leadership theories
    d. Justice theories
17. __________are entrusted with the responsibility to ensure that all employees are trained to be ethically aware, that the company's code of ethics is adhered to, and that ethical considerations enter the business decision-making process.
    a. Moral agents
    b. Ethics officers
    c. Business managers
    d. Stakeholders

17.8 Summary

- The most common ethical issues in an international business setting are employment practices, human rights, environmental pollution, corruption, and moral obligations.
- Managers need to confront real ethical dilemmas though real-world decisions are complex and difficult to frame. Doing the right thing or even knowing what the right thing may be is often not very easy.
- Managers behave in an unethical manner for several reasons. First, business ethics is not dissociated with personal ethics, which are the generally accepted principles of right and wrong that govern the conduct of individuals. Second, many studies of unethical behavior in a business setting conclude that businesspeople sometimes do not realize that they are behaving unethically, chiefly because they fail to ask, is this decision or action ethical? Third, the climate in some business settings does not encourage people to think through the ethical consequences of business decisions.
- The different approaches to business ethics are straw men, utilitarian and kantian ethics, rights theories, and justice theories.
- International business and managers can focus on several things to ensure that ethical issues are considered in business decisions. They are hiring and promotion, organization culture and leadership, decision-making processes, ethics officers, and moral courage.

17.9 Glossary

Moral agent: A moral agent is any person or institution that is capable of moral action such as government or corporation.

Organizational culture: Organizational culture refers to the values and norms that are shared among employees of an organization.

Social responsibility: Social responsibility refers to the idea that businesspeople should consider the social consequences of economic actions when making business decisions and that there should be a presumption in favor of decisions that have both good economic and social consequences.

17.10 Self-Assessment Test

1. Discuss in brief the different ethical issues in international business.
2. Explain the ethical dilemmas that managers confront while doing business.
3. Explain why managers behave in an unethical manner.
4. Describe the several philosophical approaches to ethics.
5. Explain the ways which international businesses and its managers can use to ensure that ethical issues are considered in business decisions.

17.11 Suggested Readings/Reference Material

1. Charles W L Hill and G Thomas M Hult (2021). International Business – Competing in the Global Marketplace. 12th edition, McGraw Hill India.
2. Oded Shenkar, Yadong Luo, Tailan Chi (2021). International Business, 4th edition, Routledge
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Additional References:

1. Serenity Gibbons. How to expand your business internationally without compromising your core model. Forbes (2020). https://www.forbes.com/sites/serenitygibbons/2020/03/24/how-to-expand-a-business-internationally-without-compromising-your-core-model/?sh=66335a6f741d

2. IFRS Foundation. Use of IFRS standards around the world. 2018. https://cdn.ifrs.org/-/media/feature/around-the-world/adoption/use-of-ifrs-around-the-world-overview-sept-2018.pdf
3. Brett Steenbarger. Why diversity matters in the world of Finance. 2020. https://www.forbes.com/sites/brettsteenbarger/2020/06/15/why-diversity-matters-in-the-world-of-finance/?sh=36dba0637913
4. IFC. Social and Green Bonds. https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/investor+relations/ir-products/socialbonds
5. Business Insider. Global ecommerce market report: ecommerce sales trends and growth statistics for 2021. https://www.businessinsider.com/global-ecommerce-2020-report?IR=T

17.12 Answers to Check Your Progress Questions

1. (a) Garrett Hardin

The tragedy of the commons phenomenon was named by Garrett Hardin.

2. (c) Foreign Corrupt Practices Act

The Foreign Corrupt Practices Act outlawed the paying of bribes to foreign government officials for gaining business.

3. (d) Facilitating payments

Facilitating payments are also known as grease payments or speed money.

4. (b) Social responsibility

Social responsibility refers to the idea that businesspeople should consider the social consequences of economic actions when making business decisions and that there should be a presumption in favor of decisions that have both good economic and social consequences.

5. (b) Noblesse oblige

Noblesse oblige refers to honorable and benevolent behavior considered the responsibility of people of high (noble) birth.

6. (c) Organizational culture

Organizational culture refers to the values and norms that are shared among employees of an organization.

7. (d) i, ii, iii, and v

The different approaches to business ethics are straw men, utilitarian and kantian ethics, rights theories, and justice theories.

8. (d) **Friedman doctrine**

According to Friedman doctrine, the only social responsibility of business is to increase profits as long as the company stays within the rules of law.

9. (a) **Cultural relativism**

Cultural relativism is the belief that ethics are nothing more than the reflection of a culture – all ethics are culturally determined – and that accordingly, a firm should adopt the ethics of the culture in which it is operating.

10. (a) **Righteous moralist**

A righteous moralist claims that the home country ethical standards of the MNE are appropriate for firms to follow in foreign countries.

11. (d) **Naïve immoralist**

A naïve immoralist states that if an MNE manager sees that firms from other nations are not following ethical norms in the host nation, that manager should not either.

12. (a) **Utilitarian**

Utilitarian approaches to ethics hold that the moral worth of actions or practices is determined by their consequences.

13. (a) **Kantian ethics**

Kantian ethics hold that people should be treated as ends and never purely as means to the ends of others.

14. (c) **Rights theories**

Rights theories developed in the 20th century recognize that human beings have basic rights and privileges that transcend national cultures and boundaries.

15. (b) **Moral agent**

A moral agent is any person or institution that is capable of moral action such as government or corporation.

16. (d) **Justice theories**

Justice theories focus on attaining a just distribution of economic goods and services.

17. (b) **Ethics officers**

Ethics officers are entrusted with the responsibility to ensure that all employees are trained to be ethically aware, that the company's code of ethics is adhered to, and that ethical considerations enter the business decision-making process.

International Business

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