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A Framework for Developing an Effective Strategy for Managing in Diverse Moral Environments

by Christopher J. Robertson

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A FRAMEWORK FOR DEVELOPING AN EFFECTIVE STRATEGY FOR MANAGING IN DIVERSE MORAL ENVIRONMENTS

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ABSTRACT

When managers from multinational firms search for new and promising national markets, one of the most crucial elements in the market-entry decision is the level of corruption. As more firms extend operations into burgeoning markets with diverse moral mindsets, developing an ability to cope with varying levels of corruption will become increasingly important. Although many ethical decision-making models have been proposed in recent years, the vast majority have been descriptive in nature, offering various explanations as to why certain ethical differences tend to exist across borders. The purpose of this paper is to propose a firm-level model of international strategic moral management. The model draws significantly from prior research and offers some pragmatic suggestions surrounding strategic moral decision-making in foreign markets. Managerial implications are also discussed and future research directions are proposed.

A FRAMEWORK FOR DEVELOPING AN EFFECTIVE STRATEGY FOR MANAGING IN DIVERSE MORAL ENVIRONMENTS

"Rich countries must provide practical support to developing country governments that demonstrate the political will to curb corruption. In addition, those countries starting with a high degree of corruption should not be penalized, since they are in the most urgent need of support."

Peter Eigen, Chairman, Transparency International, October 2003

Indeed, the influence that wealthier nations have on less-developed nations is staggering. While the economic benefits of Foreign Direct Investment flows from wealthy to poor nations are well established, the transfer of moral and cultural values is exceedingly vague and complex (Robertson and Crittenden, 2003). The public and private sector scandals around the world since the start of the 21st century have been abundant and financially substantial. The Fujimori scandal in Peru. The Enron and Worldcom debacles in the United States. Top level governmental corruption in France, Italy, and Japan. Not a day goes by when managers in multinational firms are not left weighing the costs and benefits of corruption (Butler and Juaquin, 1998; Hosmer, 2000).

Not all of the news is bad though. Many nations have made significant progress toward curbing rampant corruption. For example, according to Transparency International's 2003 Corruption Perceptions Index (CPI), the level of corruption in nations such as Colombia, France and Malaysia has been dropping significantly over time (Transparency International, 2003). For example, the current corruption levels in more 'westernized' nations such as Greece, South Africa, and Costa Rica are all above that of Malaysia in 2003.

A number of anti-corruption agreements have also been signed in the past decade, led by the OECD's 1997 anti-corruption pact (Husted, 2002). Due to increased awareness, and global concern, many firms have now developed rigid anti-corruption policies in order to bolster their corporate image among consumers, investors and the local community (Cassel, 2001). Levi Strauss, for example, developed its global sourcing guidelines, officially known as the *Business Partner Terms of Engagement*, which specify environmental, ethical and other standards (Nichols, 1992). Royal Dutch Shell's focus on business integrity is stated clearly through its principle "The direct or indirect offer, payment, soliciting and acceptance of bribes in any form are unacceptable practices" (www.shell.com).

Managers have been struggling with "cross-cultural" ethical issues for a number of years and recognize that the more prepared they are in the international arena the less likely they are to have a scandal on their hands. Managers of multinational firms who are charged with directing international strategy, as well as developing policies related to ethical or political risk decision-making, are continually searching for more information related to factors that may influence market entry decisions (Hosmer, 1994; 2000).

Scholars have been working hard to help clarify and explain some of the deep nuances of international corruption. In the business ethics literature numerous ethical decision-making models have been proposed in recent years and significant progress has been made toward a better understanding of why individuals from different cultures, and in different situations, tend to behave in varying moral fashions (e.g. Jones, 1991; Treviño, 1986; Robertson & Fadil, 1999). Very few models have focused on firm-level strategic issues that have a more direct impact on policy development for firms operating in foreign environments (Robertson & Crittenden, 2003). The purpose of this paper is therefore to develop a firm-level model of international strategic moral management.

This paper is structured as follows: in the next section a review of current patterns and issues in international corruption are addressed. In the next two sections a brief review and assessment of two published models related to strategic ethical policy development is presented. This is followed by description of the proposed model and an analysis of various circumstances in which reference to the model may be appropriate. The paper concludes with a discussion of future research directions and implications for scholars and practitioners.

CORRUPTION ISSUES AND PATTERNS IN INTERNATIONAL BUSINESS

Why is it that some workers play by the rules and are generally honest while others have a propensity for misconduct? The answer to this question is very complicated and depends on a number of factors such as the situation at hand, the employee's values and the moral climate of the organization. According to Ferrell et al. (2000) and the Ethics Resource Center/Society for Human Resource Management (ERC, 1997) there are a number of primary causes of unethical behavior in the work place:

Principal Causes of Unethical Behavior

Meeting aggressive financial objectives
Meeting schedule pressures
Helping the organization survive
Rationalizing that others do it
Resisting competitive threats
Saving Jobs

Indeed, when a firm is trying to achieve a predetermined level of success, worker rewards tend to be tied to that performance measure. And when the timetables or target revenue figures are not met, bonuses are generally affected and jobs may be lost. Another common situation is when individuals observe inappropriate behavior in the workplace yet do not report the misconduct to authorities. This can occur for a number of reasons according to the ERC (1997):

Reasons for Not Reporting Observed Misconduct

Afraid of not being deemed a Team Player
Didn't believe corrective action would be taken
Fear of retribution
No one else cares
Didn't trust firm to keep report confidential

The causes of unethical behavior and reasons for not reporting misconduct cited above are based on surveys of U.S. workers. Clearly there are organizational, legal, and cultural issues that may alter these explanations from country to country (Husted, 1999; Robertson & Crittenden, 2003; Robertson & Fadil, 1999). A myriad of macroeconomic factors such as income per capita, employment statistics, foreign direct investment and form of government may also play a role in the perception of morality and the adherence to a legal code (Getz & Volkema, 2001; Husted, 1999; O'Driscoll et al, 2003). In the next section an analysis of country level corruption statistics will be performed and this is followed by the development of a strategic model that is designed to be a pragmatic tool for firms operating in diverse moral environments.

Global Patterns of Corruption

Undoubtedly, the top agency charged with tracking corruption patterns around the globe has become Transparency International (www.transparency.org). Transparency's Corruption Perceptions Index (CPI) commenced in 1995 with an assessment of 41 nations and now includes 133 nations in the 2003 version. The CPI is essentially a composite of surveys and reputable organizations such as the World Economic Forum, the World Bank, and the Institute for Management Development (IMD) are active participants in the process. The CPI focuses strictly on perceptions of corruption practiced within the select countries. Thus a U.S. manager's payment of a bribe in Egypt to secure a contract does not count against either nation's CPI score. Because the definition, both morally and legally, of what constitutes corruption can vary widely from country to country, the CPI tends to be more reliable than crime statistics because of its consistent approach across borders. Moreover, enforcement of laws is extremely erratic and variable in the international context. For example, bribery is a highly convicted crime in nations such as Singapore yet somewhat overlooked in Ecuador. The crime statistics would lead one to believe, mistakenly, that bribery is more commonplace in Singapore.

In the 2003 CPI Finland, Iceland, Denmark, New Zealand and Singapore round out the top five least corrupt nations. In Tables 1 and 2 corruption, income and economic freedom statistics are presented for select countries. Table 1 provides a summary of the twenty least corrupt nations according to Transparency International's (2003) latest survey. What do these nations have in common? The first striking pattern is wealth: with the exception of New Zealand and Chile every country in the top twenty has a GDP per capita of above US $20,000. And the mean income per capita for the top twenty is $30,426. Certainly, income matters (Husted, 1999). The wealthier nations can afford to be more ethical and moral in daily business operations. Insider trading, bribery, extortion, falsifying documents, and defective products are much more common in poor nations (Boatright, 2000, Husted, 1999). The outliers that may not be completely captured in the Transparency data are the big white collar crimes that have occurred recently such as the Global Crossing and Worldcom debacle.

TABLE 1: **Top Twenty Least Corrupt Nations in 2003 (Transparency International)**

Rank	Country	Score	GDP per capita	Economic Freedom
1	Finland	9.7	$32,063	1.90
2	Iceland	9.6	31,787	1.90
3	Denmark	9.5	38,633	1.80
3	New Zealand	9.5	18,156	1.70
5	Singapore	9.4	26,806	1.50
6	Sweden	9.3	31,574	1.90
7	Netherlands	8.9	31,203	1.90
8	Australia	8.8	23,588	1.85
8	Norway	8.8	38,167	2.30
8	Switzerland	8.8	47,237	1.95
11	Canada	8.7	23,106	2.05
11	Luxembourg	8.7	55,744	1.70
11	United Kingdom	8.7	22,241	1.85
14	Austria	8.0	32,630	2.10
14	Hong Kong	8.0	24,506	1.45
16	Germany	7.7	32,765	2.10
17	Belgium	7.6	31,263	2.10
18	Ireland	7.5	29,687	1.75
19	USA	7.5	31,932	1.80
20	Chile	7.4	5,436	2.00

Sources: Transparency International, World Bank and The Index of Economic Freedom

TABLE 2: Bottom Twenty Most Corrupt Nations in 2003 (Transparency International)

Rank	Country	Score	GDP per capita	Economic Freedom
113	Congo, Republic of	2.2	$ 841	3.70
113	Ecuador	2.2	1,425	3.45
113	Sierra Leone	2.2	147	3.85
113	Uganda	2.2	348	2.85
118	Cote d'Ivoire	2.1	743	3.05
118	Kyrgyzstan	2.1	885	3.35
118	Libya	2.1	n/a	4.30
118	Papua New Guinea	2.1	n/a	n/a
122	Indonesia	1.9	994	3.30
122	Kenya	1.9	328	3.10
124	Angola	1.8	506	n/a
124	Azerbaijan	1.8	506	3.35
124	Cameroon	1.8	675	3.35
124	Georgia	1.8	499	3.40
124	Tajikistan	1.8	386	3.95
129	Myanmar	1.6	n/a	n/a
129	Paraguay	1.6	1,700	3.30
131	Haiti	1.5	367	3.60
132	Nigeria	1.4	254	3.85
133	Bangladesh	1.3	373	3.50

Sources: Transparency International, World Bank and The Index of Economic Freedom

The bottom twenty nations on Transparency International's ranking also share some commonalities. With the exception of Ecuador and Paraguay every country in this group has a GDP per capita of less than US$ 1,000 annually. The mean per capita income for the lower twenty is a paltry $645. This pattern provides further evidence that income matters when it comes to corruption patterns in a nation (Getz and Volkema, 2001; Husted, 1999).

The openness of an economy to trade also seems to play a role in determining the level of corruption in a nation. Referring back to the top twenty again (Table 1) fourteen of the twenty nations have "free" scores of below 2.0 (a 1.0 is a perfectly free score) and 6 nations have "mostly free" scores of between 2.0 and 3.0. Lower scores signify more open economies. The mean score for the top twenty is 1.88 and only one nation in the top ten, Norway, scored above 2.0. According to O'Driscoll et al. (2003, pg. 50) economic freedom is defined as "the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself." Economic Freedom is measured by ten constructs: fiscal burden of government, government intervention in trade, monetary policy, foreign investment, banking and finance, wages/prices, property rights, regulations and the role of black market activity (O'Driscoll et al., 2003). The 2003 Index of Economic Freedom scores 161 nations.

A significant contrast exists between the Transparency top twenty and bottom twenty with respect to economic freedom. While the mean economic freedom score for the top twenty is 1.88, in the bottom twenty the mean score is 3.49, which falls right in the middle of the "mostly unfree" category. The layers of bureaucracy that exist in governments of poor nations tend to create numerous opportunities for corruption (O'Driscoll et al., 2003).

In addition to income and economic freedom, other factors appear to influence the perceived level of corruption in a country such as the local culture, abundance of natural resources and law enforcement. These factors will be explored in the following sections.

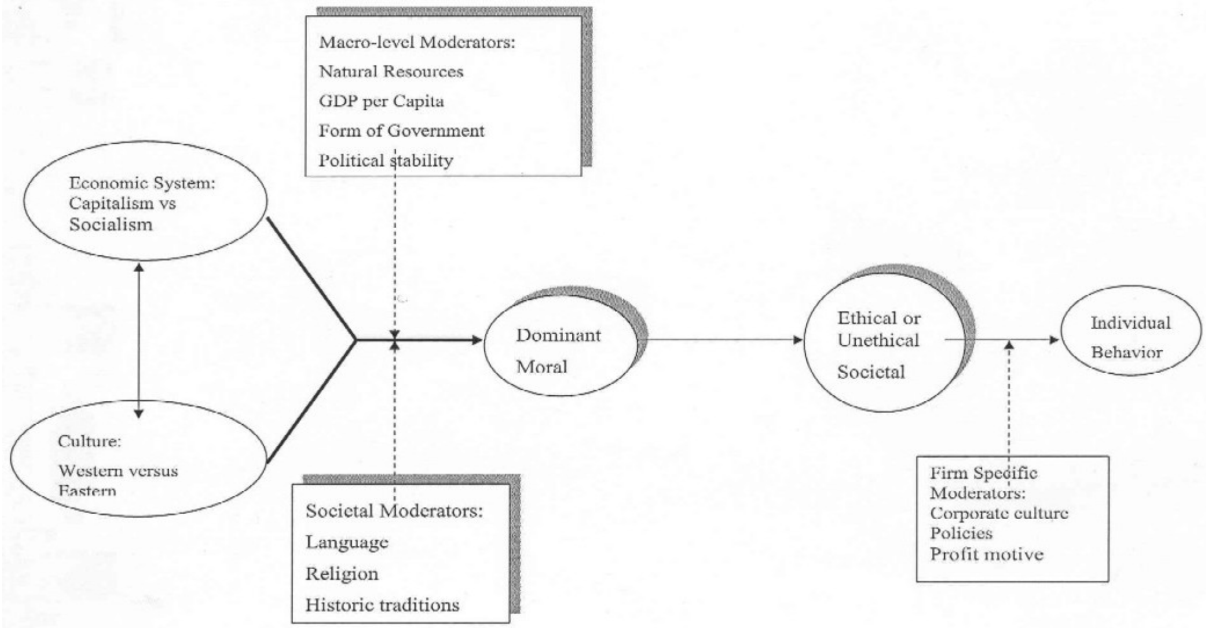
Prior Research and Ethical Decision-making Models

Prior research of cross-cultural ethics has been a mix of empirical studies and conceptual models (Davis et. al, 1998; Husted, 1999; Robertson & Crittenden, 2003) with much less emphasis placed on the modeling approach. While a number of domestic ethical decision-making models have been developed (i.e. Brass et al, 1998; Rest, 1986) efforts at the international level have lagged. One international model developed by Wines and Napier (1992), suggested that abstract moral values are moderated by societal and environmental variables in creating dominant cultural practices. Robertson and Fadil (1999) introduced a culture-based consequentialist model to explain how cultural differences may impact the individual's processing of ethical issues. In order to facilitate a better conceptualization of the issues involved with cross-cultural ethical decision-making Robertson & Crittenden (2003) developed a societal level model which will be reviewed next.

MODEL 1: A Moral Philosophy Model of Cross-Cultural Societal Ethics

One notable effort to model the various moral influences on firms operating in foreign markets was published in *Strategic Management Journal* by Robertson and Crittenden (2003). While the authors acknowledge that their model borrows heavily from the earlier established works of Treviño (1986) and Jones (1991) the two key additions that they make are the variables of economic system and culture (see Figure 1). Moreover, their model is primarily focused on the macro-level moral environment whereas business ethics researchers have traditionally been grounded in individual-level phenomena.

Figure 1: A Moral-Philosophy Model of Cross Cultural Societal Ethics
(Source: Robertson & Crittenden, 2003)



Clearly the moral climate, or environment, of a country sets the tone for what is, or is not, acceptable behavior in that society. The Robertson/Crittenden model commences with the interaction of economic system and culture as the basis for the overall moral environment in a country (Ralston et al., 1997). The authors assert that the power of a nation's socioeconomic environment cannot be overlooked.

In this model a number of macro-level and societal factors are proposed that moderate the relationship between the socioeconomic environment and the dominant moral philosophy. Macro-level variables such as the munificence of natural resources, relative wealth, the type of government and its stability, help shape the general public's moral paradigm (Husted, 1999). Societal moderators, such as language, religion, and historic traditions, also help in the determination of a generally accepted moral view (Wines & Napier, 1992). Robertson and Crittenden (2003) also propose an additional set of moderators which include firm specific factors such as corporate culture, policies related to unacceptable behavior, and the financial status of the firm. After traversing this macro-level model to ascertain the moral philosophy in a society, individual-level concepts such as situational contingency factors and moral reasoning can be examined (Treviño, 1986).

The Robertson/Crittenden model does a good job of building on prior models and offers some interesting insight into why this "moral environment' gap exists between nations. The model is very descriptive however and very few practical implications are either addressed or implied.

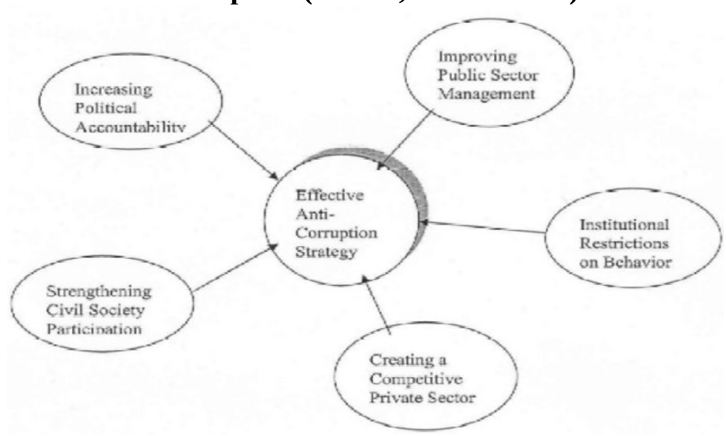
MODEL 2: The World Bank's Multi-Pronged strategy: Addressing State Capture and Administrative Corruption

In September 2000, the World Bank published an important report titled Anticorruption in Transition: A Contribution to the Policy Debate (www.worldbank.org). In this comprehensive report geared toward policymakers and addressing their ongoing struggles with corruption in foreign governments, a model is proposed that provides strategic alternatives for foreign governments interested in incrementally curbing corruption in their home environments. The Model (see Figure 2), Multi-pronged Strategy: Addressing State Capture and Administrative Corruption follows.

The World Bank model proposes that five factors, if appropriately addressed and implemented, can have a major impact on the effectiveness of a national government to combat corruption:
increasing political accountability, improving public sector management, institutional restrictions on behavior, creating a competitive private sector,

and strengthening civil society participation. Key policies related to this model include transparency in party financing (political accountability), the competitive restructuring of monopolies (competitive private sector), and decentralization with accountability (public-sector management). While this model has a number of compelling features its applicability to private sector firms is somewhat unclear. Thus Model 3 has been developed.

Figure 2: The World Bank's Multi-Pronged Strategy: Addressing State Capture and Administrative Corruption (Source, World Bank)



MODEL 3: A Firm-Level Model of International Strategic Moral Management

In the proposed model a more pragmatic approach is taken. The genesis of this model was the need for a pragmatic tool that managers can utilize to better visualize and rationalize the key factors related to making moral decisions in diverse moral climates. The same ethics policy employed by a firm in its Hong Kong subsidiary may not work as effectively in its Egyptian subsidiary due to a myriad of forces such as different cultural values, legal systems and economic conditions. Model 3 is therefore a synthesis of issues that have been presented in prior models yet with a managerial audience in mind. While the work in this field is still in a relatively embryonic stage, it is the hope of this author that the countless approaches followed by different scholars will ultimately coalesce into a cogent understanding of the ethical decision-making process in multinational settings.

Figure 3: A Firm-Level Model of International Strategic Moral Management (Proposed in current paper)

In Model 3 two "tiers" of factors are presented: firm practices and employee directives. Firm practices are matters that relate to the establishment of policies, either universally or on a country-specific basis, and should be established based on the organization's strategic and moral objectives. These practices can be updated periodically and are somewhat interrelated. The practices include: the development of a code of ethics, the establishment of policies related to ethically sensitive matters such as bribery and contract procurement, the development of a system of rewards and punishments, and the continual monitoring of the local business and moral environment.

Simultaneously, a firm must address more "worker-oriented" issues in order to achieve stronger control over moral lapses. The continual assessment and improvement of employee directives includes obtaining a high-level legal or ethics officer, performing background checks and a moral assessment of potential employees through hiring and recruiting practices, training expatriates to cope with local cultural differences, and training workers and subcontractors with an eye toward firm policy as well as the firm's strategic and moral objectives. The end result of traversing through this process should be a well-equipped organization that is more able to cope with ethical situations in diverse moral environments.

DISCUSSION

The purpose of this paper was to develop a firm-level model of international strategic moral management. The need for such a model was based, in part, on the evidence that suggests numerous changes have occurred in the global business arena in the past decade. These changes in the global moral and political business environment have occurred in almost perfect synchronicity with a steady reduction in trade barriers around the world. Free trade has been embraced by many nations and formal agreements such as NAFTA, MERCOSUR and the European Union, as well as the steadfast efforts of the World Trade Organization, have made it much easier and more profitable for firms of various sizes to engage in international trade. The behavioral ramifications of free trade, and the notion of the invisible hand, were deeply addressed by Adam Smith in his classic book *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776) as well as many subsequent scholars of economics and management (i.e. Brown, 1999; Grampp, 2000). Free trade has also been measured over the years with various indices of economic freedom (Gwartney et al., 1996; O'Driscoll et al., 2003).

The negative relationship between wealth and corruption has been voraciously defended and validated from both conceptual and empirical avenues (Alam, 1995; Husted, 1999; Macrae, 1982). An additional factor that would be worthy of analysis is the notion of competition. As Brown (2002, pg. 26) states, "the invisible hand has been superseded by an 'invisible fist' that compels businesses and their managers to serve the interests of society even if they don't want to. That invisible fist is not *laissez-faire*; it is, instead, relentless competition." Indeed, the purpose of stripping down trade barriers is to foster competition. Whereas competition tends to serve as a regulator of the marketplace with respect to cost, quality and service, the implications for moral behavior are strong as well. After the Worldcom and Enron debacles it is likely that investors will certainly have their ethical radars tuned in to potentially suspicious investments in the future.

A number of implications for practitioners are plausible, based on our findings. The OECD's recent approval of an antibribery pact by 32 nations speaks to the importance of corruption in the international community (Husted, 2002). As developed industrialized nations continue to try to level the bribery and corruption playing fields, developing countries will be forced to respond; otherwise opportunities may be squandered. Indeed, an understanding of how economic freedom relates to corruption can aid policy developers in both governmental and private enterprise settings. Managers may, for example, elect to rethink the validity of their corporate codes of ethics in countries that have embraced protectionism and have steered away from free trade. In particular, certain policies may tempt host country nationals into behaviors that are perceived as corrupt by firms and their managers.

Finally, future researchers may want to take a deeper look at regional patterns of corruption. For example, an analysis of corruption patterns in Latin America (Table 3) may generate deeper insight into why certain nations are hampered with deeply seeded moral problems (i.e. Paraguay) while others tend to have only marginal problems with ethics which has led to more prosperity overall (i.e. Chile). Moreover, the supply of empirical studies in cross-cultural ethics is extremely weak and could benefit from additional energy and support despite the geographic region of interest. Another approach that could also be effective is the development of firm specific case studies related to moral dilemmas that MNCs have faced when operating outside their home environment.

Overall, significant progress has been made in the tracking and identification of ethical differences across borders and hopefully this paper has added to the new plight of developing strategies for coping with corruption in foreign markets.

TABLE 3: **Corruption Ranking of Latin American Nations** (Transparency International)

Rank	Country	Score	GDP per capita	Economic Freedom
1	Chile	7.4	$5,546	2.00
2	Uruguay	5.5	6,115	2.50
3	Cuba	4.6	n/a	4.45
4	Belize	4.5	3,141	2.75
5	Costa Rica	4.3	3,912	2.65
6	Brazil	3.9	4,698	3.00
7	Colombia	3.7	2,290	3.00
7	El Salvador	3.7	1,752	2.25
7	Peru	3.7	2,368	2.80
10	Mexico	3.6	3,830	2.80
11	Panama	3.4	3,279	2.65
12	Dominican Republic	3.3	2,062	3.10
13	Nicaragua	2.6	466	3.00
14	Argentina	2.5	7,800	2.95
15	Guatemala	2.4	1,558	2.80
16	Venezuela	2.4	3,300	3.50
17	Bolivia	2.3	952	2.65
18	Honduras	2.3	711	3.05
19	Ecuador	2.2	1,425	3.45
20	Paraguay	1.6	1,700	3.30

Sources: Transparency International, World Bank and The Index of Economic Freedom

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