

Doing Business in Foreign Cultures

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The Role of Culture

The perspective that culture and business are intertwined may be provocative for some and obvious for others. For a long time, however, many businesspeople have been wise enough to base their decisions on behaviour that is expected and approved of by the groups of stakeholders that are affected by those decisions. The new challenge that has recently appeared on managements horizon in this regard is the complication provided by having to deal with diverse, rather than homogeneous, cultures within North American operations, and more particularly, cultures different than their home or parent culture when they operate in foreign markets. When the divergence between cultures is marked, choices or trade-offs have to be made between them, or business practices have to follow different rules in each. There are risks inherent to each approach which need to be explored.

Broadly speaking, culture refers to the customs and civilization of a society or group. How does culture or custom impact upon business? When an organization sets out to achieve its strategic objectives, thought has to be given to how resource inputs such as raw materials, people and capital are to be best acquired and organized and the business conducted.

It is true that this acquisition, organization and the ensuing management of the enterprise can be undertaken without reference to the customs of the markets each input involves or for the customs of the markets into which the organizations outputs are absorbed. However, if a multinational company from South East Asia attempted to come to Canada and use indentured migrant labour under unsafe and exploitative conditions, and attempted to dump hazardous waste on the roadside, and failed to live up to promises to consumers...do you think they would be as successful as they could be if they observed our customs. Observing and complying with local customs clearly can have a very dramatic impact on the fortunes of a company and of its stakeholders.

The Multiple Accountability Perspective

The problem of complying with local customs has been made more complex because corporations now live in a world where accountability for corporate actions is much quicker and much greater than in the past.

In the old days, what a company did in a far off place could be kept secret, or at least word of it wouldnt reach the companys major scrutineers. But the world of accountability changed - it got a lot smaller when satellite TV and CNN arrived. What happens in the rain forest in the morning can be broadcast on CNN anywhere in the world that evening.

Similarly, the number and capacity of scrutineers of a companys activities has grown. For example, we all know how companies have had to respond to pressure from the likes of GreenPeace, Pollution Probe, shareholder activists, feminists, environmentalists, ethical consumers and ethical investors like the New York City Employees Pension Fund and CALPERS from California.

The additional result of more and quicker media attention, and the examination of more scrutineers, is that the public in general as well as consumers and investors have become aware that miscreant corporations can and should be pushed to change. And, if change is not forthcoming, there is a significant chance that the repercussions can reduce profits and the long run viability of the business. Consumers can boycott a companys output, capital markets can charge a premium reflecting lower profit expectations, and shareholders may turn to other options.

Executives are now faced with multiple accountabilities. In particular, they need to take into account the potential reaction to their actions on: capital markets, influential shareholders, major consumer markets, and influential stakeholders. In addition, of course, they need to worry about the impact of their actions on the local marketplace in the foreign country involved.

Culturally Sensitive Issues

Taken altogether, this is a much more complex system of accountability than existed heretofore. A further complication, however, arises when you realize that the limited choices that executives have for dealing with culturally sensitive issues may result in further conflicts.

For example, assuming executives do not want to leave their corporations fate to **laissez faire**, they can either: (1) insist on uniform standards worldwide, or (2) tailor or adjust the companys standards of conduct for each locale, or (3) decide on each instance on a situation by situation basis. The problem with insisting on common worldwide standards is that local customs in foreign cultures may be trampled upon or offended. The reverse is true for the other two options. If company practices are altered based on local customs or a specific situation, then the customs of the companys home markets and stakeholders may be offended with inevitable fallout.

Take the example of facilitating payments or bribes. If a company insists that bribes will not be paid anywhere in the world, it may face severe problems operating in some foreign countries. On the other hand, if the company states that bribes will not be paid in the developed world, but may be paid where necessary in the third world, then it may be attacked by pressure groups at home. If each instance is to be decided by a senior executive, and managers know that the company condones bribes sometimes, they will be likely to go along with bribes everywhere because they know the company thinks it an acceptable practice.

These trade-offs are not simple for executives to make, particularly since the culturally sensitive issues involved are very inflammatory in some cultures. Operating issues that are sensitive to North American markets would include: child labour, treatment of women, health and safety matters, quality of life impacts, dealing with oppressive regimes, and environmental impacts. Contracting practices that are also to be watched carefully include bribery, facilitating payments, dealings with family, nepotism etc. all of which involve the management of conflicts of interests. You can see that, if the manager is to optimize the company's performance on its strategic objectives, developing a company code and practices to respect cultural sensitivities is a very difficult balancing act.

Some Dominant Cultures

Prior to providing suggestions for managing in a foreign culture, it is worth considering the bases of the value systems of several of the dominant cultures in the world today. It is, after all, the value system that will ultimately govern decisions made in a particular culture.

Recognizing that it is simplistic to stereotype a complete country's culture, my colleague Max Clarkson has suggested that we should consider that:

- North America's value system is rights-based with the primary considerations being: rights, justice and utility.
- Sino-Confucian areas, on the other hand, have value systems based on the primacy of duty. In China this duty is owed particularly to family, with the aged being accorded more respect. In Japan, loyalty to the company has replaced the primacy of the family.
- Middle Eastern value systems are also duty-based, but here the primary obligation is to one's Saviour - and of course Saviours differ somewhat.
- European value systems are probably closer to those in North America, but with important differences in that higher priorities are attributed to quality- and pace-of-life issues, environmental protection, and longer term pay-offs, to name a few.

You will appreciate that the nature of an area's value system will determine how workers and contacts in a market will assign importance to the culturally sensitive issues I identified earlier, and how they will view corporate policy and activities that impact upon

those issues. For example, the decisions taken in a rights-based meritocracy will be different from those in a duty-based, family-oriented system on such matters as:

- hiring and promotion of family,
- dealings with women and minorities,
- bribery and facilitating payments,
- motivation for doing business with someone else.

Obviously, other issues need to be taken into account such as historically acceptable practices, religion, and so on, including the recent movement to eliminate bribery that has been spear-headed by Transparency International and the OECD.

At the Clarkson Centre for Business Ethics, we believe that these underpinnings of the worlds value systems ought to be explored so that the code of ethics and conduct of multinationals can be drafted to take local cultural values into account, and so that executives and managers can be prepared to deal with them. We are presently working with clients including a unit of the United Nations to explore this area further, and we would welcome your insights in this regard.

Suggestions for Managing in Foreign Cultures

Turning now to the issue of suggestions for managing in foreign cultures, at the Clarkson Centre, we take the view that in order to reach optimum levels of achievement of its strategic objectives, a company needs to manage so as to maximize their trustworthiness (T) and reputation (Re) at home and abroad. T and Re can be maximized by managing the companys risks (Ri) and opportunities (O) effectively, where one of the major area of risk is conflict of interests (COI). This can be distilled into an equation such as:

$$T + Re = f(Ri \text{ including } COI + O)$$

Focusing on T and Re is useful in organizing thinking on at least two levels: appropriate guidance mechanisms, and operating practices. With regard to the former, appropriate guidance mechanisms, we are concerned with approaches that center around codes of ethics, conduct or practice. Depending upon the risks and opportunities facing a particular company, it could be in its overall interest to develop **a uniform code of conduct for all operations**. In effect this would be equivalent to developing their own culture and hoping when it is overlaid on the local cultures that the net result is positive. If, for example, tolerance for behaviour unacceptable in North America was too low, then this would possibly be the safest strategy. If a company could identify the set of hypernorms that would be acceptable in all cultures, this would be the preferred approach - but that is a big if!

Alternatively, a code could have **a uniform component but allow variations depending on local culture**. The challenge here is to identify the uniform or hypernorm components that would work best worldwide, and find a way to allow local variation without undermining the whole effort as being duplicitous or meaningless. If its acceptable to

bribe in Indonesia, but not in North America, isn't the company's code of ethics unprincipled or opportunistic. We are currently exploring this approach because it potentially represents the highest level of cultural sensitivity possible, and therefore could contribute the most to T and Re.

Turning to operating practices which are more specific than guidance issues, I would refer you to the appendices that follow. They summarize the suggestions of the two leading U.S. business ethicists in international ethics: Tom Donaldson and Richard De George, and a fellow named Brooks. I would also refer you to the October 1997 issue of the *Journal of Business Ethics* which is devoted to reviews of the state of business ethics in each of 13 countries or areas. It is a very good source of local information to fit into the frameworks I have been talking about.

I wish to raise a caution in one respect. I believe that it is increasingly problematic for companies to adopt the policy of operating abroad at the level of local laws that are much different from those in their home markets, particularly in areas like labour standards, health and safety standards, and environmental protection. This is increasingly seen as opportunistic and unprincipled. The fallout from child labour boycotts, collapsing mines, and pollution has ruined many promising ventures.

I want to leave you with the thought that innovative ideas based upon cultural sensitivities can provide win-win situations even in difficult areas like bribery. Some companies simply decline to pay bribes. They lose some business, but some report that the fear of losing business is overblown, and that when it became known that they would not pay bribes, they were no longer asked for them but contracts were won. One company, however, decided that they would refuse to pay a bribe in China, but offered to contribute to a community project - a park - which is particularly prized in that culture, and where several positions on the governing board were to be filled by community elders and members of the contract awarding group. The company rebuffed requests for pay-offs to purchasing and local officials, but indicated that they would be prepared to contribute to the local community. In the end, this proved to be a very successful strategy both abroad and at home.

And that is a happy ending indeed.