

GLOBAL STANDARDIZATION VS. LOCAL ADAPTATION IN IHRM:

THE ROLE OF UNIVERSAL ETHICAL PRINCIPLES *

Paper submitted to the 35th EIBA Conference, Valencia (Spain), 13-15 December 2009

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* The authors would like to thank the Spanish Ministry of Science and Innovation (ECO2008-00729) for its financial support for this research.

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ABSTRACT

The global standardization vs. local adaptation debate is a hot topic in international management, with crucial implications for international human resource management (IHRM). Notably, deep dilemmas arise when business efficiency goals collide with ethical concerns. In this paper, we propose three universal ethical principles (UEPs) as the basic threshold for ethical behaviour in IHRM: (i) respect for human dignity, (ii) absence of unfair employment discrimination, and (iii) legitimacy of fair inequalities. They are developed in an interdisciplinary way, benefiting from, beyond the strict IHRM domain, diverse fields such as business ethics, corporate citizenship, employment discrimination theory and also moral and political philosophy. The UEPs proposed help develop integrated IHRM frameworks that balance business efficiency and ethical goals and assist decision-making on standardization vs. localization issues.

KEY WORDS

International human resource management, global standardization, local adaptation, efficiency, ethics, national culture, universal ethical principles.

1. INTRODUCTION

A key challenge for multinational corporations (MNCs) is deciding whether to standardize or localize their international business practices (Bartlett & Ghoshal, 1989; Doz et al., 1981; Prahalad & Doz, 1987). On the one hand, they wish to increase efficiency of international operations by standardizing them as much as possible, across countries and continents. On the other hand, they must also conform to local practice, thus needing to follow local culture and institutional regulation. This debate is crucial in the domain of international human resource management (IHRM), where the global standardization/integration vs. local adaptation/responsiveness tensions are especially relevant (Quintanilla & Ferner, 2003; Rosenzweig, 2006; Rosenzweig & Nohria, 1994; Schuler et al., 1993; Sparrow et al., 2004). In addition, to add even more complexity to the analysis, ethical issues need also to be taken into account. Accordingly, ethical considerations extend the approach to the standardization/differentiation debate beyond merely efficiency considerations, to the point that there may be cases when business efficiency might well have to be sub-optimally achieved in order to meet basic ethical criteria. This situation is well exemplified when, for example, a MNC does not accept bribing local officials as a requirement for being able to operate in a host country. Indeed, voices have been raised to defend that MNCs must have a clear threshold for ethical behaviour (e.g. Donaldson, 1996), no matter what the consequences are – even at the cost of abandoning operations in a particular country. Such concerns are closely connected to the development of corporate social responsibility (CSR) strategies, provided that they are enacted through rigorous policies and do not end up as mere intentions statements (cf. Bannerjee, 2007; Devinney, 2009) – which may backfire if the MNC's behaviour is not up to what it claims to be.

There have been attempts to provide a framework to decision-making in the adaptation vs. differentiation debate within the IHRM domain. However, such proposals are usually focused on efficiency goals (see e.g. Rosenzweig, 2006, for a recent review), with little or no explicit consideration of ethical issues. There are also ethical-minded frameworks, from broader international management (e.g. Donaldson, 1996) and more focused on human resource management (HRM) (e.g. Greenwood, 2002). However, these ethical-minded approaches are, although insightful, rather vague to provide clear guidance for decision-making in IHRM, having in mind that efficiency in international operations is a key driver in the ‘real world of business’. The aim of this paper is, then, to elucidate what are the basic ethical requirements that should be observed in IHRM, whilst at the same time not missing a focus on business efficiency. We are aware that the goals of efficiency and ethics may well be mutually exclusive (Devinney, 2009). However, we believe the effort worthwhile. First, if the hot topics of business ethics and CSR are to sustain credibility, they must be integrated into broader management frameworks, such as the standardization-adaptation debate in IHRM. Treating business ethics and CSR as ‘stand alone’ subjects runs the risk of having them reduced to too specialized fields with no connection with the ‘real world of business’ – if not plainly discredited by critical management theorists. Second, even assuming that efficiency and ethics cannot generally be simultaneously optimized, we can also assume that there must be some point at which a reasonable balance between both goals can be achieved. In other words, with the goal of efficiency in mind, at the same time a MNC will behave as ethically as possible by, at least, meeting a number of threshold ethical practices or principles (‘core human values’ in Donaldson’s [1996] words, or ‘hypernorms’ according to Donaldson & Dunfee’s [1999] framework based on integrative social contracts theory). Notwithstanding the exact location of the dividing line between ethical and unacceptably unethical behaviour, in the 21st century world there are some universally agreed principles that should act as a

guidance (e.g. an unanimous refusal of slavery, the adherence to a number of international agreements on labour standards or, more generally, the widespread acceptance of the Universal Declaration of Human Rights).

This paper is structured as follows. In the next section, we discuss the current situation of the standardization vs. adaptation debate in IHRM, with a strong emphasis on the ethical issues involved. This leads us to be quite weary of the rather culturally-relativistic dominant position in IHRM. In the third section, we propose the concept of universal ethical principles (UEPs) as unrenounceable values that must guide all decision-making in IHRM. In order to provide a rigorous background to the concept of UEPs, it is inspired by contributions of ethics in international management (Donaldson, 1996; Donaldson & Dunfee, 1999; Hsieh, 2009), ethics and HRM (Greenwood, 2002), recent approaches to corporate citizenship (Matten & Crane, 2005); and they are also especially influenced by contributions in the fields of employment discrimination (Cortina, 2008) and moral and political philosophy (Rawls, 1971, 1999a,b). In the fourth section, we discuss some implications that our proposal of UEPs has for decision making in IHRM. We regard the institutional debate as clearly distinct from the national culture one, and emphasize the fact that greater local labour regulation is usually related to stronger legal protection of our UEPs. We note here the often overlooked fact that local traditions may actually collide with institutional norms, and propose that respect for the latter should prevail as a general rule for ethical MNC behaviour. In the same section, we also introduce the different levels of analysis in (domestic) HRM (cf. Becker & Gerhart, 1996). Generally, the broader the level of analysis the greater the room for standardizing IHRM practices, and the narrower the level of analysis the more appropriate it will be to adjust them to local norms and/or traditions. A key implication is that the broader aspects of IHRM will need to meet some ethical threshold ‘global standards’ (i.e. compliant with UEPs). Local traditions and national culture must of course be respected and doing so considered indeed as

strategically relevant; but such an adaptation has a limit: compatibility with the broader, ‘globally standardized’ aspects of IHRM. We conclude the paper by opening up new questions that pose challenges for further research and complex dilemmas for managerial practice.

2. STANDARDIZATION VS. ADAPTATION IN IHRM: LIMITATIONS OF CULTURAL RELATIVISM

Traditionally, IHRM has approached the issue of standardization vs. differentiation with a strong focus on the efficiency of international operations. In principle, MNCs would prefer to standardize human resource (HR) practices across countries. However, within the broader MNC business practice standardization vs. adaptation debate (Doz et al., 1981; Prahalad & Doz, 1987; Bartlett & Ghoshal, 1989), HRM, compared to other functions, is the one that most adheres to local practices (Kobayashi, 1982; Rosenzweig, 2006). More specifically, it has been argued that there is a stronger need for local adaptation in HR practices for which there are well-defined local norms, and less local adaptation is necessary when local norms are diffuse or poorly defined, or globally integrated HR practices are critical to maintaining strategic internal consistency (Rosenzweig & Nohria, 1994). Although these broad guidelines for decision-making in IHRM seem appropriate, they may become rather ambiguous when we need to delimit what we mean by ‘well-defined local norms’. In addition to the role of institutional regulation (basically labour law), national culture has usually been given a prominent role as an indicator of what are the (often tacit) local norms. The role of national culture becomes especially important when local labour law is weak or hardly enforceable; in such cases MNCs usually end up doing what is acceptable – even expected from the to do – in the host society, often as a matter of survival of the business in that place.

Research in IHRM has normally taken this path, thus supporting a rather culture-relativistic view of IHRM (e.g. Newman & Nollen, 1996; Schuler & Rogovsky, 1998). But cultural relativism, at least in its most extreme version, is highly questionable (Donaldson, 1996). Perceptions vary internationally and are heavily influenced by different cultural contexts (see e.g. Hofstede 1980, 2001; House et al. 2002, 2004; Schwartz 1999; Trompenaars 1993; Trompenaars & Hampden-Turner 1997). What is perceived as fair in a given environment can be judged as clearly unfair in another, as examples of child labour and gender issues visibly illustrate. If we follow the tenets of cultural relativism, a MNC should adopt those practices that are locally acceptable and justifiable. Yet, would that strategy be also ‘ethically’ justifiable to a different audience? Should local women get less pay than local men for the same work in countries where local norms accept that? Or is child labour acceptable? As a result, cultural relativism implicit in most IHRM research may, then, end up supporting clearly unethical recommendations.

Hence, we strongly favour the development of unrenounceable universal values (e.g. an opposition to dismal working conditions or the right of children to receive an education) in MNCs, which would have the benefit of encouraging consistency and equality in employee treatment (Bloom et al. 2003; Ding & Akhtar 2001; Martin & Beaumont 2001). Improved image and ability to attract a more ‘ethically’ driven and qualified local workforce in the different international operations would be another potential benefit of this non-relativistic ethical policy. In fact, contrary to relativistic prescriptions, local employees (especially in emerging countries) whose personal values *differ* from the local cultural norm are often those people who outperform the average local employee. As a result, these ‘culturally misaligned’ people (from a local perspective) might well be the ideal profile to be recruited by MNCs. In this respect, there is well-grounded criticism of the often over-valued relevance of national culture compared with organizational culture (Nelson & Gopalan, 2003). Similarly, recent

criticism of the traditional axiom that expatriate adjustment leads to better performance (see e.g. Thomas & Lazarova, 2006) provides extra support to our non-relativistic position. Although expatriates need to understand the local context and culture in order to be productive, it is usually ‘cultural intelligence’ (cf. Earley & Ang, 2003; Thomas & Inkson, 2004) that is needed – rather than pure and simple adjustment. The rationale behind this statement is that expatriates are key agents for shaping subsidiaries’ sometimes ‘inappropriate’ cultures (i.e. heavily influenced by strategically unaligned host national cultures), with the purpose of making them closer to the headquarters’ culture. In this endeavour, expatriates need to understand local cultures (i.e. showing cultural intelligence), but ‘surrendering’ to them (i.e. adjusting in the strictest meaning) would just jeopardize their mission (e.g. by becoming unpunctual themselves, or anti-minority campaigners, instead of promoting punctuality and diversity in the subsidiary, two clear examples respectively related to efficiency and ethical concerns).

All in all, recent findings show a low power of national culture in explaining HRM differences in organizations (Gerhart & Fang 2005). Consistently, the formal institutional context, rather than national culture considerations (cf. Bloom et al. 2003), and of course despite possible contradictions with local traditions (e.g. widespread tolerance to the non-enforcement of labour law protective of employees rights), deserves careful attention as the essential driving force for local adaptation in international HRM. The solution to this dilemma cannot rely, of course, on ignoring national cultures and local traditions, for this approach would be accused of a form of (also unethical) ‘cultural imperialism’ (cf. Donaldson, 1996). A balanced approach, we believe, needs to include national culture and local traditions, but only after assuring a minimum threshold for MNC ethical behaviour. As a result, many HR practices that are acceptable in some societies (e.g. under eight year-old

labour or 84-hour working weeks) would be absolutely unacceptable from an universally ethical viewpoint.

Donaldson (1996) proposes the principle of ‘respect for core human values’ as an absolute, minimum ethical threshold for MNCs business activities. This principle is then developed through three values that may well be acceptable globally: respect for human dignity, respect for basic rights, and good citizenship. Such a proposal is consistent with more recent contributions that explicitly focus on the intersection between HRM and business ethics. Notably, Greenwood (2002: 275) proposes two basic ethical principles that ought to be observed in all kinds of organizational settings: (i) ‘an individual or organisation must treat individuals with respect’, and (ii) ‘an individual or organisation does not have the right to interfere with the freedom of an individual’. The basic idea here is that employees need to be treated, beyond production resources, as human beings that are ends in themselves (Donaldson, 1996; Greenwood, 2002), what may collide with some HR practices that do not respect basic human dignity. It is also noteworthy that, recalling the ‘good citizenship’ value pinpointed by Donaldson (1996), Matten & Crane (2005) revisit the concept of corporate citizenship from the viewpoint of making MNCs responsible for providing their employees with basic citizenship rights. This makes sense in a global and economically liberalized context increasingly shaped by the reduced role of the state as guarantor of social, civil and political rights (cf. Marshall, 1965). In this context, we agree with Hsieh (2009) on the call on developed societies to assist ‘burdened’ ones (cf. Rawls, 1999b) to build just, functioning institutions. In this endeavour, Hsieh (2009) claims that Rawls’s (1999b) ‘duty of assistance’ ought to be extended to MNCs’ activities. As it will be explained in the next section, some Rawlsian conceptual tools may be very helpful to shape MNCs’ ethical behaviour consistent with the above concerns.

3. THREE UNIVERSAL ETHICAL PRINCIPLES AS A NECESSARY THRESHOLD FOR ETHICAL BEHAVIOUR IN IHRM

Stemming from the above reflections, and deepening into the particular nuances of IHRM when analyzed from an ethical viewpoint, we propose three universal ethical principles (UEPs) that must be met as the minimum threshold for MNCs' ethical behaviour regarding IHRM. The first principle we propose is *respect for human dignity*, worded exactly as the first of the values proposed by (Donaldson, 1996) that build his principle of 'respect for core human values'. Very young child labour or brutally long working hours would be examples of practices that would not meet this first principle.

Regarding the second and third principles, we find Donaldson's (1996) other two values (respect for basic rights and good citizenship) that build his 'respect for core human values' principle insightful but too ambiguous to be applied, as they are worded, to IHRM. We believe that other approaches need to be brought into the analysis. Employment discrimination theory (e.g. Cortina 2008; Pettigrew and Meertens 1995) is crucial to give specific contents, in an IHRM context, to broader concerns related to claims such as 'respect for basic rights'. In Dipboye & Halverson's words (2004: 131): 'Unfair employment discrimination [occurs] when persons in a 'social category' ... are put at disadvantage in the workplace relative to other groups with comparable potential or proven success'. Typical examples of unfair employment discrimination are gender and race based situations. In a MNC context, discrimination related to nationality is also an important issue, for instance when highly qualified local employees working in a subsidiary have worse working conditions than expatriates from the home country assigned to that subsidiary. Employment discrimination must be construed on a demanding way, that is, not only rejecting situations of explicit discrimination but also – especially – the more abundant cases of covert or subtle

discrimination. Such a kind of non-explicit discrimination has been recently named ‘selective incivility’ by Cortina (2008), and defined ‘as a veiled manifestation of sexism and racism in organizations’ that ‘can constitute a particularly insidious, behavioural manifestation of modern/contemporary/covert sexism and racism’ (2008: 55). Preventing employment discrimination is, thus, a priority to ensure fairness in HR practices and, therefore, contributing to the ethical behaviour of the MNC. Moreover, additional support to these considerations can be found in moral philosophy, the very cradle of the concept of justice. Moral and political philosopher John Rawls (1971, 1999a), in his renowned work *A Theory of Justice*, claimed that one of the requirements of a just society is that social and economic inequalities are to be arranged so that they are attached to positions and offices open to all. This means that, as long as the citizens of a given society are offered a broad array of options and enough freedom and opportunities to choose their life paths, the resulting inequalities will be mostly based on individual choices, ability and effort, in other words in reasons that can hardly be regarded as unfair (as opposed to reasons defined by categorical ascription expressed through, say, social connections, economic power, favouritism, gender dominance, race segregation, or social origin). This is Rawls’s principle of equality of opportunity, precisely a kind of society-wide source of inspiration for employment discrimination theory. Some authors have even explicitly used Rawls’s (1971, 1999a,b) ideas (e.g. Hsieh 2004, 2009; Jackson 1993) to claim the responsibility of business organizations, and MNCs in particular, towards building just societies – or should we say ‘a global just society’? By integrating the above reflections, we believe to have rigorous grounds to propose the principle of *absence of unfair employment discrimination* as our second UEP that helps build the ethical threshold for IHRM in MNCs.

We now turn our attention to a subtler – and perhaps more controversial – issue. As seen above, as long as unfair employment discrimination is avoided, differences in working

conditions (salary, working hours and any kinds of benefits) could be acceptable as long as they comply with the principle of absence of unfair employment discrimination. However, are the resulting, apparently fair inequalities from an ethical point of view, acceptable *ad infinitum*? Might there be some limits that could be established to them from an ethical point of view? Since the key component here for ethical behaviours is fairness, we must inevitably focus on moral philosophy again. In his renowned work *A Theory of Justice*, Rawls (1971) proposes another principle as necessary for a society to be regarded as just. This is the difference principle, which states that social and economic inequalities should be reasonably expected to be to everyone's advantage, and especially improve the situation of the least advantaged. This means that, as long as the poor and socially excluded become less poor and socially excluded, a sharp income gap is acceptable. Translated to a MNC context, this implies for instance that, in an emerging-country subsidiary, relatively low salaries and long working hours would be acceptable – while employees in the home country enjoy much better working conditions – as long as the very existence of the MNC in the host country offers a better alternative to those (underpaid and overworked) employees' lives than their prior situation (e.g. returning to a much worse subsistence life in the remote countryside). Thus, we propose our third UEP, the principle of *legitimacy of fair inequalities*. It is worthwhile to note that this principle seems particularly useful to give more specific HR-related contents to Donaldson's (1996) ethical value of 'good citizenship' (the third of his set of three values that build his principle of 'respect for core human values').

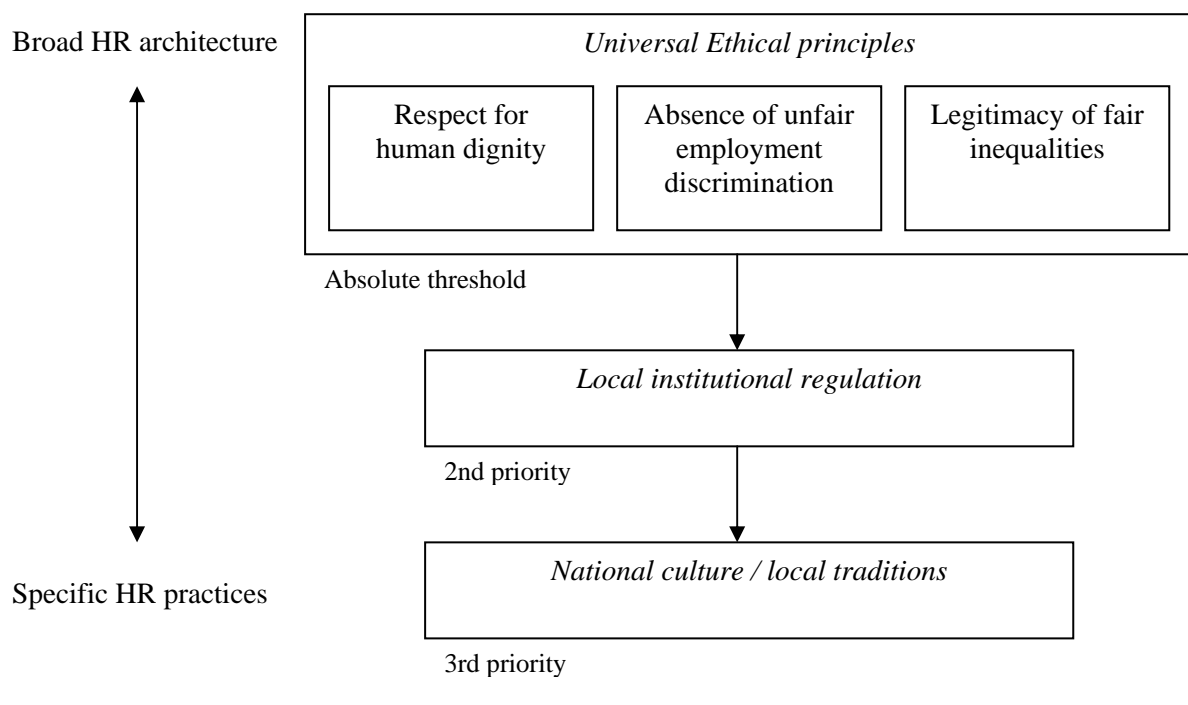
4. IMPLICATIONS OF THE UNIVERSAL ETHICAL PRINCIPLES FOR DECISION-MAKING IN IHRM

The three UEPs presented above show the basic requirements that, in or view, MNCs need to comply with in order to behave ethically regarding their IHRM strategy. Clearly,

extreme culture relativistic positions cannot be compatible with the observance of such principles. However, local adaptation needs to be taken into account in order to achieve efficiency – and also ethics – in the operations of MNCs’ subsidiaries located across culturally and institutionally diverse regions of the world. As explained above, Donaldson (1996) proposed his principle of ‘respect for core human values’ (which inspired the development of our three UEPs adapted to IHRM) as the basic pressure for ethically-driven global standardization of business policies. However, Donaldson (1996) also proposed two additional principles that pull towards local adaptation, namely ‘respect for local traditions’ and ‘the belief that context matters’. In order to prioritize the criteria to be considered as bases for ethical decision making in IHRM, we would rather reverse the order of formulation of such principles. Therefore, we would transform Donaldson’s (1996) ‘belief that context matters’ into the more specific variable ‘local institutional regulation’, whereby the more comprehensive local regulation is (usually providing greater statutory benefits to employees), with strong institutions that care for law enforcement, the more important is that MNCs make their HR practices compliant with such regulations. In our view, local law compliant with UEPs would, then, be an example of the so-called by Donaldson & Dunfee (1999) ‘consistent norms’ (i.e. norms that are not universal but still compatible with higher-order hypernorms). The second aspect that would shape how IHRM policies are adapted to the local environment would then be local traditions or, in other words – probably more jargon-appropriate for international business – national culture. Therefore, we do not deny the importance of national culture, but the key role often attributed to it (e.g. Newman & Nollen, 1996; Schuler & Rogovsky, 1998) may be over-emphasized since, in addition to strategic reasons linked to the efficiency of global operations, closely adapting to national culture (or ‘local traditions’) may run the risk of conflicting with the other two requirements for ethical IHRM, namely observance of UEPs and compliance with local institutional regulation. When local traditions

and the (theoretically applicable) local law are in conflict, we believe that it is not ethically acceptable of putting the former over the latter – exactly the opposite is ethically right, especially in the case of MNCs that have such a great political influence in the globalized world of the 21st century (cf. Hsieh 2004, 2009; Jackson 1993; Matten & Crane, 2005). The proposed framework is summarized in figure 1.

Figure 1. An ethically-minded decision-making framework for IHRM



Of course, if a fully integrated and comprehensive framework for decision-making in IHRM is to be sought, these ethics driven reflections need to be complemented with more ‘traditional’ efficiency considerations. For instance, a key issue to have in mind is the level of analysis in HRM, a relevant issue in the (domestic) HRM literature. Becker & Gerhart (1996) identified three different levels of HR concepts. First, more broadly, there is the system architecture, that is, the guiding principles that shape the HR system overall orientation (e.g. employee performance is valued). Second, the policy alternatives establish the possible combinations of HR policies as specific ways of developing the system architecture (e.g.

performance is valued through creativity). Third, practice processes would be the specific HR practices, as operational implementations of the upper-level policies (e.g. creativity is valued through 360 degree feedback). Therefore, the impact of a given HR practice (e.g. use of incentives) on organizational performance can have different explanations – even contradictory outcomes – depending on the way guiding principles are operationalized through policy alternatives and implementation processes (e.g. incentives rewarding cost cutting would fit a low cost strategy, but a differentiation strategy would probably be better supported by creativity-based incentives; see e.g. Wright & Sherman, 1999, for a detailed account of such circumstances). Similarly to the influence that different levels of analysis have on the appropriateness of universalistic vs. contingent HR systems (cf. Delery & Doty, 1996), in the international arena the level of analysis of HR practices plays a key role in deciding whether global standardization or local adaptation should be pursued. This has relevant ethical implications for IHRM, since broader HRM aspects will more likely need to fit global standards (as UEPs refer to broad issues rather than specific guidelines), and more specific HRM aspects will be easier to adapt locally (since it is assumed that they have previously met the ethical threshold imposed by UEPs).

5. CONCLUSION

The global standardization vs. local adaptation debate is a hot topic in international management, and has crucial implications for IHRM. Particularly, it raises deep dilemmas when efficiency goals collide with widespread claims for MNCs' ethical behaviour – many of them internally driven by the MNC's own 'ethical codes' and CSR strategies (see Devinney, 2009, for a simultaneously pragmatic and conceptually deep recent review of the CSR concept). Inquiring into these concerns, in this paper we have proposed three UEPs as the basic threshold to be met for achieving ethical behaviour in MNCs – principles that drive

IHRM towards global standardization. These principles are: (i) respect for human dignity, (ii) absence of unfair employment discrimination, and (iii) legitimacy of fair inequalities. These principles, we believe, gain strength and legitimacy by having been developed in an interdisciplinary way, since they are based on contributions ranging from, beyond the strict IHRM domain, diverse fields such as business ethics, corporate citizenship, employment discrimination and also moral philosophy.

We have been critical with extreme culture relativistic positions, according to which everything is acceptable as far as local traditions are met. However, local adaptation is also necessary in order to achieve a balanced view of IHRM. Therefore, as long as UEPs are respected, the local institutional norms needs to be observed, especially since they usually regulate the basic working conditions. National culture would come third, after UEPs and institutional norms. Hence, local traditions are to be encouraged and integrated into IHRM, since doing so will increase efficiency – and often social legitimacy too – of a MNC's operations in the host country. Still, this is ethically acceptable only as long as both UEPs and local institutional norms have been fully met.

We hope that this paper helps understand better the complexity of the ethical implications of IHRM. Nonetheless, there are still many challenges ahead. Regarding the operationalization of UEPs, a key dilemma appears about the exact location of the dividing line between practices that meet these principles and others that do not is not sharp at all. Of course principles directly derived from the United Nations supported human rights, and in many cases also the basic constitutional rights of citizens of democratic societies may be relevant guidelines for assessing the adherence of HR practices to UEPs. Besides, many MNCs have their own ethical standards proudly publicized through ethical codes and CSR policies (see e.g., Paine et al., 1998-2004, for a detailed example). Too often, though, not

even MNCs' self-assigned ethical standards are met in many of their operations (Donaldson, 1996) – in the case of HRM, especially regarding working conditions in emerging countries, particularly when there is no tight control on local suppliers' HR policies. A good starting point for MNCs to meet UEPs in IHRM would be, then, to be careful in complying with their own ethical standards. However, the so-called 'grey zones' (cf. Donaldson, 1996) abound. To help decision-making here, it has been proposed that MNCs should be as detailed as possible in making explicit the different contingencies that can be found so as to offer specific guidance on how to solve them (Paine et al., 1998-2004). For example, mild nepotism, ethically wrong in meritocratic societies, may be acceptable when a company offers, as a much appreciated benefit by employees, and formally established as that, a guaranteed job to a child of every employee, once the child has attained a certain educational level (Donaldson, 1996). In the situations that escape the internal ethical behaviour regulations, a case-by-case analysis needs to be performed. Following Donaldson (1996), conflicts of development (associated with a relatively low economic-social development of the host country, thus leading to often accept practices that would be unacceptable in more advanced societies, since these more advance societies once accepted such practices through their own development processes, e.g. 14 year-olds labour or very low wages for unskilled workers) must be clearly distinguished from conflicts of tradition (more problematic since they may be entrenched in cultural practices often affected by dogmatic beliefs, so they usually conflict with UEPs, e.g. blatant gender, race or cast based employment discrimination). Furthermore, as confusing as it may sound, 'moral creativity' – especially by subsidiary managers – needs to be developed in this so-called 'moral free space' (Donaldson & Dunfee, 1994, 1995, 1999). Donaldson (1996) gives the example of a Western MNC in Bangladesh that agreed with the parents of young children that, if they quit working for the MNCs' supplier, the company would pay for their education up to the age of 14, when they would be offered a job

again in the supplier's factory. After all, flexibility is essential; it is hard to believe that, in the above situation, simply pulling out of the country (and thus clearing the path to a ruthlessly unethical competitor) would have been an ethical decision at all.

Finally, another key dilemma refers to what should MNCs do when local institutional norms are in conflict with local accepted practice. Our position in this paper has been clear: institutional norms are more important. Even so, there are situations in which a MNC really needs to give in so as to be able to continue operations in the host society. Imagine the case of a country where gender discrimination is forbidden by law, and law is reasonably well enforced in most situations, so we can conclude that the UEP of absence of unfair employment discrimination is reasonably well met. However, in the specific case of managerial positions in a particular subsidiary in that country, women are extremely rare. There is well-grounded suspicion of gender discrimination (especially of the covert or subtle sort, cf. Cortina, 2008), although there is no way to absolutely prove it. Imagine that that subsidiary is essential for the MNC: should the company terminate its operations there? Perhaps an intermediate solution in such kind of borderline cases is that the MNC – often using expatriates as the mediating agents – adopts a rather gradual and flexible approach towards the fulfilment of institutional norms, at least as a 'culturally intelligent' move (as opposed to traditional approaches simplistically based on expatriate adjustment, cf. Thomas & Lazarova, 2006), with the intention of influencing the subsidiary's decision-making in the mid-term so that it brings its practices closer to the legal requirements. After all, if an ethically-minded MNC quits operations in the exemplified situation instead of adopting the flexible approach mentioned, its position in the host country can be taken (e.g. by purchasing the subsidiary) by a less ethical competitor: may not that alternative outcome be less ethical?

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