



## COVER SHEET

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# Norsk Hydro's Utkal Venture in Orissa, India

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## Introduction

This case will begin with a brief overview of the Norsk Hydro ASA's (hereinafter Hydro) Utkal Alumina International (hereinafter Utkal) project in Orissa, India, followed by cultural and ethical analyses and recommendations for next steps. Previous research suggests that corporations desire practitioner insights on this intersection of culture and ethics (e.g., Donaldson, 1989). Theory will be balanced with press releases and personal interviews with Hydro corporate offices and NGO/watch groups. The case is set in June 2001 when Hydro was still a 45 per cent shareholder. The focus will be limited to Hydro though other joint venture partners are Canadian Alcan and the Indian Aluminum Company, Indal (owned by conglomerate Indian business house Hindalco), with 35 per cent and 20 per cent ownership respectively. Hydro was selected as this multinational corporation (MNC) has begun to engage in rigorous dialogue regarding ethical challenges and corporate social responsibility (CSR). The Utkal project site juxtaposes this ethical rhetoric with the real and continual dilemmas faced since project inception in 1993. In 2001, Indian police killed three villagers and severely injured eight others during a non-violent protest against Utkal activities.

## Case overview

With an investment of US\$1 billion, the Utkal project will establish a bauxite mine at the Baphimali plateau and an alumina-refining factory in the Rayagada

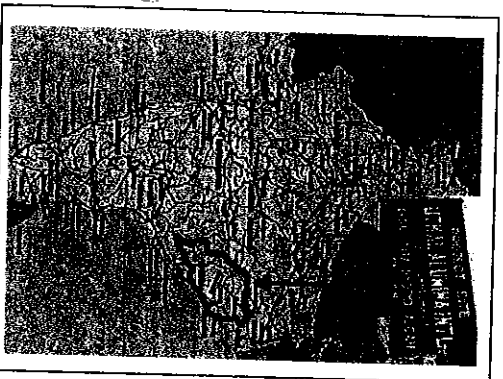


Figure 11 Map of India showing location of the Utkal project

district of Orissa, East India. The project is expected to supply over thirty years of alumina production for export: 1 million tons in the first phase and 2.5 million tons during the second phase. This will extract an estimated 173 million tons over a 30-year period. These alumina exports will help to meet the burgeoning international demand (4–5 per cent yearly increase) for this strong, ductile light metal. Utkal implementation is expected to begin in mid-2001, with the first production milestone set for 2005.

Meanwhile, the Utkal venture has stirred massive international controversy due to the potential human and environmental consequences. In order to acquire land, 750 people in three villages (Kuchepadar, Korala, and Komphora) will be forced to move from their homes. Approximately five hundred others will lose land and tens of villages will have reduced access to common resources such as water and agricultural and grazing lands. In total, NGOs estimate 60,000 people will be directly or indirectly negatively impacted by the Utkal venture. Most of these local inhabitants are farmers and approximately 60 per cent percent belong to native tribes in the lowest Hindu castes. Within the eastern state of Orissa (where the Utkal venture is located), 44 per cent of the population live below the poverty line, 51 per cent are illiterate, and 47 per cent do not have access to electricity, safe drinking water, and toilets. Overall, India is ranked 129th of 174 countries on the UNDP survey of human development which account for well-being components such as life expectancy, education, and gender equality. This low placement is due in part to limited government spending (just 5.1 per cent of GDP) on health and education (see table 11 for quality of life data,; table 12 and table 13 for macroeconomic details).

Table II Quality of life in India

Literacy rate %, men over 15	67
Literacy rate %, women over 15	39
Life expectancy, 1995-2000	62.6
Number of men per 100 women	106.9
Defense spending (% of GDP)	3.3
Corruption index (10 = least corrupt)	2.9
Income inequality (ratio of highest 20% to lowest 20%)	5.0

Table 12 Macroeconomic data for emerging market economies: India (1997)

1997 GDP: 1,599 in US \$ Billions
1997 GDP per capita: 370 in US \$
1990-7 Growth in GDP: 6.0
1990-7 Inflation: 8.8
Govt. as a percentage of 1996 GDP: 15.8
SOEs as a percentage of GDP in 1985-1990: 13.4
SOEs as a percentage of GDP in 1990-1996: 13.4
Trade as a percentage of GDP in 1987: 3.9
1997 tariff rate: 27.7
FDI as a percentage of 1997 GDP: 0.2

Table 13 Size of the Indian economy (1998)

Population (millions)	980
Surface Area (thousand sq. km.)	3,288
Population density (people per sq. km.)	330
GNP (\$ billions)	427.4
GNP Rank	11
GNP Average annual growth rate % (87-88)	6.2
GNP per capita \$	440
GNP per capita rank	161
GNP per capita average annual growth rate (87-8)	4.3
PPP GNP \$ billions	2,018*
Per capita \$	2,060*
Rank	151

Note: \* These estimates are based on regression.

Environmental groups are also concerned with the effects to the land. Estimates differ. The watch group, One World, claims that the 1,750 hectares needed for facilities would result in the razing of 100 hills to the ground, and the drying up of 700 streams and numerous forests and grasslands as an area of 130,081 hectares morphs into a 'barren desert'. Meanwhile, Utikal contends that

far smaller area of land will be raised and only 10 per cent of the Bahra Nadi river (in the driest year) could be used. Utikal planted approximately 80,000 trees in the year 2000. They expect to plant a few million trees in the area. Moreover, he estimated 2 million tones of industrial sludge produced each year will silt up potable water resources and other reservoirs. Utikal contends that there will be no lifting of resources, the project will utilize dry stacking with liners and collection and water recycling. Norwegian consultants from the Christian Michelsen Institute (CMI) initially approved the environmental assessment. However, CMI's request for more time to perform a complete analysis of social impacts was denied. Utikal's sponsors are no strangers to previous environmental catastrophes. The Indian State Pollution Control Board reports that Indal's Hirakud plant emits .5 million kg of fluorine each year - contaminating shallow ground water and soil. Hydro's S&S PVC-compound plant in Tamil Nadu, South India, was found to have 'two sets' of standards governing health, safety, and the environment. In this case, Norwarch reported the use of cadmium in the production process, the provision of asbestos gloves for workers, and the lack of an adequate waste treatment centre. All of these conditions are permissible in India, but outlawed in Norway.

Government institutions (with or without proper resource and borrowing privileges)<sup>1</sup> approved the project, and police and local 'authorities' have attempted to quell the non-violent village protestors. Increasingly violent measures have been used to force villagers to sign away land against their will at minimal, if any, repayment. Meanwhile, Hydro's promises to provide jobs, enable open communication, protect and enhance human welfare have generally fallen far short of expectations. Hydro contends that international NGOs have teamed with local organizations to oppose the development on political and ideological grounds.

### Timeline (as of June 2001)

The following is a timeline of major events:

- 1970s: Geological survey discovers 'exceptionally rich mineral deposits' in the form of 54 meters thick of bauxite ore over a 15 square km area along India's east coast. This find accounts for 70 per cent of the country's bauxite and increased India's previous reserves estimation by a factor of six.
- 1993: Site surveys begin and the project is initially described to villagers as a malaria-prevention exercise.
- 1994: Utikal partnership is officially formed and local 'officials' began buying or seizing up land on behalf of Utikal.
- January 1998: Kuchipadar villagers set up a roadblock to prevent Utikal employees and government authorities from accessing village property. Shortly thereafter, the police destroy the roadblock and injure 17 non-violent village protestors.

- March 1998: Two Utkal employees use violence to stop further demonstrations. They were later fired.
- December 1998: Three Norsk Hydro employees are surrounded by villagers and forced to sign a protest letter renouncing the project.<sup>2</sup>
- October 2000: A cyclone kills 9000 across East India, though none in the Utkal region. Hydro donates one million rupees to relief efforts.
- December 15, 2000: A small number of Indian authorities, police, and journalists (writing pro-government articles) come to the Maikanch village to intimidate villagers. One of the journalists misbehaved 'with utmost contempt and vulgarity' with an 18-year-old girl. The girl and villagers are upset, and began to throw stones at the police entourage. Outnumbered, the police flee, but warn of dire consequences in the future.
- December 16, 2000: Indian police return the village with an armed force. They get out of cars and demand to see the men, 'We have got firing orders and we will put at least a few people to sleep.' The police begin to open fire on the unarmed Maikanch villagers – killing three and seriously injuring eight.
- December 18, 2000: Hydro's press release states, 'The partners in Utkal Alumina will now collectively evaluate the violent incident's impact on the development project.'
- December 18 and 19, 2000: Pro-mining and UAIL-sponsored group vandalizes most of the Agragamee (the local NGO) property.
- January 2001: A report to the President of India finds that, 'The Maikanch firing was pre-meditated, preplanned and has been done at the behest of pro-mining lobby consisting of the company, local politician apparently with support from state leadership and local police and administration officials.
- January 29, 2001: Hydro press statement promises to reduce activities 'until acceptance from a majority of local stakeholders is manifested and dialogue established with all organized groups that in a significant way represent these stakeholders.'
- April 2001: A Norwatch newsletter contends that Hydro is aware of who was involved in the murder. A Hydro representative is quoted as having said, 'I know who it was [behind the police action that led to the shootings]... I cannot tell you, because I would very much like to continue my work here in India.'<sup>3</sup>
- Mid-2001: Implementation is expected to begin (according to a report which pre-dates 12/2000 massacres and 1/2001 press statement)
- 2002: Final investment decision expected (according to a report which pre-dates 12/2000 massacres and 1/2001 press statement)
- 2005: First production expected (according to a report which pre-dates 12/2000 massacres and 1/2001 press statement)<sup>4</sup>

What has caused this downward spiral of distrust and tension that has degenerated to violence and death? This case will first examine cultural differences and



Figure 12 Cultural differences between Norway and India

ethical implications for project planning and implementation. Recommendations for immediate action are followed by a conclusion summarizing findings and suggesting implications for further research.

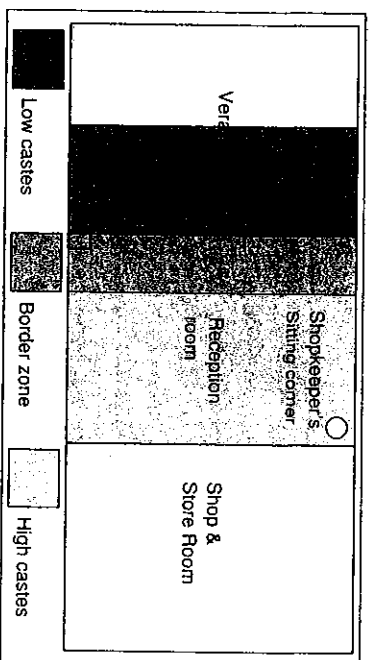
## Cultural Analysis

Coming into India with a background in Norwegian culture and industry is hard. No question. There are no easy answers to the questions we are facing with regard to Utkal. (Hydro CEO Egil Myklebust)<sup>5</sup>

Culture is a learned, programmed set of common values, motivations, symbols, history, geography, philosophy, language, and preferences which gives identity and is long lasting (Falkenberg, 2001). It is important to analyse culture as this embedded mental programming forms the process by which people solve problems (Hofstede, 1984; Trompenaars, 1993). While disparity among members of particular culture is acknowledged; generally, divergence within one culture is considerably less than the differences present between two cultures. Furthermore, India has maintained a remarkably stable set of values and ideas over the past centuries. Hydro CEO Egil Myklebust and other Hydro executives often referred to the need for 'cultural considerations' when operating abroad, yet there is never any mention of specific cultural issues and challenges (figure 12). This section will provide a basic analysis of differences between Norwegian and Indian culture using Hofstede's four dimensions (Power Distance, Uncertainty Avoidance, Masculinity-Femininity, and Individualism-Collectivism) as a framework. This interaction will be supplemented by other research and a general introduction to specific culture-driven issues that Hydro may face in their host country.<sup>6</sup>

### Power distance

Power distance is the extent to which the less powerful individuals in a society accept inequality in power and consider it to be normal. India has a very high

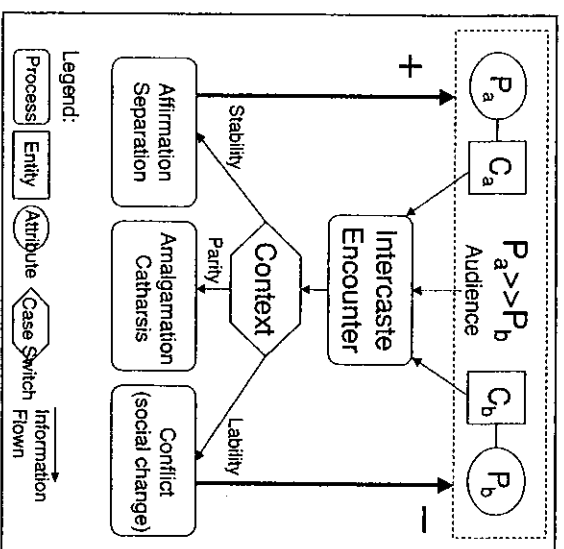


**Figure 13** Untouchability: example from a shop  
Source: Lunheim (1994)

power distance (77) compared to Norway (low at 27) on a scale of 11-95 (Hofstede, 1984). Thus, Indians are much more willing to accept inequalities. Psychological distance and social interactions between different groups in Indian society are contingent upon age, seniority, socio-economic class, caste affiliation, religion, and other factors (Gopalan and Strahl, 1998). There is a widespread notion of untouchability whereby low or unscheduled caste members should generally not come into contact with those of higher castes (see figures 13 and 14 for Lunheim's models of inter-caste social encounters that are context dependent). A company may face some risk when appointing a lower caste person to a supervisory position over a member of a higher caste (Terpestra and Davis, 1991). Cultural differences regarding power distance might also be linked to Indians' widespread sense of fatalism translating into a greater tolerance for poverty (Srinivas, 1971).

Norwegians, meanwhile, have been socialized in an egalitarian society characterized by the provision of capabilities and resources to achieve functioning and happiness. Scandinavians believe that investments in equality are desirable both as a means and as an end in producing a healthier, happier, and more well educated workplace which, in turn, drives efficiency (Falkenberg, 1997). Thus, Norwegians are more inclined to invest in preventative and safety net institutions to guarantee equality.<sup>7</sup>

On the project level, the Orissa villagers generally all belong to one of the lowest castes or unscheduled castes. As such, they are constantly subject to the will and pressure of Brahmin high caste political representatives and corporate managers. Norwegian organizations (including Hydro) operate under a flat hierarchy, which is not appreciated by Indian managers who are accustomed to a tall bureaucracy. India is the seventh most hierarchical corporate culture, Norway the fourth least, following the USA, Canada (e.g. Utkal partner Alcan), and Denmark (Trompenaars, 1993) (see figure 15 for Trompenaars' triangular hierarchy model).



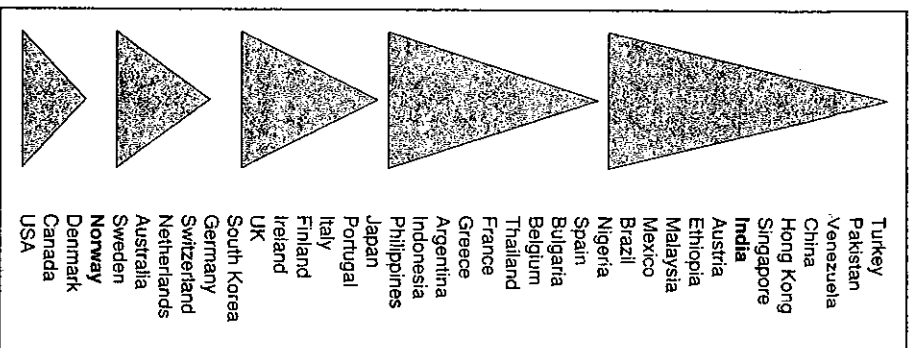
**Figure 14** Model of inter-caste social encounters  
Source: Lunheim (1994)

Note: This diagram illustrates that the interaction between two villagers of different and unequal castes ( $C_a \neq C_b$ ) and different caste specific purities ( $P_a \neq P_b$ ) depends first on caste differences, but also on the actors' attributes, the audience's presence and nature, and – most importantly – the context or interactional climate of the encounter.

### Masculinity-femininity

Masculinity describes the extent to which a society accepts the assertiveness, competitiveness, and the accumulation of material wealth as its most important values. Once again, India (56) and Norway (8) fall at opposite ends of the 5-95 spectrum (Hofstede, 1984). Indians operate forcefully in a male dominant environment. Meanwhile, Norway is a 'feminine' nurturing welfare state offering equal opportunities regardless of gender.

On the project site, tough Indian operatives have implemented Utkal plans. For example, police middlemen wield deadly weapons. The chief of police in one village doesn't mince words when he talks about putting an end (often violently) to protestors, 'Of course there will be resistance, and we have to tackle it when it arises.' A local authority is alleged to have said, 'If you raise your head, we know how to crush that... we have got firing orders and we will put at least a few people to sleep,' before killing three villagers and severely wounding eight others.



**Figure 15** Hierarchical management modes  
Source: Trompenaars (1993). Reprinted with permission

Norwegians are less confrontational and deliberate longer; the latest Hydro press statement stresses the need for dialogue before activities are extended. Related Scandinavian values include consensus, helpful attitude, harmony and conflict balance and cooperation and competition balance (Falkenberg, 1997).

Trompenaars (1993) has collected relevant data on perceptions of welfare provisions to displaced persons: Again, the Norwegians at Hydro may face a different perception of the need to take care of the interests of relocated villagers. Trompenaars asked respondents from India and Norway on the somewhat related

idea of perceptions of the company's responsibility to provide housing for employees. Only 46 per cent of Indians believed a company held this responsibility, compared to 77 per cent of Norwegians.

Masculine cultures are often dominated by traditional gender roles such as those found in India where men rule the work place and women stay at home. This is particularly evident in rural settings. Research has highlighted the potentially serious implications from employment of women in India (Liddle and Joshi, 1986). Furthermore, multinationals might wish to exercise great care when assigning women to executive positions in Hinduism-dominated cultures (Ashghian and Ebrahimi, 1990). Orissa village women have been systematically denied access to training and means of economic self-sufficiency. Hydro managers, no doubt acting from a self-reference of empowered women in their home country, have introduced training and development programs to increase the station of women. These directives have generated both encouragement and negative reactions from villagers. Undeterred, Hydro has promoted its pro-women activities by arguing that women who can read, write, and earn additional income can provide better for their children.

### Individualism-collectivism

The Individualism-Collectivism dimension describes the extent that societies focus on taking care of one's self or looking out for one another in a tight family clan. Hofstede (1984) found Norwegians to be more individualistic (69) than their Indian counterparts (48) on a scale of 12-91. *Barradasi* is a Hindu word which describes this strong need for joint family or brotherhood. It can often lead to nepotism as businessmen feel obliged to favour family members when hiring (Terpestra, 1978). As particularists, Indians look for specific circumstances such as family or friend relationships which are stronger than an abstract rule of dealing equally and fairly in all cases. In the following dilemma, Norwegians responded 97 per cent, Indians 53 per cent that their friend has no right to expect a false testimony (Stouffer and Toby, 1951).

You are riding in a car driven by a close friend. He hits a pedestrian. You know he was going at least 35 miles per hour in an area of the city where the maximum allowed speed is 20 miles per hour. There are no witnesses. His lawyer says that if you testify under oath that he was only driving 20 miles per hour it may save him from serious consequences.

Thus, Indians appear to have a stronger collective loyalty to friends and family. Similarly, they attach long-term allegiance to jobs, and do not appreciate when a job offer has been extended and then rescinded (Gopalan and Stahl, 1998). Unfortunately, Hydro is perceived to have broken many promises in this regard, further aggravating cultural tensions.

The collectivism framework may extend to interpretation of shared, traditional lands. Orissa villagers believe that land is inherited through generations as the 'womb of our motherland' and cannot be sold. As the folk song of one 16-year-old Orissa village boy pleads:

Hey company and government!  
We are aware;

Don't try to cheat us.

Hear, hear, in our own village we are the government.

In our village we will judge;

Our land, our water cannot be traded,

The earth is ours, the earth is ours.

The Baphimali hill has religious significance, particularly during the January festival of Pausha. The villagers have said they would not take want to mine this hill, even if they received profits for it. One villager remarked that the hill should not be ripped up because if you take the brain from a head, the person will not survive.

Village thinking could also be attributed to a cyclical time orientation. Indians view time as an infinite loop – a constant cycle of birth, death, and reincarnation. This mindset may lead to increased pride and attention to the maintenance of traditional places and beliefs for future generations (Sinha, 1990).

On the other hand, Norwegian executives have funded this project on the very premise that the land – and with it, the villagers – can be bought. Norsk Hydro describes itself as 'an industrial company based on the use of natural resources, with the aim of meeting needs for food, energy and materials. Hydro intends to create growth and development where the company can achieve good profitability through strong competitiveness.' The website highlights the motto, 'Transforming resources into the necessities of life.' This also begs the question, what about the lost necessities of life in resource-plenty, institution-deprived host countries?

## Uncertainty avoidance

Uncertainty avoidance is the extent to which individuals within a culture are frustrated by unstructured, unpredictable situations. India has low uncertainty avoidance (40), indicating a willingness to accept personal risk. Norway, meanwhile, has average uncertainty avoidance (50) on a scale of 8–112 (Hofstede, 1984).

Hydro may have solicited a local partner for the venture in order to alleviate the risk of operating in an unknown environment. As Ole Lie, one of Hydro's Utkal executives, stated in my interview, 'It has been said that when a person comes to India, he knows nothing. After 6 to 12 months, he knows everything. And from then on he becomes more and more uncertain about what he knows.' Clearly, from Hydro's standpoint, truly local input was an imperative complement to Hydro and Alcan's competence as international industry leaders

with proven technology, capacity for economies of scale, and other transferable resources.

India's willingness to accept increased risk may be due in part to a different control nature. According to one expert, if you're an Indian you can commit to a deadline – but always in the back of your mind is the thought that it'll be nice if it happens, but I can't totally control this' (Frazee, 1998). Furthermore, Hofstede (1984) finds that this low uncertainty avoidance is also expressed in less formal control systems.<sup>8</sup>

## Cultural mindset

Once upon a time there was a great flood, and involved in the flood were two creatures, a monkey and a fish. The monkey, being agile and experienced, was lucky enough to scramble upon a tree and escape the raging waters. As he looked down from his safe perch, he saw the poor fish struggling against the swift current. With the very best of intentions, he reached down and lifted the fish from the water. The result was inevitable. (Adams, 1969: 22–4)

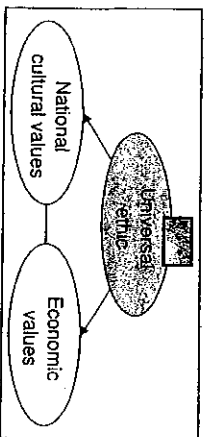
Initially, Hydro took a patronizing view of their responsibilities, implementing Norwegian-culture mindset policies. The company had previous success operating with this framework: communities such as Porsgrunn, Norway, have happily relied on Hydro's fatherly-like attention and support. Several years later, CEO Myklebust speaks bluntly about the effectiveness of this strategy at Utkal, 'I can say a lot of positive things about Norwegians and their sincere desire to help people who are not well off. But I am not convinced that we always know what is best for a developing society.' Thus, Myklebust is clearly concerned with Hydro's placement on the strategic yardstick balance between local cultural attitudes and a universal set of values. What can Hydro (as the monkey) do for Utkal residents (the fish)?

Clearly, people from different cultures do not generally have the same values. Existing literature suggests that these values are linked to ethical beliefs (Hofstede, 1984; Schlegelmilch and Robertson, 1995). Thus, an understanding of a society's values should help MNCs and host countries to minimize unethical behaviour. The following section will examine how these different cultural values are linked to ethical interpretations.

## Ethical Analysis

I know what I have done, and you honor knows what I have done. Some-  
where between my ambition and my ideals, I have lost my ethical compass.  
(Ieb Stuart Magruder testifying at Watergate, June 1974)

Ethics help us to determine right from wrong, providing a standard that is relative to our culture. These frameworks focus on acts and a person's character – setting



**Figure 16** Universal ethics

behavioural rules that guarantee rights, justices, and happiness. As with culture, ethics can be expressed as a spectrum from cultural relativism (the equality of ethics across all cultures) to moral absolutism (one universally acceptable set of moral beliefs and values) (Donaldson, 1994). It appears as if cultural relativism is a limited perspective as Norway and India share few agreed-upon common values and principles. Furthermore, the nature of the global economy implies the need for another yardstick that is specific neither to time nor place such as the year 2001 in Orissa, India.

The universal moral compass must mitigate universal ethics with national cultural values (as examined previously) and economic motivations (figure 16); enabling universal values to trump inadequate local cultural or economic market considerations (Falkenberg, 1996).<sup>9</sup> For example, the universal ethic of honesty must trump local Indian practices of corruption.<sup>10</sup> A summary of other risks of doing business can be found in table 14. In this instance, Utkal has a 'no bribe' policy. Hydro executive Ole Lie states that this guiding principle begins from the first solicitation: 'Never pay the first bribe.' He also believes that Utkal is 'highly respected everywhere' for not making payoffs. Norwarch and CorpWatch sources suggest otherwise – insisting that authorities are bribed through less direct channels.

Hydro and other MNCs must establish and consistently apply a universal ethical standard. This section will review and analyse the five approaches defined by Falkenberg: (1) equality; (2) just institutions; (3) rights and duties; (4) principle of integrity; and (5) responsibility.

## Equality

Equality entails that individuals have equal moral worth, regardless of age, gender, race, religion, looks, language, and sexual orientation. As discussed previously, India and Norway differ greatly in their perspectives on power distance and masculinity-femininity cultural parameters. Furthermore, India has approximately 37 million 'missing women' (Sen, 1999). MNCs must act in a manner that guarantees equality of moral worth and opportunities – not equality of outcome such as equal pay or wealth for all.

**Table 14** Risks of operating in developing countries

Types of Impact ↓	Source of Risk	
	Actions of legitimate government authorities	Events caused by actors outside the control of government
Voluntary loss of control over specific assets without adequate compensation	<ul style="list-style-type: none"> <li>• Total or partial expropriation</li> <li>• Forced divestiture</li> <li>• Confiscation</li> <li>• Cancellation or unfair calling of performance bonds</li> <li>• Withdrawal of licenses or ownership of property</li> </ul>	<ul style="list-style-type: none"> <li>• War</li> <li>• Revolution</li> <li>• Terrorism</li> <li>• Strikes</li> <li>• Exortion</li> </ul>
A reduction in the value of a stream of benefits expected from the foreign controlled affiliate	<ul style="list-style-type: none"> <li>• Non applicability of 'national treatment'</li> <li>• Restriction in access to financial, labour, or material markets</li> <li>• Controls on prices, outputs or activities</li> <li>• Currency and remittance restrictions</li> <li>• Value added and export performance requirements</li> <li>• Sudden cancellation or change in agreed terms of a contract</li> <li>• Bureaucratic blockages</li> </ul>	<ul style="list-style-type: none"> <li>• Nationalistic suppliers or buyers</li> <li>• Threats and disruption to operations by hostile groups</li> <li>• Externally induced financial constraints</li> <li>• Externally imposed limits on imports and exports</li> <li>• Corruption/bribe and 'cronyism'</li> <li>• Ethical or pressure-group driven investment policies</li> </ul>

*Source:* De la Torre and Neckar (1988). Reprinted with permission of Elsevier Science. *Note:* Bold = more likely in India.

Equality trumps conflicting principles such as utilitarianism's 'greatest good for the greatest number'. Utilitarians Bentham and Mill would suggest a difficult, consequence-oriented calculation – essentially a cruel accounting exercise prescribing unethical behavior. For example, the right of the billion future recipients of lower cost, lighter weight aluminum could be determined to outweigh the homes and lives lost by a few hundred Orissa villagers, e.g.:

(# people who benefit from aluminum) (\$ profit per person) + (# villagers who get jobs) (\$ value each job is worth to them) > (# people who die) (\$ value of person) + (# people who are injured) (\$ value per person) + (# people who are forced to leave homelands) (\$ value per person)

Hydro CEO Myklebust appears to utilize some degree of this human accounting. While agreeing that Utkal has both positive and negative aspects, he believes that when the 'two sides are added up and compared... the result for the local



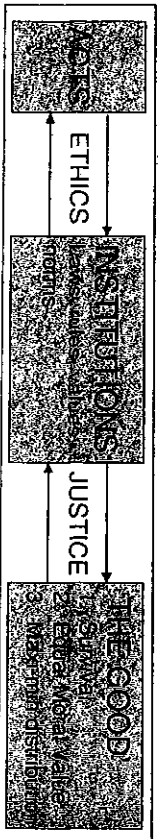


Figure 17 The Good, Institutions and Acts

community is favorable'. One wonders what multiples Myklebust has used to account for the negative impact of lost human lives and the positive impact of sales and stockholder value.

### Just institutions

As Hydro wipes the slate clean from its mid-December retreat from Utkal, the corporation has the opportunity to re-formulate its entry strategy. Rawls (1972) would suggest the 'veil of ignorance' where one determines the playing field when he/she is unaware of original (starting) position. In this scenario, a married, 30-year-old successful Hydro engineer from Oslo could easily take the station of a widowed, 70-year-old illiterate grandmother who is forced to abandon her ancestral home in Kashipur. What good principles or just institutions could be agreed upon at the original position drawing board (figure 17)? In this theory with roots from Kant's imperative and the Golden Rule, problems of cultural relativism would be avoided, and the moral compass could be extended across time and place. This could be a particularly challenging exercise for an Indian audience given their mentality that unequal stations with vastly different possibility sets (e.g. highest vs lowest caste) are inherited at birth.

### The good

Falkenberg (2001) proposes that these individuals would agree to three basic principles which promote this good: survival (the minimum nutrition, health and education needs); ecologically sustainable level of consumption and resource utilization (to ensure survival for future generations), equality of moral value (all individuals are treated equally), and distribution of index goods according to the max-min principle (inequalities distributed so to benefit those who have the least).

### Institutions

Institutional theory examines the influences of structures around organizations that help to define social and organizational behavior (Scott, 1995). These systems

(including strong government and societal influences) affect the way an organization makes and implements decisions (Hoskisson *et al.*, 2000) and can ultimately be selection forces determining organizational survival (Hannan and Freeman, 1989). On the other hand, corporations can also impact institutions with strategic responses (Oliver, 1991). Due to the different nature of economic (e.g. financial institutions) and sociological orientations (e.g. provision of public services), institutional theory can be an effective tool for examining multinational companies operating in emerging market economies. Financial institutions are expected to reduce transaction and information costs by establishing stable structures that reduce uncertainty and facilitate interactions. Social institutions emphasize the role of cultural, material, and relational surroundings.

Falkenberg suggests that *just institutions* (laws, rules, values, and norms) are those which promote 'the good.' Does India have just institutions? According to Hydro's Lie:

India has institutions which should be adequate for guaranteeing human rights. However we see very often that this is not the case. A very important reason for this is probably the high illiteracy... When the illiteracy is in the range of 80-85 per cent the individuals are not able to follow and understand what goes on around them. This opens up for individuals and groups to exploit the situation for their own benefit. This system goes all the way into the national politics.

Does Hydro have a just institutional framework for evaluating projects in developing countries? Hydro's five-step potential project evaluation checklist examines in descending order: (1) the strategic picture; (2) optimal ownership structure; (3) corporate social responsibility; (4) environmental issues; and (5) fundamental issues of culture. The checklist appears to promote 'the good,' beginning with what is best for the financial shareholders. The list ought better to be arranged to focus on the needs of the environment and shareholders in the host country first (see figure 18 for the current corporate strategy checklist).

### Acts

Acts that are in harmony with just institutions are considered to be ethical (Falkenberg). Thus, if India's institutions and Hydro's five-step evaluation checklist were 'just', then the acts (such as establish a bauxite mine in a holy area) would be considered ethical.

### Rights and duties

The human rights ethical situation (and the definition of good behavior) can be viewed in terms of Donaldson's ten rights and the corresponding expectations (A) inherent in the Utkal activities (table 15). Violations are denoted by a (V) in

Step 1: Strategic Picture – Long term objective

- Describe position in 10–15 years

Step 2: Optimal Ownership Structure

- Local partner, joint venture, alone?
- If partner:
  - Common long-term strategy?
  - Common philosophy and values?
  - Financial strength equal?

Step 3: Corporate Social Responsibility Issues

- Define transparent information strategy
- Active/Potential NGOs

Step 4: Environmental Issues

- Fundamentals of Culture

Step 5: Fundamentals of Culture

- Political stability/history/values/religion/corruption
- Industry and trading structure
- Local expectations to project

Figure 18 Hydro Project analysis checklist

Table 15 Ten basic human rights and corresponding duties

Ten Basic Human Rights (and Corresponding Duties)	Avoid Depriving from	Help Protect from Deprivation	To Aid the Deprived	Utkal Violations
Freedom of physical movement	X		○	✓
Ownership of property	X		○	✓
Freedom from torture	X		○	✓
Fair trial	X		○	✓
Non-discrimination	X	X	○	✓
Physical security	X	X	○	✓
Freedom of speech and association	X	X	○	✓
Basic education	X	X	○	✓
Political participation	X	X	○	✓
Substitutes	X	X	○	✓

the final column and examples are detailed. Hydro has attempted to establish some projects aiding the deprived (○). But, these initiatives appear to greenwash the facts and are worthless in the absence of real strategic policies guaranteeing the ten basic human rights. Examples will illustrate the human rights violations.

- *Freedom of physical movement.* Utkal has attempted to establish a wall around the future factory and mine grounds, prior to establishing the rights to these lands and to obtaining permission from local villagers. This

will limit physical movement as well as critical access to water sources and agricultural land.

- *Ownership of property.* The citizens of Orissa have a right to own land. They have filed, mostly unsuccessfully, in accordance with article 226 of their Constitution and the 1894 Land Acquisition Act. These legal institutions have yet to prove themselves as guardians of justice and ethics. Watch agencies recount stories such as that of Jairam Majhi who was confronted by local authorities and told to 'abandon her family home and go elsewhere?'
- *Freedom from torture.* Young and old villagers were forced to sign away their land, by threat of gunpoint. Those shot in December were left to bleed to death on the hillside as their attackers fled the village in jeeps.
- *Fair trial.* A village man (paid by Utkal as an informant) reported three innocent young schoolchildren to the authorities for destruction of Utkal property because their parents are leaders in the struggle. The informant's claims were completely unfounded, yet police acted on them. Villager Andani Majhi describes the situation, 'Almost every other villager now has an arrest warrant against him... Even if you open your mouth in front of them, you could be arrested.'
- *Non-discrimination.* Again, individuals must not continue to face discrimination on the basis of caste position, family, and other variables.
- *Physical security.* Since the conflicts began nearly eight years ago, dozens of villagers have been injured, and several are dead from police attacks.
- *Freedom of speech and association.* There have been numerous attacks by police and officials (empowered indirectly or directly by Hydro) on non-violent village protestors.
- *Basic education.* By arresting innocent schoolboys, children wrongfully spend time in jail cells – not in class rooms.
- *Political Participation.* As described earlier, protestors against the local authorities do not enjoy the same capability to achieve functioning. During the process, four NGOs operating in the area have been de-registered on charges of 'backing the anti-development' efforts.
- *Substitutes.* Many villagers have not been given the right to new land because they did not hold official deeds to their current homes.<sup>11</sup>

Hydro, meanwhile, contends that it has 'advocated that socio-economic and cultural consequences of the project shall be a part of the management decision process... The ways the project will affect the local population will be given as much importance as building a plant that is both technologically and environmentally sound.' In fact, there have been many projects attempting to aid the deprived such as the 'Rehabilitation and Resettlement (R&R) Package' (to compensate individuals affected by the project) and other initiatives geared to the providing training, preventative health, improved sanitary conditions, women's gramteen banking, and a weekly 'grievance day' when villagers can submit complaints to an Utkal office.

While these measures have begun to improve information flows and establish meaningful dialogues, they appear sugar-coatings to the true human rights violations of the Utikal project. A MNC cannot address projects 'to aid the deprived' without first establishing a full presence in columns A (avoid deprivation) and B (help protect from deprivation.)

## Principles of integrity

In his book, *Competing with Integrity in International Business*, DeGeorge (1993) highlights seven standards for MNCs that provide a basis for evaluating and responding to the charges of unethical behavior particularly when operating in countries with inadequate background institutions:

- 1 *Multinationals should do no intentional harm.* It is unclear whether Hyдро intended to do harm, although it is clearly a consequence.
- 2 *Multinationals should produce more good than harm for the host country.* Thus far, Hyдро appears to have done more harm than good from the perspectives of the villagers (lost land and lives) and shareholders (no return on capital yet).
- 3 *Multinationals should contribute by their activity to the host country's development.* Sustainable development policies should be aimed at the interdependent three prongs: environmental sustainability, economic development and growth, and poverty alleviation (Vosli and Reardon, 1997). Hyдро must champion implementation in these areas- and not contribute to the further depletion of financial, environmental, and human capital.
- 4 *Multinationals should respect the human rights of their employees.* Hyдро has an obligation to guarantee the safety of its employees and contractors. In one case, three Hyдро workers were forcibly attacked by villagers. More recently, Utikal partners have been accused of ordering contractors to attack villagers. Hyдро should also not be in the position of ordering and paying (directly or indirectly) bounty hunters to commit terrible crimes.
- 5 *To the extent that local culture does not violate ethical norms, multinationals should respect the local culture and work with and not against it.* The Utikal partners need to assess the complete ethical and cultural environment and determine which universal ethical principles should trump national cultural values and economic incentives, e.g. caste hierarchy and bribery.
- 6 *Multinationals should pay their fair share of taxes.* Utikal is not currently paying taxes as it is taking advantage of an Indian government-sponsored scheme which provides a ten consecutive year tax holiday for 100 per cent export-oriented projects (Ernst & Young, 1999). Meanwhile, Utikal is heavily utilizing publicly financed and controlled resources such as water and roads.
- 7 *Multinationals should cooperate with the local government in developing and enforcing just background institutions.* Utikal's institutional efforts are limited

to its self-created NGO, URDS. A recent press release suggests that Hyдро has adapted a hands off approach, 'A political debate is currently in progress in the State of Orissa about which areas are to be developed industrially. Utikal will not take part in this debate, but will fully support any efforts initiated by the Government of Orissa aimed at resolving the conflict in the project area. Utikal hopes that the reduction of project activities and initiative to dialogue can reduce tension in the area, which today affects the lives of many people.' How can Hyдро and Utikal guarantee that the government of Orissa has been fair in resolving the conflict? Hyдро and Utikal should focus on creating adequate institutions that could facilitate this important discourse.

## Responsibility

The final framework examines the degree to which a company can be held responsible for the acts in its environment. In this case, the three parameters governing corporate responsibility are:

- 1 If I am 'response-able' or 'response-capable,' i.e. able to respond to a problem.
- 2 By virtue of my role: a father is responsible for his children.
- 3 For something that I have caused to happen: I decided to borrow the money, so I am responsible for the repayments of the loan.

In the first guideline, Hyдро is both response-able and response-capable. This is particularly the case as Hyдро and Norway have experience in ensuring that natural resources are used for the benefit of all. Norway is one of very few natural-resource countries with a stable socio-political environment. Following the North Sea finds in the middle of the last century, Norway created a generous welfare state guaranteeing opportunities for its citizens now and in the future (Karl, 1996). Hyдро has a responsibility to share these lessons learned with developing communities in other parts of the world. In this way, Hyдро can prevent the 'paradox of plenty' - where countries well endowed with natural resources are plagued by political turmoil, capital flight, and double digit inflation (Karl, 1996; Wantchekon, 1999).

In the second regard, India's political instability and lack of welfare programmes help to promote paternalistic bonds between employees and organizations (Mead, 1996). Furthermore, Hyдро's initial patronizing policy may have raised villagers' expectations. Hyдро and the other Utikal partners are currently backing off the scale of their responsibility. As CEO Myklebust acknowledges, 'The social responsibility debate is also about more clearly defining what is, and what is not, the responsibility of business and industry, thereby clarifying the responsibilities of other parts of society.' Hyдро must still accept some responsibility by virtue of its role as a multinational operating in a less-developed community.

Finally, Utikal project partners should be held responsible for events directly triggered by its venture. Utikal must accept follow up responsibility for everything from the razing of forests to the relocation of villagers. Specific examples of initiatives Hydro should be responsible for are provided in the Recommendations section.

## Value chain

Ethical problems can be examined in terms of a value chain where 'networks of firms that create value for themselves and for their customers by transforming a variety of resources (human and natural) into offerings valued by end users'. These ethical challenges are particularly evident when value chain activities take place in different countries with pronounced cultural and economic differences. In the case of Utikal, light aluminum for automobiles and corporate profits for shareholders entails lost land and lives for villagers. Figure 19 (embedded picture is a collage from images of related websites)<sup>12</sup> illustrates this channel – where individuals at one end are smiling and enjoying the benefits of lighter, cheaper aluminum and individuals at the other end emerge dead, wounded, or with otherwise destroyed lives.

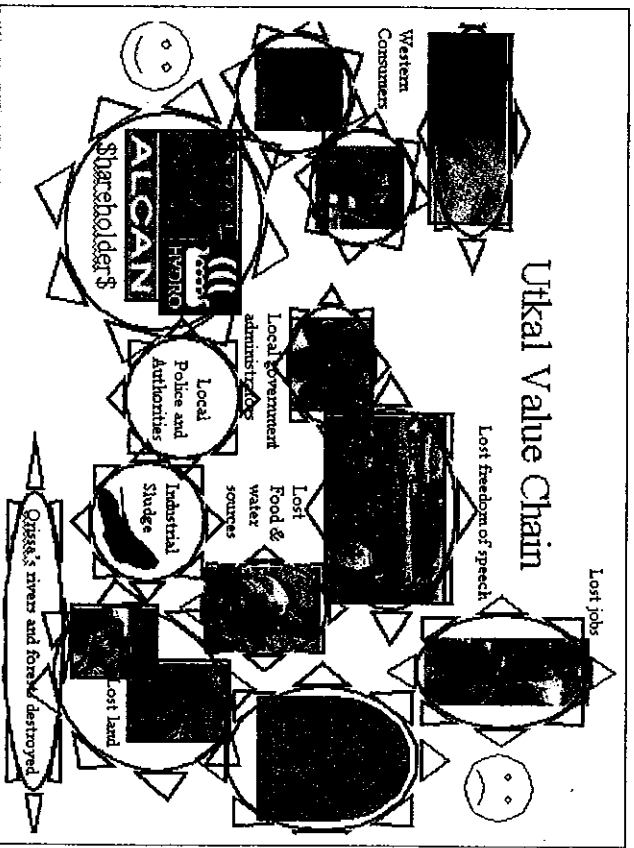


Figure 19 The Utikal value chain

## Recommendations

Hydro's past activities have ranged from illegal to good, honest behaviour. As a true corporate citizen, Hydro must strive to consistently act in an honest and ethical manner, following the standards so well documented and promoted in glossy corporate brochures and websites. In doing so, Hydro will promote flourishing for all by enabling people to reach their full capabilities. Additionally, other companies, particularly in the scrupulous oil industry, will be challenged by this ethical precedent and may raise social responsibility worldwide.

The author proposes action-step oriented recommendations as there is a great need to translate dialogue about ethical philosophies into strategic and implementable action steps. Hydro has two basic options: abandon the project completely (preferred) or proceed with major policy changes.

### Plan A

Hydro should abandon the Utikal project. The human rights and environmental atrocities must not continue. This preference is echoed by Leer-Salvesen from Norwatch, 'Hydro should go home and find bauxite elsewhere or recycle more aluminum.' The project may also prove financially infeasible for Hydro shareholders looking for a return on investment. Already, the project is six years behind schedule, and Leer-Salvesen believes it may take another twenty to thirty years before Utikal will have full cooperation from villagers. Furthermore, if Hydro abandons the project, it is likely that Alcan will also leave and the Indian companies alone would not be able to finance the project.

### Plan B

Upon re-evaluation, Hydro could choose to proceed. In this case, the following are recommended:

1. *Expand Hydro's ethical policy to include human rights regardless of the degree of the ownership structure.* According to a March press release, Hydro's current ethics policy will consider human rights only when ownership share is between 10 per cent and 50 per cent.<sup>13</sup> These five 'unconditional principles' are:
  - Will support the Universal Declaration of Human Rights and will not engage in activities that impair the enjoyment of human rights.
  - Will engage in open dialogue and consultation with stakeholders in local communities and elsewhere regarding impacts of company operations.

- Will not endanger the physical safety, security, or health of members of communities affected by such operations.
  - Will remain neutral in respect of race, religion, gender, age, caste, cultural identity and similar factors.
  - Will recognize the intrinsic value of diverse cultures and traditions in communities where it operates and will act accordingly.
- This is blatantly unacceptable and begs the question—would Hydro care to stop these atrocities if it possessed a meagre 5, 8 or even 9 per cent ownership? To the same token, is it okay to sit in a room with eleven people and participate in a human rights violation, such as a rape or murder? Given Hydro's logic, none of the parties could be held accountable for his/her inaction because each possessed just 9.09 per cent (100 per cent divided by 11) of responsibility for the situation – not enough to halt or reverse the path of ethical destruction.
- 2 *Install more Hydro officials (with sufficient ethics and cultural training) in Orissa to initiate positive changes.* Hydro portrays itself as the victim of local officials and police who claim to have been acting on Utkal's behalf. As Union Carbide found in Bhopal, it is insufficient to blame local managers for disasters. In this regard, Hydro will be closer to the problem and therefore, hopefully also closer to a solution. For example, Hydro could directly ensure that local people, from all bases of the caste hierarchy, are involved in the decision-making.
  - 3 *Engage future employees of Hydro in ethical dialogue.* For example, Norsk Hydro could sponsor classes at leading Norwegian institutions for research and student theses focusing on the ethical implications of strategic decision-making and management.<sup>14</sup> This discourse could be extended to Indian schools of business and economics. Only seven of India's 148 universities offer ethics courses.<sup>15</sup> (Many other leading MBA programs, particularly in the US, have a Professorship chair and champion of these activities.)
  - 4 *Guarantee full transparency of issues.* Hydro espouses an 'openness policy' which claims to share both good and bad news on environmental and ethical fronts. Upon closer reading of fact-finding NGO newsletters, it is apparent that Hydro does not practice a full-transparency policy. For example, concerns about Utkal-paid informants in villages and destroyed forests are among those issues which have never been raised in company press releases and 'openness' documents.
  - 5 *Invite CMI and other groups back on-site to provide status and recommendations on the current social and environmental situation.* Utkal benefits from having the most accurate and complete information, even if the picture isn't rosy. Initial projects could include a re-examination of village relocations and industrial sludge estimates and subsequent proposals for action.
  - 6 *Agree to an ethical strategy with partners.* Hydro has said that it was not involved in the shootings, but that it cannot guarantee that its Indian partner had nothing to do these murders. Clearly, these partners need

dialogue and action. According to Norwath's Leer-Salvesen, when ethical issues are raised, the three partners respond uniquely. Alcan will choose to 'throw money to quiet the problem.' Hydro will 'start to talk so loudly about human rights that people walk away disgusted.' And Indal 'will just shoot the villagers.'

- 7 *Continuously monitor the project's ethical acts and consequences.* As with all other management concerns, it is critical to continually evaluate performance (Rosenzweig & Singh, 1991). Consistent and frequent evaluation of codes of conduct can assuage the inadequate structures and economic disparities present throughout the world (Bird & Waters, 1994). As needed, Utkal partners should be prepared to enhance their corporate codes of ethics.

## Conclusion

If you don't know where you're going, then any road will take you there. (Cheshire Cat to Alice in Lewis Carroll's *Alice in Wonderland*)

Hydro must choose the road it wishes to follow lest it end up on a less desirable path to the future. This Norwegian multinational should develop and actively pursue its triple bottom line: *financial, social and biophysical performance and responsibility*. As Hydro approaches its centenary in 2005, the company's long experience with natural resources should be expected to translate into the capability to provide flourishing for all.<sup>16</sup>

Efficiency (utilitarianism), equity (justice), and freedom are three equally important parameters (figure 110). Traditionally, developing countries find themselves in the lower left hand corner as centralized political and economic power

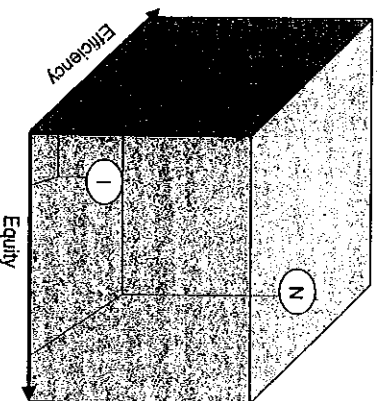


Figure 110 The equity diagram

constrain their development. When developing countries mature with just institutions and ethical acts, they will find the equitability and freedom experienced by more developed countries (Falkenberg, 2001).

In providing a brief overview of cultural and ethical issues, this paper has tried to provide a framework for cultural and ethical analysis and action for Utkal and other multinationals operating in developing countries.

Sadly, there were thousands of multinational ethical cases to choose among. Fortunately, however, corporate social responsibility is an increasingly important area of dialogue, focus, and implementation for multinational companies operating overseas. Companies recognize the short-term (valuable publicity, new customers, improved motivation and moral among workforce) and long-term (self interest and enabling flourishing for all) value of ethical practices. Multinationals are also aware of the dire social and economic penalties from unethical behaviour, such as Union Carbide's (UCC) disaster in Bhopal, India – the resulting legal precedent recognized the corporation as an ethical entity with responsibility to host society.

My corporate contacts at Hydro are currently in Orissa to 'talk and talk'. Meanwhile, Norwarch has representatives on-site to monitor the situation. Utkal future developments will be of interest to academics, practitioners, and corporate shareholders and aluminium market analysts.

There is a need for further applied empirical and theoretical research to multinationals operating within emerging markets with different cultural and ethical frameworks. This is particularly true for private firms and international joint ventures (Childs, 1972), such as Utkal. Also, little attention has been paid to the study of organizations that run amok within their environments (Roberts, 1994). Comparatively little extant research exists for the geographical regions of India, Africa, and the Middle East; management scholars have focused primarily on the Chinese or Central and Eastern European counterparts.

### Project withdrawal: December 2001

Six months after the time frame of this case, Hydro issued the following press statement on December 17, 2001, stating a withdrawal from the Utkal Project:

Hydro Aluminium has informed its partners in Utkal Alumina International Ltd. that they wish to exit from the project. Hydro's decision is based on an assessment of the future market for alumina, as well as the positive development of the company's alumina production facilities in Brazil. The lack of progress for the Utkal alumina production is also part of the decision.

Alumina, also known as aluminium oxide, is an important raw material for production of primary aluminium. Hydro has equity production of alumina in Jamaica and Brazil. The Brazilian Alunorte refinery is going through an expansion which will substantially increase Hydro's production capacity for alumina.

A balanced alumina market with a variety of suppliers is envisaged for the coming years. This will allow Hydro to pursue its strategy of alumina supply through a combination of own production, alliances and long term contracts.

The shareholders agreement of Utkal Alumina gives the remaining partners pre-emption rights. The legal process required for Hydro to leave the partnership has been initiated.

Utkal Alumina has not started any construction in the planned project area. Based on partnership policies, some socio economic development work is going on. There is also a continuous dialogue between the company, the government and the local population. The proposed host community of the project in Kashipur, Orissa is in dire need of social and economic development. Mining and industrialization, when implemented in a careful and responsible way, may contribute to a sustainable development in this area and give opportunities for thousands of below the poverty line people to better their livelihood conditions.<sup>17</sup>

### Notes

- 1 Resource and borrowing privileges as defined by Thomas Pogge (2001): 'The international resource privilege is 'the power to confer globally valid ownership rights in the country's resources'. International borrowing privileges describe 'when a group exercises effective power within a national territory is entitled to borrow funds in the name of the whole country.'
- 2 During interviews, the author learned that these three employees were transferred to other Hydro divisions outside India following this incident.
- 3 This quote has, on several occasions, been publicly denied by senior Hydro officials as totally false.
- 4 These events have been documented and shared mainly to Norwegian audiences by watch groups including Norwarch (daughter organization of the Future In Our Hands), the Strømme Foundation, and Norwegian Church Aid. Additionally, Indian organizations such as SODAN (South Orissa Development Alternatives Network) and international watch groups including One World have brought attention to the critical issues and tensions.
- 5 [www.hydro.com/hits/osl02067.nsf](http://www.hydro.com/hits/osl02067.nsf)
- 6 The author would have preferred to highlight the differences between high and low (or unscheduled) caste cultures in India. The best treatment of this is Rolf Luthheim's (1994) dissertation, *Daart People Caste and Community: A Rajasthan Village*. Luthheim focuses on a different geographic region of India (Rajasthan in the northwest) and his observations about high/low caste differences may not be suitable to extrapolate for the Orissa region 800 miles to the east. When applicable, insights from his thesis are included.
- 7 Luthheim acknowledges the difference in egalitarianism between his native Norway and host research in India. He writes that his fieldwork in the Rajasthan villages is 'intended as a journey to a place thought to be the polar opposite of egalitarian individualism, to hierarchical collectivism – caste and community.'
- 8 The author notes that the lack of these proper control systems may have attributed to other disasters in India such as Union Carbide in Bhopal.
- 9 The American Heritage dictionary describes a trump card as a 'card in the trump suit, held in reserve for winning a trick, or a key resource to be used at an opportune moment'.

- 10 This storm of economic liberalization beginning in the early 1990s in India exposed international companies to increased risk due to the lack of appropriate institutions. This corruption has manifested itself in artificial bid escalation, tax evasion, bank fund misappropriation, and fund diverting from productive channels (Chakraborty, 1997). The picture is perhaps best painted by a *Sunday Telegraph* editorial, 'In ancient India, kings and Emperors thought it a privilege to sit at the feet of a man of learning. In today's India, MPs and ministers think it a privilege... to sit at the feet of underworld dons and base businessmen to get secret donations from them and to get their blessings'. All but one of the 40 MPs in India's parliament have criminal records. In March of this year, journalists exposed several high government officials for accepting bribes in arms dealing.
- 11 The author elected to provide just one example (of the many documented) per human rights violation.
- 12 [www.hydro.com](http://www.hydro.com), [www.fivh.no/norwatch](http://www.fivh.no/norwatch), and [www.oneworld.org](http://www.oneworld.org)
- 13 <http://osli01inet.hydro.com/HITS/OSLI02008.NSF/allbyid/1D2246679D8B42BB412568B200537E29?OpenDocument>
- 14 The author sadly notes that Norsk Hydro representatives at the Center for Corporate Social Responsibility did not respond to repeated e-mails for their insights. She was however able to interview several other Hydro executives working closely with the Utkal project.
- 15 The Indian Institute of Management at Ahmedabad (set up in collaboration with Harvard Business School) does not offer ethics.
- 16 Ironically however, active initiatives began only in the most recent fifteen years, such as the 1988 Management Guidelines for Social Aspects of Participation in Industrial Activities and the 1993 Norsk Hydro Environmental Principles.
- 17 [http://www.hydro.com/en/press\\_room/press\\_releases/archive/2001\\_12/archive.html](http://www.hydro.com/en/press_room/press_releases/archive/2001_12/archive.html)

### Case Assignments

- 1 Give an overview of and discuss the ethical dilemmas that Norsk Hydro faced in the Utkal Venture.
- 2 Discuss the statement that just institutions are those which promote 'the good'.
- 3 Describe Donaldson's 'ten rights' and outline Norsk Hydro's practice in relation to these.
- 4 In December 2001 Norsk Hydro left the Utkal Venture. Was this in your view a wise decision and, eventually, do you think the company should have done this at an earlier stage?
- 5 Discuss the case in regard to the corporate ethical stages outlined in Chapter 9. Websites: [www.hydro.com](http://www.hydro.com), [www.fivh.no/norwatch](http://www.fivh.no/norwatch), [www.corpwatch.com](http://www.corpwatch.com), and [www.oneworld.org](http://www.oneworld.org)

# Chapter 10

## Future Challenges

In this closing chapter we will outline four challenges that international managers will have to pay particular attention to during the coming decade. First, we raise the issue of whether the increased importance of competencies and networks means a shift of paradigm in the conceptualization of MNC managerial challenges. If this is the case what we will witness is the final death throes of the bureaucracy and the rise of the 'flexicracy'. The flexicracy has structural implications. Therefore, the second managerial challenge we will delineate involves the increasingly complex task of developing appropriate structures. The flexicracy also has personnel implications. It requires a new type of individual, that is individuals who not only tolerate change, but who seek it out, and who not only are prepared for learning, but who are driven by it. Hence, the third challenge we review is the challenge MNCs face in regard to attracting and retaining Generation Y employees. Finally, we are compelled to revisit the ethical dimension of MNCs. The corporate scandals of 2002 witnessed many demises but perhaps none greater than that of the multinational accountancy Arthur Andersen. Within a matter of months Arthur Andersen virtually disintegrated as its national partner firms fled the company rather than be associated with the parent company's ethical lapses. The fourth challenge that MNCs must confront is related to meaning, legitimacy and ethics. Each of these four challenges is illustrated in more detail through a series of readings.

### Paradigm Shift?

One of the key messages in this book is that a distinctly new, knowledge-intensive and learning-oriented phase in work life is now emerging, a phase in which the needs for competencies and transfer of knowledge are imperative. MNCs such as General Electric, have rapidly absorbed the e-based approaches pioneered by the 'new economy' enterprises. So that although the 'new economy' appears to have lost its initial gloss its approaches live on within an increasing number of MNCs.