

# Google in China: A Manager-Friendly Heuristic Model for Resolving Cross-Cultural Ethical Conflicts

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**ABSTRACT.** Management practitioners and scholars have worked diligently to identify methods for ethical decision making in international contexts. Theoretical frameworks such as Integrative Social Contracts Theory (Donaldson and Dunfee, 1994, *Academy of Management Review* 19, 252–284) and more recently the Global Business Citizenship Approach [Wood et al., 2006, *Global Business Citizenship: A Transformative Framework for Ethics and Sustainable Capitalism*. (M. E. Sharpe, Armonk, NY)] have produced innovations in practice. Despite these advances, many managers have difficulty implementing these theoretical concepts in daily practice. Using the example of recent decisions by internet service providers Google, Yahoo, and MSN regarding censorship requirements in China, we offer six heuristic questions to help managers to resolve cross-cultural ethical conflicts in which the firm's way of doing business differs from the practice in the host country. Recognizing that companies can take different approaches to law and ethics (Paine, 1994, *Harvard Business Review* 72(2), 107–117), our aim is to provide a management decision process to deal with demands or opportunities for engaging in questionable business practices in a host country.

**KEY WORDS:** cross-cultural ethics, China, decision tree, international questionable practices, Google

## Introduction

Despite a greater uniformity in business practices resulting from globalization, many Multinational Enterprises (hereafter “MNEs”) face cross-cultural ethical conflicts in which the firm's business practices differ from the host country's practices (e.g., DeGeorge, 2005; Hamilton and Knouse, 2001). Increased pressure for transparency and a growing intolerance for corporate malfeasance have raised the

stakes for multinational managers to make the right decision in these situations (Wood et al., 2006). Unfortunately MNEs have few widely accepted management decision processes to address such conflicts. Confronted with a questionable practice (“QP”), managers often rely on the moral consensus reflected in home country legal requirements or the laws and practices of the host country. Others apply general rules of thumb such as the “Smell Test” – what would it smell like if we read about it in the press – or the past experiences of their firm to determine a plan of action. If the manager is lucky, then the ethical conflict is addressed within industry wide norms or voluntary ethical codes, such as the Sullivan Principles, Caux Round Table Principles for Business, or the OECD guidelines (Carlson and Blodgett, 1997; Caux Principles, 2008; Organization for Economic Cooperation and Development, 2008).

Though helpful, these tools may not be sufficient. Home and host country laws can provide some guidance. The Foreign Corrupt Practices Act (FCPA) has been a useful tool for U.S. businesses operating in countries where bribery and kickbacks are accepted business practices (Woof and Cragg, 2005). While all countries outlaw these practices, the host country may be unable to, or, uninterested in enforcement. Adherence to the law as enforced in those countries will not ensure an ethical decision. Nor do these anti-corruption laws cover instances of questionable business conduct in other important areas such as consumer protection, environmental standards, financial transactions, and labor practices. When there is no formal enforcement agency and condemnation by non-government organizations (NGO) or unfavorable public opinion is unlikely,

voluntary adherence to industry wide principles or international ethics codes will be inconsistent. Individual managers may feel at some peril to their careers for insisting their firm follow such codes.

These limitations in the law and voluntary codes have challenged management scholars to develop constructs that would allow managers to make ethical decisions with due deference to the values of the home and host countries and the values of the multinational firm for which the manager works. The critical question for the manager is which standard or decision process has priority when business practices conflict. Donaldson (1989) offered a decision process based on fundamental international human rights seen in light of the host country's level of economic development and the ability of the MNE to operate contrary to local business practices. DeGeorge (1993) proposed a series of specific guidelines grounded in a concern for fairness to the host country and a balance of good over harm in the MNE's operations. Buller and Kohls (1995) suggested a conflict resolution model based behavioral science research. Velasquez (1995) argued that managers should use traditional ethical principles like utility, rights, and justice. Hamilton and Knouse (2001) provided a synthesis of these approaches in a four-question decision tree.

Two other approaches have received more recent attention. Integrated Social Contracts Theory (ISCT) proposed by Donaldson and Dunfee (1994, 1999) sought to transcend the relativism of home and host country standards. It sought to recognize universally binding ethical practices or "Hyper-norms," such as the right of individuals to freedom of speech and association, which derive from an unspoken contract that allows individuals to live as a society. "Illegitimate Norms" are practices, such as censorship or government monitoring web pages accessed by citizens. These actions would violate universal values of freedom of speech and access to information (Donaldson and Dunfee, 1999). Managers are directed to classify the QP using these categories. ISCT, however can be difficult for managers to implement. The assignment of the QP to one of the defined categories may require extensive anthropological information and is vulnerable to multiple interpretations.

Wood et al. (2006) suggest that businesses should use their firm's core values as a guide while adjusting

the firm's values and practices to those reflected in the culture of the host country. The contribution of this approach is its focus on the firm's values rather than home country values and on the need for the firm to experiment with ways to accommodate legitimate differences in host country practices into a learning culture in the company. While this approach advances the thinking on this issue and provides well-documented examples for managers to emulate, it does not give the manager guidance on what factors to consider in reaching this accommodation.

In an effort to extend rather than refute these approaches to cross-cultural ethical conflicts, we propose a set of heuristic questions as a user-friendly model for managers. While recognizing the importance of home and host country practices, universal ethical norms, and a multilevel understanding of cultural commonalities and differences; this approach focuses the MNE managers on the values adopted by his/her firm as compared with the values expressed in the practices of the host country. It offers a formal "management decision process" to guide discussion in the firm of how to act when faced with a cross-cultural ethical conflict.

This HKH model (Hamilton, Knouse, Hill) is a revised version of the Hamilton and Knouse (2001) model. Offering six rather than the previous four questions, it can be presented in a decision tree format (see Figure 1) in which a "yes" or "no" answer moves the user down different branches of the tree. While this tree provides an introduction to the decision process and a guide for more straightforward cases, a more complex and therefore less helpful tree would be required to cover all instances that managers might face. In actual situations the answer to some of the questions may be "yes and no" and the weight given to the answer may vary with the situation. A more sophisticated understanding of the model directs managers to consider all six questions as a heuristic guide that stimulates discussion on the proper course of action (see Figure 2). A definitive answer to each question is not required before moving on to another. Answers to one may also require a return to earlier questions in a continuous feedback loop until sufficient clarity is reached for action to be taken. The value of the model lies both in the logical progression of the questions and in the content the questions highlight for discussion.

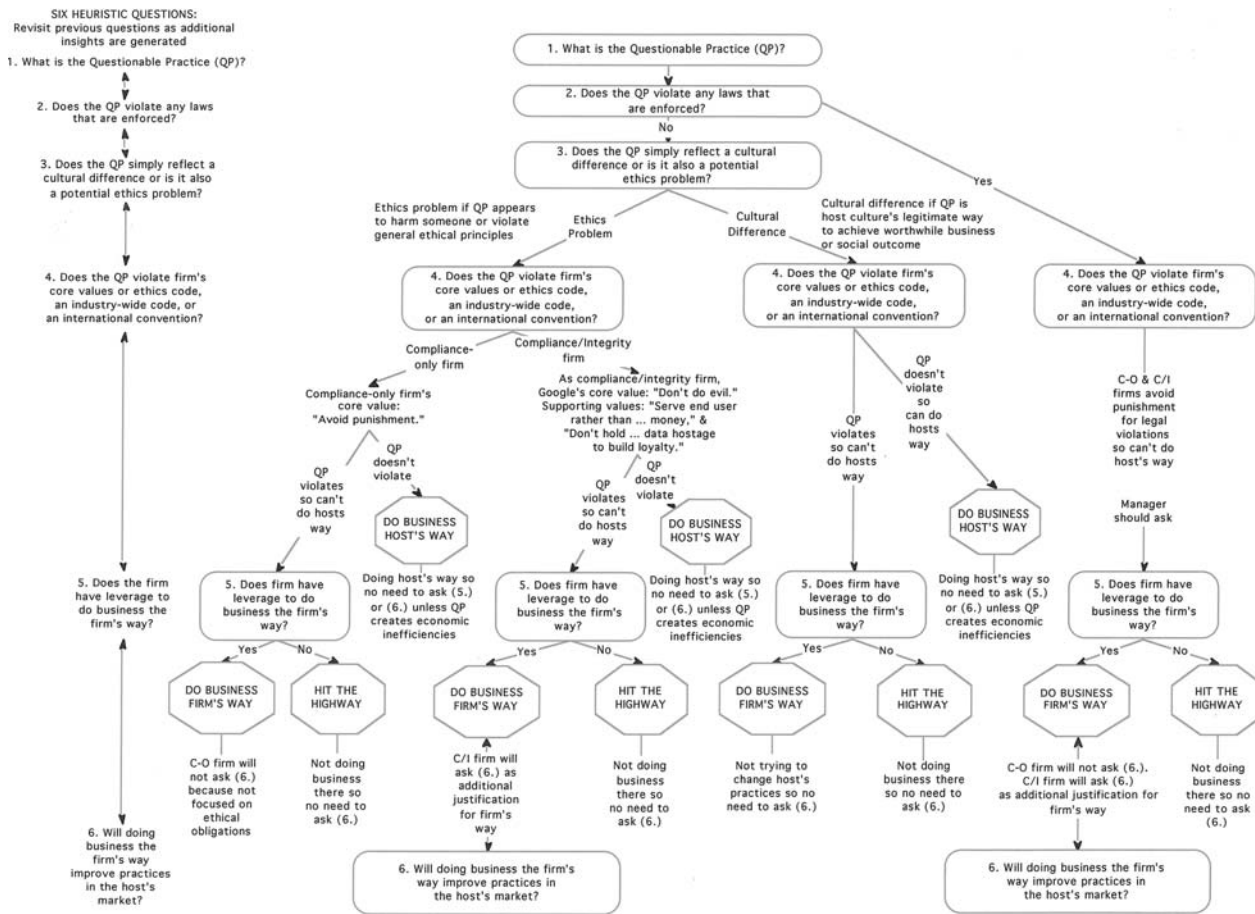


Figure 1. Decision tree for multinational enterprise managers encountering a questionable business practice in a host country.

We are encouraged to offer this revision in part because the earlier Hamilton and Knouse model has been applied in several international contexts to examine ethical tolerance, moral responsibilities, global management, transitional economies, cultural relativism and universalism, and global marketing ethics (Aurifeille and Quester, 2003; Bohlander and Snell, 2007; Campbell and Miller, 2004; Cordeiro, 2003; Koslowsky et al., 2002; Lane et al. 2006; Nill, 2003; Srnka, 2003). In essence, the Hamilton and Knouse model attempts to integrate universal ethical principles with local rules for business conduct (Sama, 2006). The revised Hamilton-Knouse-Hill (HKH) heuristic questions emphasize the role of a corporation's own core values or code of conduct, of industry-wide and internationally adopted codes, and of established "hypernorms" or universal ethical values in making decisions (Schwartz, 2005). The

revised model (Figures 1, 2) also includes a distinction between "compliance-only" firms that judge their own conduct to be acceptable if it avoids legal or societal sanctions and "compliance/integrity" firms that operate with a commitment to ethical conduct as well as avoiding punishment (Paine, 1994).

In short, the HKH model extends the literature by selecting key elements developed in earlier works and organizing them into a management decision process that MNE managers, human resource trainers, and academics can use. The model is "heuristic" in that the six questions guide the managers' discussion of how to apply their corporation's values to resolve conflicts with host country business practices. The model does not supersede the firm's core values, industry guidelines or international guidelines, such as those of the OECD, U.N.

COMPLIANCE/INTEGRITY FIRM (C/I)	COMPLIANCE-ONLY FIRM (C-O)
<b>1. What is the Questionable Practice (QP) in this situation?</b>	
Google's* established practice is to protect user identities and provide full search results. Chinese government self-censorship requires two questionable practices: QP <sup>1</sup> revealing the identity of users to the government and QP <sup>2</sup> blocking certain types of information from web search results.	A C-O firm operating in democratic countries would not be accustomed to operating with self-censorship of web access provided to customers. Agreeing to self-censorship would be a QP.
<b>2. Does the QP violate any laws that are enforced?</b>	
No U.S. laws—FCPA or Export Act—are violated by the QPs. QPs follow Chinese law. No industry code for dealing with “repressive” governments that could be violated.	Same as for C/I firm. No laws or industry codes violated. C-O firms could stop here but managers might be conflicted about engaging in QP and harm from non-government sanctions not yet explored
<b>3. Is the QP simply a cultural difference or is it also a potential ethics problem?</b>	
Censorship could be seen as a cultural difference—a temporary means required by economic and demographic changes to maintain social order. Google sees harms to customers as evidence of a potential ethics problem based on general ethical principles of justice, rights, and the smell test.	Same as for C/I firm.
<b>4. Does the QP violate the firm's core values or code of conduct, or an industry wide or international code to which the firm subscribes, or a firmly established hypernorm?</b>	
As C/I firm, both QPs would violate Google's core value “Do no evil” and its principle of “serving the end user rather than just making money.”	C-O firm could decide that QP does not violate its core value of avoiding punishment so it will adopt QP. Future harm to firm's reputation and lawsuits may cause firm to rethink this judgment.
<b>5. Does the firm have leverage (something of value to offer) in the host country that allows the firm to follow its own practices rather than the QP?</b>	
Given the presence of domestic competitors and concern to build customer loyalty in important emerging market, Google decides it had no leverage. Since QPs violate its core values, the firm must not do business there unless it can adapt practices to avoid violating core values.	C-O firm will not ask leverage question because it will be following the business practices of the host country and does not need leverage to follow its own practices.
<i>Google managers return to questions 1 and 4. QP<sup>1</sup> will be avoided by not offering services that would require revealing identities and by limiting search results so identities for those will not be requested. QP<sup>2</sup> is redefined as “limiting search results without customer knowledge” which will be avoided by informing customer of censorship. Google can operate in China by adapting practices to avoid violating core values.</i>	
<b>6. Will market practices in the host country improve if the firm follows its own practices rather than the QP in the host country marketplace?</b>	
Google argues that transparency regarding censorship of searches will promote free market value of customer choice in Chinese market by increasing pressure from consumers to halt limits on information.	C-O firm will not ask this question because it is following Chinese market practices and will not introduce different practices there.

\*For purposes of this figure, Google is presumed to be a compliance/integrity company. Reasons for Google's decisions are ascribed based on the HKH question format and may not represent the firm's actual decision procedure. Generic versions of figures 1 and 2 to be used in corporate training by other firms are available from the authors on request.

Figure 2. Applying the HKH model to providing internet services in China.

Declaration on Human Rights, or CAUX Principles. Rather, the six questions provide a context in which the manager can use the standards adopted by the firm to arrive at a practical decision. Moreover, the HKH model extends the literature by emphasizing that managers should be aware of whether

their firm has adopted a compliance-only or a compliance/integrity approach to decision making.

In order to explain and demonstrate the value of the HKH model, we will apply the model to recent decisions made by U.S. internet provider Google to expand its operations to mainland China.

The decision process that led to the actions of this highly competitive and therefore secretive firm is not often available to outside observers (Dudley, 2007). We cannot claim to know with certainty why Google managers decided to do what they did. Based on their actions as reported in the press, we will show how discussing the HKH questions could have led to the decisions that were made and therefore how other managers facing cross-cultural ethical conflicts could decide how to act. The “Background” section provides a summary of the main events leading to Google’s involvement in China. Subsequent sections demonstrate the application of the HKH heuristic questions and discuss their limitations and implications for cross-cultural ethical business practices.

### **Background: Google goes to China**

The discussion of how to conduct business ethically in communist China did not begin in earnest until the early 1990s when the Chinese government began allowing foreign companies to establish operations on the mainland. Ethical conflicts emerged first in the garment industry (Maich, 2006) as sweatshop conditions and human rights abuses motivated criticism from non-government organizations (NGOs) and stakeholder groups in the MNEs’ home countries. MNEs countered the criticism with the assertion that human rights abuses are political and should be addressed diplomatically between nations or by international political bodies. Western-based MNEs increasingly established operations in China. The controversy remained in the background until the recent expansion of American high tech companies into China.

As a condition of doing business in China, internet companies are required to sign the “Public Pledge on Self Discipline for the Chinese Internet Industry” (herein after “*The Pledge*”) (Einhorn and Elgin, 2006). This agreement requires internet providers to censor content on their websites and in search engine results as well as surrender the names of customers who post offensive content. Internet providers Yahoo and MSN signed *The Pledge* and decided to offer full services, including e-mail, blog space, websites, and search engines, for their Chinese customers. This decision yielded some painful

consequences. In December 2005, MSN shut down the website of Zhao Jing, a Chinese pro-democracy dissident, because the government found the content objectionable (Maich, 2006; *The Economist*, 2006b). Yahoo surrendered the information that resulted in the arrest and imprisonment of Shi Tao, a pro-democracy dissident who reported on the government’s plan to limit coverage of the Tiananmen Square massacre (Maich, 2006). Yahoo also gave the government, the information that resulted in a ten-year prison sentence for a Beijing journalist who was informing the public about human rights abuses within the government (Grossman and Beech, 2006). These actions in full compliance with Chinese censorship policies were reported in the press, stirring up a lively debate on the obligations of U.S. multinationals in a communist society. In the midst of this controversy, Google managers were deciding whether to expand operations into China.

Prior to their decision on establishing a physical presence in China as Google.cn, Google’s search engine could be accessed indirectly through Chinese local internet providers. The performance of the search engine on local servers was inconsistent. Some results would come through clearly and uncensored but some pages would load very slowly or not at all. Placing an operating unit in China would enable Chinese customers to access Google.cn on Google’s servers, providing a better quality experience and enhancing Google’s opportunity to develop a new customer base. Google, like MSN and Yahoo, decided that doing business in China would provide significant benefits to the company and its customers and signed *The Pledge* in order to establish operations in China (Levy, 2006).

Google’s decision to comply with the Chinese government’s censorship policies was seen by many stakeholder groups as a violation of Google’s core value: “Don’t be evil” (*Financial Times*, 2006b). Since its inception, Google had sought to establish a reputation as an ethical company that would go to any length to protect the freedom and privacy of its customers. While the question of whether Google’s decision to enter China was ethical or not is hotly debated, our purpose is to ask how the firm could have arrived at this decision given its clearly stated corporate values and its history of acting in a manner consistent with them. Applying the HKH model to this situation will give us an opportunity to show the



usefulness of this approach in resolving cross-cultural ethical conflicts.

## Applying the HKH decision model

### *Overview of the model*

The HKH decision process suggests that the MNE manager(s) ask six heuristic questions to develop an appropriate response when their firm's practices differ from the host country's practices. The decision tree (see Figure 1) shows three possible outcomes: the firm should follow its own practices (the firm's way); adopt the practices of the host country (the host's way); or not do business in the host country (the highway). The first two outcomes, the firm's way or host's way, actually represent a continuum of possibilities that range from one extreme of doing business the firm's way with no accommodation to the host country practices, to follow the host's practices in one country or region, to the other extreme of adopting the host's way of doing business in that country and throughout the firm's operations globally (Moorthy et al., 1998). The highway option also represents a continuum from deciding not to enter the host country, to reduce operations in that country by halting those that require the QP, to leave the country completely. A further option is to try to modify the host country practices by seeking to change its laws or customs. Business organizations are active participants in their home countries markets, lobbying, making campaign contributions, and educating citizens in order to influence commercial laws (Hamilton and Hoch, 1997), and have a history of doing so in host countries as well, unfortunately not always to the benefit of those countries (DeGeorge, 1993; Velasquez, 1998).

### *Six heuristic questions for MNE managers*

#### *What is the Questionable Practice (QP) in this situation?*

The first step in any decision making process is to identify a need for action. In the case of a cross-cultural ethical conflict, a disparity must exist between the norms or values represented in the business practices of the host country and the norms

and values represented in the customary business practices of the MNE. The business practices of an MNE may be closely identified with a particular home country culture or may represent a synthesis of the cultures and traditions of a multicultural management team. At this point in the process, a disparity between the firm's way of doing business and the host's way is recognized by the managers as "questionable" rather than "wrong" or "unethical" because the managers have not yet made a judgment about it. Arriving at a clear though perhaps preliminary understanding of the conflict is the first step.

A Google management team discussing the firm's possible entry into China would have been aware not only of the opportunities but of the challenges that Yahoo and MSN had encountered. The establishment of a company based in a free-market democracy, in a host country characterized by a controlled market economy governed by the communist party creates a potential for cross-cultural ethical conflicts. Compliance with the Chinese government's self-censorship requirements would mean that Google would have to block access to any information on its search engine that the government finds objectionable and release the identities of customers upon request (Einhorn and Elgin, 2006). These practices are different from the way Google has conducted business in the past and are therefore questionable. Beginning the discussion with this first HKH question contributes to the resolution of the cross-cultural ethical conflict by clearly stating those aspects of the business practices that are questionable. The firm's managers can then seek to address the cause of the problem (the Pledge conflicts with a core value) and not simply the possible consequences (bad publicity).

#### *Does the QP violate any laws that are enforced?*

Compliance with the U.S. Foreign Corrupt Practices Act (Woof and Cragg, 2005) is a familiar place for American managers to begin when determining the legality of a QP. Managers of non-American MNEs would begin with their home countries' laws governing foreign operations, such as recently enacted regulations in EU countries outlawing bribery in overseas operations. All MNE managers would be concerned with the laws of the host country. Regardless of the degree to which a firm makes

a clear commitment to ethical values, all firms aim to avoid punishment for breaking the law. Consequently, if the QP violates an enforced law, the managers will need to consider additional questions about leverage and improvement of market practices that will be discussed later (see the first yes-no branch of Figure 1).

Google managers would recognize that the censorship requirements of the Pledge do not violate the Foreign Corrupt Practices Act. No payments are being made to foreign government officials to obtain or retain business. However, their managers may have discussed whether compliance with *The Pledge* violates the Tiananmen Sanctions of the American Export Law. Enacted after the Tiananmen Square Massacre, the sanctions prohibit sales of any products that would aid the totalitarian governments in crime control or detection (Einhorn et al., 2006). The technology offered by internet companies could facilitate surveillance and the suppression of free speech. Though critics have argued that the activities of high tech firms in China violate the intention of this law, high tech services and products are not on the Department of Commerce list of prohibited items. Compliance with the requirements of the pledge is technically legal and complies with the laws of the host country. The questionable practice of compliance with censorship requirements, therefore, does not violate any enforced laws.

HKH question two ensures that managers are aware of relevant host and home country laws. It can also identify loopholes in the law that could be used or limitations of current law that the firm could attempt to modify in order to resolve the cross-cultural conflict. For example, the practice of totalitarian governments forcing compliance with their directives as the price of doing business is being discussed in the information technology industry. Microsoft CEO Bill Gates has called for a common set of principles modeled after the Foreign Corrupt Practices Act (Woof and Cragg, 2005). Developed by companies, human rights groups, and the U.S. government, this legislation would regulate interaction between high-tech companies and repressive governments (Levy, 2006). Without the backing of the law or an industry wide code, individual companies are less likely to be able to resist questionable practices. Asking whether the QP violates any enforced laws can motivate action by firms to

modify the laws and business practices of host countries.

*Is the QP simply a cultural difference or is it also a potential ethics problem?*

The next step for managers faced with a cross-cultural ethical conflict is to decide whether the QP is simply a cultural difference or also a potential ethics problem. The QP is simply a cultural difference if the QP does not cause harm and appears to be that culture's legitimate way of achieving some worthwhile business or social outcome. The QP is a potential ethics problem if it appears to harm someone, to violate a generally accepted ethical principle, such as the golden rule, human rights, justice, or the smell test (Burton and Goldsby, 2005) or to violate a hypernorm (Donaldson and Dunfee, 1994).

The reason to distinguish between a cultural difference and an ethics problem is that each raises a different challenge to the firm's usual practices. Consistent with the Global Business Citizenship approach (Wood et al., 2006), the need to show respect for the host culture's legitimate way of doing something worthwhile provides a prima facie argument for adapting the firm's practices to the host's practices. Adapting the firm's practices to the host culture will lower the cost of introducing new practices. Faced with a cultural difference, the firm should continue the discussion with a bias toward adapting to the host's practices unless they violate the firm's core values. A legitimate cultural practice could violate a firm's values when the firm maintains a higher level of respect for a value, such as integrity, than is followed in the host country (e.g., business gifts, Moorthy et al., 1998), or when the firm has a different value hierarchy as in preferring to protect privacy over national security when the two conflict (*The Economist*, 2006a).

In order to discuss HKH question two, Google will need to consider if the Chinese government's censorship requirements are legitimate means to a worthwhile end or a potential ethics problem that causes harm or violates generally held ethical principles. It is possible to argue that the situation in China is a cultural difference rather than an ethics problem. With a complete transformation of their economy and the tremendous migration of workers to urban areas, censorship might be legitimate means

to prevent a breakdown in law and order. Personal rights and freedoms will expand in the future. Google managers, while acknowledging this argument, might reflect on the impact of the acceptance by MSN and Yahoo of the Pledge. Supplying customers' identities has resulted in continued government violation of human rights with the arrest and imprisonment of dissidents who use the internet to provide Chinese citizens information about government actions. These are definite harms and seem to be clear violations of the ethical principles of human rights and justice. The strong reactions in democratic countries against Yahoo and MSN for cooperating with the Chinese government's suppression of free speech would indicate that those actions violate the Smell Test. Google's managers may well have seen the QP as an ethics problem.

Even if the question regarding cultural difference or ethics problem is not answered definitively, the managers can proceed. The point of the question is not to decide on an action based on facts about the culture or on generally held ethical principles but to provide information for applying the firm's core values in the next question.

*Does the QP violate the firm's core values or code of conduct, an industry wide or international code to which the firm subscribes, or a firmly established hypernorm?*

Having discussed whether the QP is simply a cultural difference or is a potential ethics problem, the managers should ask whether the QP violates any standard of conduct to which the firm is committed (e.g., Arthurs, 2005; Schwartz, 2005). In order to decide about this question, it is important for the managers to know whether the firm is a "compliance-only" firm or a "compliance/integrity" firm (Paine, 1994). An individual member of a profession, such as engineering or accounting can guide his/her conduct by the law and the rules of the profession or can make an additional commitment to ethical values in his/her work (Pritchard, 2006). In the same way, an individual firm can govern its conduct by the law and industry requirements or can make a commitment to act according to ethical values as well. For a compliance-only firm, if an action is legal, then it is ethical. The core value of a compliance-only approach is to avoid harm to the firm. Compliance systems train and control employees and

limit their decision making to insure that they do not violate laws that will bring about punishment. Getting through the day without being indicted may not be a high ideal but it is the compliance-only firm's ideal (Paine, 1994). The compliance-only approach can include an avoidance of punishment not only by legal authorities but also by unfavorable public opinion and by customer or other stakeholder rejection.

A compliance/integrity approach seeks to empower employees to make decisions based not simply on the law but on values chosen by the company. The company's values are given priority in management decision processes. A compliance/integrity company provides guidance for employees in an increasingly complex legal environment. The law is not a sufficient guide to ethical behavior, however, because laws do not forbid all instances of unethical behavior, often lag the development of new ethical understanding in a society, and can allow or even require unethical behavior (Paine, 1994). Compliance/integrity firms train and empower their employees to make decisions on the basis of core values such as Motorola's "Uncompromising Integrity and Constant Respect for People" (Moorthy et al., 1998), and Conoco's "Business Ethics, Valuing all People, Environmental Stewardship, and Health and Safety" (Hamilton et al., 2002). Providing core values as guidance for employee decisions allows them to use their creativity in putting those values into practice (Paine, 1994).

Given this distinction regarding how firms approach the governance of conduct, there is evidence that Google can be categorized as a compliance/integrity firm. Google's core value of "Don't be evil" (*Financial Times*, 2006b) is well known to the public as well as employees. In order to better communicate its culture to the growing number of employees, the firm has begun clarifying the operational meaning of this general value statement with principles, such as: "Never write an application that relies on holding an end-user's data hostage in order to build loyalty" and "Always think about 'are we serving the end-user' and not 'are we thinking about how to make money'" (Dudley, 2007). Their emphasis on creativity and bottom-up decision-making is typical of a compliance/integrity firm. Consistent with its value commitments, Google has resisted requests from governments that would



compromise the freedom and privacy of its customers. The U.S. Department of Justice tried to force Google to comply with subpoenas seeking more than one million web addresses to evaluate the success of software filters to block pornography. While MSN and Yahoo complied, Google would not. In Thailand, Google refused to block and censor degrading images of the Thai King and to surrender the identity of the users who posted the material. Thus by its own standards, the QP of compliance with the censorship requirement of *The Pledge*, clearly seems to violate the firm's core values (Einhorn and Elgin, 2006).

The same conclusion would follow if, as part of the company's core values, Google had adopted the OECD Guidelines on Consumer Interests (OECD, 2008), which require the MNE to "Respect consumer privacy and provide protection for personal data." The firm could also have adopted standard 19 of the United Nations' Universal Declaration of Human Rights: "Everyone has the right to freedom of opinion and expression: this right includes freedom to...receive and impart information and ideas through any media and regardless of frontiers" (United Nations, 1948). Compliance with self-censorship and revealing the identities of bloggers or customers visiting certain political websites would seem to violate both these principles. Had Google chosen to be guided by the CAUX Principles, the managers would have had to reconcile the respect for rules, both international and domestic, called for in Principle 4 with the Stakeholder Principles in Section 3 which call for ensuring the health and safety of customers and showing respect for their human dignity (CAUX Principles, 2008).

Conversely, a firm following a compliance-only approach would agree to self-censorship and provide customer information to the government. These actions do not violate its core value of avoiding punishment, unless harm to the firm's reputation and the prospects of lawsuits from imprisoned dissidents or others acting on their behalf are real possibilities.

The contribution of HKH question four is that it makes the presence or absence of core values salient. It requires that the firm identify its core values or acknowledge that it is compliance driven rather than values driven. If the firm is compliance/integrity driven this heuristic motivates reference to the core values to resolve the ethical conflict.

*Does the firm have leverage (something of value to offer) in the host country that allows the firm to follow its own practices rather than the QP?*

The ability of the firm to operate consistent with its own business practices is contingent on its leverage in the host country. Leverage could be provided by the firm's contribution to the host country's economy through increasing the number of jobs, payment in internationally convertible currency, training of native workers in technical and management skills, purchasing from native suppliers, or transferring valuable technology to native companies (e.g., Amalric and Hauser, 2005; Bell, 2005). Leverage could also be provided by a firm's reputation as an ethical company that will respect the laws of the host country and the welfare of workers and the environment (e.g., Hill et al., 2006), or by providing products or services valued by native consumers. Leverage enables the firm to choose whether to avoid the QP (i.e., operate the firm's way), or to adapt its practices to the QP in a way that does not violate its core values.

There are multiple opinions regarding the degree to which Google has leverage to refuse compliance with *The Pledge*. Some in the business press argue that Google has no choice but to comply. "For Google, getting a foothold in the Chinese market may well be vital for its survival 20 years hence. So it's not that surprising that it would trade that financial confidence for a little ethical dust-up" (Grossman and Beech, 2006). "If Google.cn declines to filter freedom, then its site will be blocked and Baidu (a Chinese internet service provider) will capture the market" (*The Financial Times*, 2006a). These observers would argue that China has all of the power and that Google has no leverage.

Other analysts argue that internet industry leaders Google, MSN, and Yahoo are missing an opportunity to be a catalyst for change. If the information industry had presented a united front by developing an industry wide code for dealing with "repressive" governments (Woof and Cragg, 2005), individual providers could have partnered with the U.S. government and human rights groups to be in a much stronger position to resist demands for censorship (Levy, 2006). These critics note a self-serving inconsistency in American high-tech companies willingness to comply with censorship policies while aggressively and loudly protesting China's failure to

protect intellectual property. Rather than serving their interests, a weak position on censorship may encourage Chinese officials to disregard requests for the enforcement of intellectual property laws (Eisinger, 2006). Critics also suggest that the importance of the Chinese market for future survival is greatly exaggerated. With 111 million users, the current customer base in China is smaller than some markets in European countries and contributes only moderately to the profits of American internet companies. China's information technology industry is in its infancy compared to western countries. China's effort to modernize its information technology would be advanced greatly by the influence of western companies on the mainland. Consequently, critics argue that western companies could collectively leverage the promise of sharing technology with China conditional on the elimination of censorship regulations with little risk to current profits.

A company operating on a compliance-only basis would not even ask the leverage question. The required self-censorship does not violate and in fact fulfills the legal requirements in China. A compliance-only firm can operate the host's way and does not need leverage to operate its own way. If Google operates as a compliance/integrity firm, however, its managers must consider this conflicting information to decide whether they have sufficient leverage to operate in the host country without engaging in the QP. Google's actions can be interpreted to indicate that its managers decided it has insufficient leverage in China to refuse to comply with The Pledge. Since censoring searches and revealing the identity of its customers would violate Google's core values, the firm would seem to have no choice but to stay out of the Chinese market.

In order to be ethical, however, individuals and firms are not obligated to make the maximum sacrifice of possible benefits as a way of proving their virtue. Effectively ethical firms use their creativity to remain true to core values while seeking to maximize value for themselves and their stakeholders (Werhane, 1999). Google's managers seem to have done that by asking whether they could modify their practices to avoid violating their core values while still fulfilling the requirements of the QP in China (see Figure 2). Their discussion, in effect, returns to the way to define the QP in HKH question one and

screening for core value violations in HKH question four. Google could avoid revealing the identity of users to the government, if the company decided not to offer e-mail, blog space, chat rooms, or web sites. Yahoo and MSN were required to reveal customer identities because they hosted these services in China. If Google defines "censoring search results" more specifically as "limiting searches without the customer's knowledge", Google.cn could notify the customer when censorship requirements rendered any search incomplete. This notification gives the customer the information needed to properly evaluate the search results. Customers wanting more complete results will know they must try other search engines or web sites. Notification shows respect for the customer's right to decide what information is important to him/her. These modifications to their practices would allow Google to operate in China without violating its core values. Google managers could then return to HKH question five regarding their leverage to operate in China with this revised strategy. Their success to date indicates they do have the leverage to do so (Chao and Smith, 2008).

Google's critics might not agree with our assessment that Google's compromise is a creative use of moral imagination to adapt their practices to the requirements of the host country without violating the firm's core values. Given consumer expectations for ethical conduct by internet firms, Google's decision to do business in China (McGregor, 2002) damaged the firm's image and reputation and had short term financial consequences. Google's stock fell after it announced that it would comply with censorship policies (Eisinger, 2006), despite an increase in profits and net revenue (*Economist*, 2006a). Dealing with a government with a reputation for disregarding human rights may also harm Google's reputation for protecting consumers' privacy, an essential factor in their long-term prospects for expansion in other areas such as Europe (White, 2007). Considering these arguments regarding damage that may result from the compromise brings Google's management back to consideration of HKH question four as to whether this compromise violates the compliance part of the firm's compliance/integrity core values. Google wishes to avoid punishment by legal authorities or by public opinion. If the NGOs and the consuming public turn

against them, they may want to revisit this compromise.

*Will market practices in the host country improve if the firm follows its own practices rather than the QP in the host country marketplace?*

If the firm does not have leverage to follow its own practices, it does not need to ask this question since it must follow the host's practice or leave. If the firm does have leverage to reject or modify the QP to fit its core values, it should ask if following its own practices will improve prevalent market practices by showing other companies that it is possible to do business without the QP. If there are indications that market practices may improve, then the firm has an obligation to contribute in bettering market practices by refusing to do the QP.

This market improvement question emphasizes the obligation of the MNE to multiple stakeholder groups to improve the societies in which it operates. Since the MNE enjoys the benefits of access to the host country's raw materials, workers, customers, and profits these may provide, it has an obligation based on justice considerations to provide benefits to that market. If it has much greater power in the market than native firms, the MNE may even have an obligation to operate in an ethical manner when native firms are unable to do so (DeGeorge, 1994). A utilitarian view suggests that improving the way business is done in the host country benefits the long term performance of the firm and the host country by creating a marketplace governed by principles of free market competition and respect for individual rights (Hamilton and Knouse, 2001).

The market improvement question prompts the company to evaluate realistically the scope of the social problem represented by the QP. Discussion of this question highlights the need to evaluate the resources available (human, material, and technological) for it to successfully initiate a change and to identify the firm's limitations to address the issues raised by the QP. It also prevents MNE managers from using the excuse that since local firms do the QP the MNE should do it also. The MNE may have leverage that locals do not (DeGeorge, 1994).

Firms that are compliance-only would not ask this market improvement question. Acting on ethical as well as legal obligations is not part of their decision

process. For Google managers, however, this question could provide an additional justification for entering the Chinese market with a self-censored search engine. While some harm may come from the decision to comply with China's internet censorship policies, Google maintains that its presence in China has the potential to advance values that are consistent with democratic societies. The modified version of its search engine service will bring information to Chinese consumers that, while limited, they otherwise may not have had. Notifying customers when search results have been censored enhances the process of making government action more transparent to Chinese citizens. The reminder with each censored search that their government is preventing them from accessing information available to internet users around the globe may motivate Chinese citizens to pressure their government for an end to censorship (*Financial Times*, 2006b).

Critics have suggested that in the long term, Google's compromise may hurt its competitive advantage and the practices in the Chinese marketplace. Offering a "watered down" version of their services hurts their technological superiority over local providers. While limiting information is currently restricted to political topics, it could expand to economic information as well. Incomplete information will inhibit the ability of businesspeople in China to make informed decisions (Eisinger, 2006).

If Google's managers are correct and the critics wrong, the modification of its services in China is an important illustration of a firm's ability to respect cultural differences and avoid doing harm to the customer despite the intention of unjust laws. It also illustrates how a firm can adapt to a questionable practice while remaining true to its core values.

If, for the purposes of this article, Yahoo and MSN are considered to be compliance-only companies, then they provide an illustration of the dangers of adopting a compliance-only stance. The harm done to political dissidents in China and the resulting damage to the companies' reputations illustrate the risks of adopting a host country's practices without considering ethical values. Yahoo continues to receive unfavorable publicity from a suit by NGO's and one of the dissidents for damages he suffered from the violation of his privacy. In a widely viewed congressional hearing on their China operations, Rep. Tom Lantos (D., Calif.) told

Yahoo CEO Jerry Yang and General Counsel Michael Callahan, “While technologically you are giants, morally you are pygmies” (Boles et al., 2007).

#### *Application to ethical practices*

The HKH approach is useful for managers at all levels. Research on how firms create effective compliance and ethics programs indicates that top managers play a critical role in setting a “tone at the top” that greatly influences the organization’s culture (Ethics Resource Center, 2005). The HKH model can help top management set the tone for how a MNC will handle QPs. The model emphasizes that the CEO and other upper level managers should adopt strong core values or ethical principles to guide the firm’s decisions and should communicate these values throughout the organization. Top managers serve as role models for these values to the rest of the firm by making frequent public statements about them, by acting on them, and rewarding others who act on them (Ethics Resource Center, 2005; Hamilton et al., 2000). This modeling needs to occur before lower level managers can be expected to feel secure making decisions based on these values. Seeing upper managers using the HKH model to make decisions and to explain them to the organization will send a clear message to lower levels of management on how the firm expects such matters to be decided. Top management can also participate in training in the use of the decision tree in order to show that decisions made using this procedure will be supported in the organization. Focusing the initial training sessions on top management can enhance the perceived importance of the decision tree and create top management “champions” for its use.

Top and mid-level managers can use the model to plan future actions in a country or region that promises potential ethical conflicts (for example, Chao and Smith, 2008). They can set policy for dealing with those conflicts and train lower level managers and employees who will be operating there. A front line manager can use the model to guide his/her decision and explain it to higher management. He/she can also recognize the need to ask for guidance. The model can improve front line

employees’ morale because they will understand why the firm expects them to act the way it does.

The firm’s adoption of the model may lead to an expansion of the MNE’s code of ethics. A section can be added to the code describing how a manager could walk through the six HKH questions. Examples of culturally different business practices faced by their industry group or followed by the firm’s international clients could be listed to prepare managers for challenges they will likely face. Examples of MNE leverage could be listed. Managers could be directed toward effective international codes that apply to their firm’s activities. These international codes tend to foster an active dialog among the MNE’s stakeholders and other firms in the industry (Sama, 2006). Such stakeholder conversations can highlight different ways to resolve cross-cultural differences as well as areas of leverage that the firm could employ. International codes of ethics also can provide examples of best practices (Arthurs, 2005). Adoption of ethical standards by individual firms can lay the groundwork for international codes of ethics for various industries. Google’s efforts to operate in China, for example, would have been easier if there had been agreement among internet providers on how to deal with totalitarian governments.

Another application of the HKH model is to provide a structure for compliance and ethics training (Smeltzer and Jennings, 1998). The trainer can use the six questions in the decision tree to show MNE managers how to understand QPs they are likely to face and, through roundtable discussions of cases, provide feedback on the ramifications of their ideas for various stakeholders (for example, Moorthy et al., 1998). Such training should occur in new employee orientation and periodically throughout their tenure with the company (Wood et al., 2006).

The HKH decision tree can provide an explicit management decision process for dealing with cross-cultural conflicts (Wood et al., 2006). These six HKH questions enhance open and fluid communication channels among employees, management, and customer stakeholders, resulting in a clarification of the firm’s values, legal issues, and appropriate international practices. Answering these questions provides an ethical base for considering which new international products and services to develop and

which to discard. The HKH model will also raise awareness of managers of the role played by compliance and ethics in the firm's management decision processes and will allow individual managers to understand what kind of value orientation the firm they work for has adopted.

Companies need a language for explaining how they are dealing with uncertainty to multiple stakeholders, including Wall Street (Raynor, 2007) and government regulators (White, 2007). Google's long-term success will depend on maintaining a reputation for honesty and respect for privacy (Auletta, 2008). If an adaptation of its business practices, such as the one in China has damaged that reputation, Google will need to tell its story in a believable way, sacrificing some of its own privacy regarding its decision processes to show that it is acting in the best interests of its Chinese customers. General adoption of the HKH model would give firms a credible way to explain to investors, regulators, customers, NGOs, and the general public why they operate the way they do in controversial circumstances.

Finally, the HKH decision tree can enhance individuals' ethical decision making by identifying universal values adopted by the firm that individual employees can internalize into their decision making as agents of the firm (Moorthy et al., 1998). Employees may be encouraged to adopt a stronger and more self-conscious ethical stand in their personal lives as well.

The HKH model has limitations. It is not useful unless the firm has clear and well-specified values and is willing to adopt formalized management decision processes. Larger MNEs are accustomed to such processes, though they face the difficulty of transmitting their values to a large, diverse, and continually changing workforce (Dudley, 2007; Moorthy et al., 1998). Smaller firms may have fewer resources for and less tolerance of formalized processes. Discussing whether a QP is simply a cultural difference or a potential ethics problem or whether the firm has leverage in a host country may be complex in some situations and require outside consulting expertise. The model is subjective in that it depends on an understanding of the firm's and the host country's practices and values as interpreted by managers. The HKH process cannot guarantee universally accepted ethical judgments. We think,

however, that it can give managers comfort that they have employed a well-justified decision procedure to resolve cross-cultural conflicts.

## Conclusion

With the increase in international business activity, ethical decision making from an international perspective will become increasingly important. In order to address this need, we present a six-step management decision process to resolve cross-cultural ethical conflicts. This HKH model takes into account the continuum of approaches to law and ethics that a firm could take, ranging from compliance-only to compliance/integrity. It attempts to balance cultural differences with values adopted at the firm, the industry, and international levels. We hope our model stimulates further thought into the juxtaposition of host country values and practices and those of individual firms and industry groups. We hope our heuristic facilitates the implementation of established theoretical constructs and the development of new approaches. Finally, we hope that the manager friendly nature of our model will stimulate more firms and industries to adopt a values-based perspective on business issues.

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