

## Business ethics in the NAFTA countries: A cross-cultural comparison<sup>☆</sup>

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### Abstract

This article examines the nature and extent of similarities and differences in cultural values among managers in the three nations that signed the North American Free Trade Agreement (NAFTA). One component of a culture is ethics, with this aspect of a culture existing as a potentially strong influence on the success of business organizations. In order to explore the impact of culture on ethical decision making in the NAFTA countries, we review the literature and develop propositions concerning the dimensions of culture that would be expected to influence the ethical standards applied to business decisions and organizational practices. The analysis applies Hofstede's [Culture's consequences. Beverly Hills, CA: Sage, 1980.] four cultural dimensions in the three NAFTA countries, which include individualism vs. collectivism, uncertainty avoidance, power distance, and masculinity. We also examine three additional cultural factors — attitude toward work, problem solving, and view of human nature. Propositions are presented involving the prevalence of codes of ethics, issues relating to bribery of public officials, and treatment of low-level employees. Finally, we discuss research design issues relevant for empirical investigation of the propositions.

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### 1. Introduction

Ethical and social values affect business decisions and behavior. Since the ethical values of business managers are embedded within their cultures, as well as being influenced by global business norms, it is necessary to understand the social and cultural contexts within each country that influence the similarities and differences in ethical interpretation and practice. This article compares the business ethics values of the three nations that are signatories to the North American Free Trade Agreement (NAFTA): Canada, Mexico, and the US.

This topic is interesting for both managers and scholars. It is a logical hypothesis that the success of trade agreements like NAFTA are not simply the result of economic factors of production being utilized more efficiently, but also that business transactions across borders are influenced by many other factors. For example, the ease with which executives can negotiate contracts is likely to be affected by the degree of compatibility between their interests, lan-

guage, and assumptions about trust and risk. Culturally patterned and historically grounded differences in behavioral patterns exist for individuals within different countries. It is widely believed that standards for ethical decision making differ between US and Mexican managers. Also, formal codes of ethics are much more prevalent in US organizations than in Canadian, and very few Mexican firms have a formal ethics code. Trade liberalization is expected to continue over the next decade, particularly within the Western Hemisphere. Indeed, negotiations are occurring right now about the possible creation of the hemisphere-wide Free Trade Areas of the Americas by the year 2005. Cross-cultural business practices and ethical standards will undoubtedly become more important for understanding and facilitating business outcomes.

We review the literature on the dimensions of culture that would be expected to influence the ethical standards applied to business decisions and organizational practices. In particular, the contributions of Hofstede (1980) will be analyzed with regard to ethical values. We also have identified three additional individual characteristics that are likely to influence ethical decisions. We then review empirical studies on ethical values and practices of managers (Enderle and Werhane, 1997), with particular attention to studies of Canadian, Mexican, and US managers (e.g., Arruda, 1997; Di Norcia, 1997; Dunfee and Werhane, 1997; Pasquero,

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1997). Propositions that will be useful in analyzing cross-cultural management challenges and global competition and guiding future research are developed with respect to codes of ethics, bribery of public officials, and treatment of low-level employees. The article concludes with suggestions for empirical research designs to explore these relationships.

## 2. The drive toward freer trade

The industrialized countries have pursued trade liberalization since the end of World War II as a matter of economic efficiency and comparative advantage. Creation of the European Common Market and numerous multilateral trade negotiations under the General Agreement on Tariffs and Trade has increased cross-border trade quite significantly in the past 20 years. Consistent with this long-term trend, the negotiations to create a free-trade zone in North America, which occurred in 1991–1993, were ultimately successful although not without contentious debate, especially in the US. Many US labor and environmental activists fought vigorously against NAFTA because they feared potential negative impacts on jobs, wages, working conditions, and environmental impacts within the US, and to some extent in the other two participating countries (Husted and Logsdon, 1997; Vogel, 1995). While the debate was framed primarily within economic and ideological terms, at its foundation were significant concerns about the ethical and cultural values and resulting business practices that might cause harm to groups within each nation.

Economists tend to analyze trade strictly in terms of the costs and revenues that are associated with importing and exporting. Cultural and social values play little role in conventional economic analysis except as indirect influences on individual tastes and preferences. The assumption is that profit maximizers act “rationally” in pursuing their own interests, and this creates common motives and decision criteria, regardless of one’s cultural values. Thus, the economist does not expect to see systematic variation on the basis of culture alone. However, there are many unexplained anomalies in trade patterns, and a potentially important source for them may lie in differing cultural and social values about what is “rational” behavior and the range of factors that one’s interests should take into account.

## 3. A cultural framework

The meaning people see in their lives and the type of living they find desirable are a matter of personal choice (Hofstede, 1980). However, personal choices are affected by the environment in which a person is raised. Individuals acquire belief systems, norms for behavior, and understandings of reality within the context of a culture, as that culture is created and perceived by individuals within it, and constructed through interactions (Hood and Koberg,

1994). The Latin (including Mexican) and Anglo-Saxon (including the US and Canada) cultures differ in distinct ways, although individuals within a culture may choose behaviors that are independent of cultural teachings. People of Latin origin tend to have an overarching interpersonal orientation (Albert, 1996) that includes respect and obedience, being in tune with the wishes and feelings of others, and perceiving criticism as denoting a lack of respect. Individuals of Anglo-Saxon origin, on the other hand, tend to value task achievement (Triandis in Albert, 1996, p. 333) and competition (Stewart and Bennett, 1991). Thus, those of Latin backgrounds tend to be more allocentric since they pay more attention to the needs, values, goals, and viewpoints of others than to their own, and Anglo-Saxons tend to be idiocentric, or more concerned with the values, goals, and viewpoints of themselves (Triandis in Albert, 1996, p. 334).

Overall, while Canada and the US are similar on a number of cultural characteristics, it is interesting to mention some areas where Mexico and Canada have greater similarities (Di Norcia, 1997). First, Mexico and Canada have more socialistic traditions and are both ideologically to the left of the US. Related to this is a more public enterprise culture in Canada and Mexico, and a mixed economy that serves economic as well as social goals. Canada, in particular, has a strong state sector for energy, communication, and transportation, and more cooperative business–government relations. Finally, both Canada and Mexico feel threatened by foreign multinationals, especially those from their closest neighbor, the US.

By contrast, in other areas, Mexico and the US are more similar. For example, both Mexico and the US have stronger federal governments than Canada. In particular, Canada’s federal government has been noted by some to be much weaker than that of the US (Di Norcia, 1997). Furthermore, Canada has a high respect for cultural diversity (Alston and Morris, 1996; Di Norcia, 1997), while Mexico and the US have taken a more dominating perspective, especially towards indigenous groups.

Hofstede (1980) defines culture as the “collective programming of the mind which distinguishes one human group from another” (p. 21). Thus, each individual’s mental programming is partly unique, and partly shared with others. Hofstede (1980) has identified values and norms as the foundation of culture and defines societies as identifiable by a system of shared norms and values. Through analysis of extensive surveys of more than 100,000 IBM employees located around the world, Hofstede identified a number of elements of national culture (Hickson and Pugh, 1995) that would affect behavior in business. The four cultural values are uncertainty avoidance, power distance, individualism vs. collectivism, and masculinity. It is our contention that these four cultural values have significant impacts on ethical decision making in business. Table 1 presents the insights discussed below about cultural differences among the three NAFTA countries. The overall means and range of scores for the 39 countries in the Hofstede (1980) study are listed

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