PART II

CONFLICT IN INTERNATIONAL BUSINESS

Conflict also defines as natural disagreement resulting from individuals or groups that differ in beliefs, attitudes, values or needs. It can also originate from past rivalries and personality differences.

Conflict is actual or perceived opposition of needs, values and interests. A conflict can be internal (within oneself) e individuals). Conflict as a concept can help explain many aspects of social life such as social disagreement, conflicts of interests, and fights between individuals, groups, or organizations. In political terms, "conflict" can refer to wars, revolutions or other struggles, which may involve the use of force as in the term armed conflict.

Types of Conflicts

Conflicts in an organization can arise due to multiple reasons, based on which they can be categorized into different types.

On the basis of involvement

Conflicts may be **personal** (intrapersonal and interpersonal) and**organizational**. Organizational conflicts can be **intra-organizational** and **inter-organizational**. Inter-organizational conflicts occur between two or more organizations. Intra-organizational conflicts can be further divided into **intergroup** and**intragroup** conflict.

On the basis of scope

Conflicts may be substantive and affective. An **affective conflict**deals with interpersonal aspects. **Substantive conflict** is also called performance, task, issue, or active conflict. Procedural conflicts can include disagreements about the process of doing a job.

On the basis of results

Conflicts can be constructive or destructive, creative or restricting, and positive or negative. **Constructive conflicts** are also known as functional conflicts, because they support the group goals and help in improving performance. **Destructive conflicts** are also known as dysfunctional conflicts, they prevent people from reaching their goals. Destructive conflicts take the attention away from other important activities, and involve negative behaviour and results, such as name-calling.

On the basis of sharing by groups

Conflicts may be distributive and integrative. **Distributive conflict**is approached as a distribution of a fixed amount of positive outcomes or resources. In an **Integrative conflict,** groups see the conflict as a chance to integrate the needs and concerns of both groups. It has a greater emphasis on compromise.

On the basis of Strategy

Conflicts may be competitive and cooperative. **Competitive conflict** is accumulative. The original issue that began the conflict becomes irrelevant. Costs do not matter in competitive conflict. A**cooperative conflict** is of interest-based or integrative bargaining mode; it leads the parties involved to find a win-win solution.

On the basis of rights and interests

If some people are granted certain rights by law, contract, agreement, or established practice and when that right is denied, it leads to a conflict. These conflicts are settled by law or arbitration. In conflict of interests, a person or group may demand some privileges, no law or right being existent. Negotiation or collective bargaining solves this type of conflict.

Factors Causing Conflicts

In an international business, there can be various factors behind a conflict −

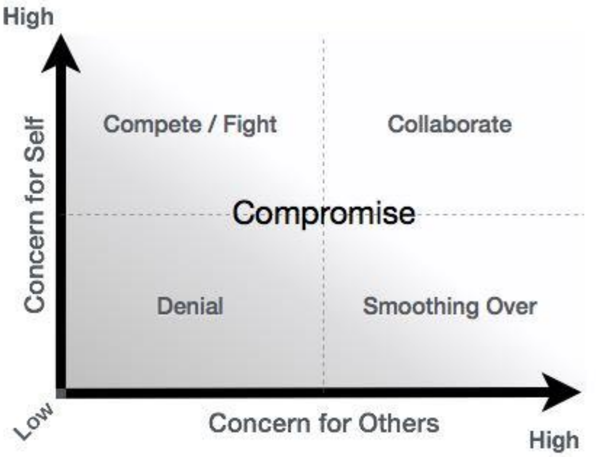
- There can be conflicts over control of resource or area.
- Conflicts can arise over the right to participate in decision-making.
- No clear-cut goals of the organization can lead to conflicts.
- No clear-cut agreements and contracts may lead to a legal mess, causing conflict.
- Misleading communication may confuse and create conflicts.
- Corruption may also create conflicts.

Conflict Management

Organizations face a great deal of conflict within and externally while doing business. Experts agree that managing conflicts can be actually quite challenging. International businesses use five distinct forms of solutions to solve conflicts. These are − avoidance, accommodation, competition, compromise, and collaboration.

- The **avoidance strategy** tends to ignore the conflict. Therefore, it provides no resolution to the disagreement. The real source of the conflict is never addressed which leaves the situation unresolved. This ultimately drives the organization away from the work at hand and makes the conflict worse than its initial state.
- The **accommodation strategy** believes in handling a problem as quickly as possible. In such a strategy, one party accepts the other's demands. Since one party usually gets ignored, it causes an ineffective attempt at conflict management. It only shows that the dominant party continues to rule over the compliant party. This strategy leaves the analysis to conclude the reasons and necessity of a mutual resolution.
- **Competition** occurs as both parties attempt to maximize their own agenda. Competition can quickly escalate into greed. It does not offer the parties an opportunity to benefit the organization. This strategy often becomes ineffective since the two parties are more concerned about winning than arriving at the best possible solution.
- **Compromise** is preferably a good strategy, as both parties involved in the process are willing to give and take. They are concerned about their own ambitions, yet at the same time, they pay heed to the objectives of the organization. Each party involved in a compromise fully understands and works for the best interest of the organization.
- The **collaboration strategy** starts with the manager taking a preliminary initiative step in handling the issue already set. Each party wants to solve the problem by cultivating a pleasing solution leading to a win-win situation. The international managers however must understand the "internal environment in which the organization members function"

to make use of this strategy. The collaboration strategy is both assertive and cooperation; yet it smoothly takes the different points of view into consideration. Collaboration is the most effective and efficient form of conflict management.



Five A’s Technique

Borisoff and Victor identify five steps in the conflict management process that they called the "five A's" of conflict management − assessment, acknowledgement, attitude, action, and analysis.

- **Assessment** − In the assessment step, the parties involved collect real information about the problem. The parties involved also choose the appropriate conflict-handling modes and decide the central factors of the problem. They also indicate compromise-able areas, and the wants of each party.
- **Acknowledgement** − The acknowledgement step allows each party to hear out the other and both parties to build the empathy needed for the solution. Acknowledgement is more than just responding; it involves actively encouraging the other party to communicate.
- **Attitude** − In the attitude step, parties try to remove pseudo-conflict issues. Stereotypes of different, culturally-based behaviours are unearthed. Similarly, differences in communication of men and women are accepted. Generally, we can analyze problems from the styles of writing, speaking, and other nonverbal cues.
- **Action** − This step includes implementation of the chosen conflict-handling mode. Each individual evaluates the opposite party’s behavior to ascertain potential trouble spots. Also, each individual stays aware of his own communication style and general behavior. Finally, all parties become alert to new issues and look for productive solutions.
- **Analysis** − In this last step, participants decide on actions, and find the gist of what they have agreed upon. The analysis step initiates the impetus for approaching conflict management as an ongoing process.

Negotiation

International negotiations need the parties to follow legal, procedural, and political regulations of more than one nation. These laws and procedures are often inconsistent, or even directly opposing in nature. International business agreements should look into these differences. Arbitration clauses, specification of the governing laws, and tax havens should be well defined in the agreements. We have listed here the most common attributes and elements that must be taken into account while doing international negotiations.

- The presence of different currencies should be taken into account. As the relative value of different currencies is not fixed, the actual value prices may vary, and result in unanticipated losses or gains.
- Each government tends to control the flow of its domestic and foreign currencies. Therefore, business deals should look for the governmental willingness to make its currency available. Some policies of government may be detrimental as well.
- Governments often play a significant role in foreign business. Extensive government bureaucracies can affect the negotiation process. Legal complications may also set in.
- International ventures are vulnerable to political and economic risks. These risks require the negotiator to have knowledge and social insight.
- Different countries have different ideologies about private investment, profit, and individual rights. Effective negotiators will have to present ideologically acceptable proposals to the other.
- Finally, cultural differences, such as language and values, perceptions, and philosophies may result in very different connotations according to culture and norms. The international negotiator must be aware of this.

Role of International Agencies in Negotiations

The role of international agencies in the negotiation process is indispensable. The agencies play a key role in finding an amicable and mutually beneficial negotiation. Organizations like the WTO have a big role in making the MNCs find a good solution to their international disputes. The requirement of such agencies becomes critical mainly in three areas.

When the business is unfamiliar with the issues and rules at hand

In many cases, business negotiations occur in a situation and place that is unfamiliar to the organization. These negotiations lead the managers out of their comfort zone and into unfamiliar territory. Often, the managers may not be quite knowledgeable in legal and cultural matters.

In such situations, the international agencies can play a big role. If the organizations' managers are unsure of the issues under discussion or do not know the perfect rules of the game, an agency may be quite helpful in offering a helping hand.

When issues of time or distance present in the process

If the negotiation process takes place in an unfamiliar territory, the customs and rules are generally unknown to the key managerial decision makers. In this case, an international agency may be handy.

This also applies when the managers of an organization are under a tight deadline. When these managers don't have the time and resources to meet with the other parties in a distant location or cannot participate in all steps in the process, they are quite unlikely to represent themselves well. In this situation also, an international agency may fill the gap.

When there is a poor relationship with the negotiating partner

If the organization is dreading to have negotiations with a party they had clashed earlier, then an international agency may play a key role. The agency may calm both the parties and ensure that the business negotiation remains a matter of business.

This is a good strategy in case of contentious diplomatic contexts, such as the negotiation of a cease-fire between warring armies. In the business world, if the rancour between a company and another over a business contract is deep-seated and ongoing, both sides may get benefits by employing experienced agents to move the negotiation process forward.

If the business thinks that they won't be able to pursue their business interests effectively – especially when there are chances of aggressive behavior on the other side, an international agency may bridge the gap in finding an amicable and win-win negotiation.

Ethical Issues in International Business

As political, legal, economic, and cultural norms vary from nation to nation, various ethical issues rise with them. A normal practice may be ethical in one country but unethical in another. Multinational managers need to be sensitive to these varying differences and able to choose an ethical action accordingly.

In an international business, the most important ethical issues involve employment practices, human rights, environmental norms, corruption, and the moral obligation of international corporations.

Employment Practices and Ethics

Ethical issues may be related to employment practices in many nations. The conditions in a host country may be much inferior to those in a multinational's home nation. Many may suggest that pay and work conditions need to be similar across nations, but no one actually cares about the quantum of this divergence.

12-hour workdays, minimal pay, and indifference in protecting workers from toxic chemicals are common in some developing nations. Is it fine for a multinational to fall prey to the same practice when they chose such developing nations as their host countries? The answers to these questions may seem to be easy, but in practice, they really create huge dilemmas.

Human Rights

Basic human rights are still denied in many nations. Freedom of speech, association, assembly, movement, freedom from political repression, etc. are not universally accepted.

South Africa during the days of white rule and apartheid is an example. It lasted till 1994. The system practiced denial of basic political rights to the majority non-white population of South Africa, segregation between whites and nonwhites was prevalent, some occupations were exclusively reserved for whites, etc. Despite the odious nature of this system, Western businesses operated in South Africa. This unequal consideration depending on ethnicity was questioned right from 1980s. It is still a major ethical issue in international business.

Environmental Pollution

When environmental regulation in the host nation is much inferior to those in the home nation, ethical issues may arise. Many nations have firm regulations regarding the emission of pollutants, the dumping and use of toxic materials, and so on. Developing nations may not be so strict, and according to critics, it results in much increased levels of pollution from the operations of multinationals in host nations.

Is it fine for multinational firms to pollute the developing host nations? It does not seem to be ethical. What is the appropriate and morally correct thing to do in such circumstances? Should MNCs be allowed to pollute the host countries for their economic advantage, or the MNCs should make sure that foreign subsidiaries follow the same standards as set in their home countries? These issues are not old; they are still very much contemporary.

Corruption

Corruption is an issue in every society in history, and it continues to be so even today. Corrupt government officials are everywhere. International businesses often seem to gain and have gained financial and business advantages by bribing those officials, which is clearly unethical.

Corruption in Japan

In the 1970s, Carl Kotchian, an American business executive who served as the president of **Lockheed Corporation**, paid $12.5 million to Japanese agents and government officials to sell Lockheed's TriStar jet to **All Nippon Airways**. After the case was discovered, U.S. officials charged Lockheed with falsification of its records and tax violations.

The revelations created a scandal in Japan as well. The ministers who took the bribe were charged, and one committed suicide. It even led to the jailing of Japan's prime minister. The Japanese government fell in disgrace, and the Japanese citizens were outraged. Kotchian had, without doubt, engaged in unethical behavior.

Moral Obligations

Some of the modern philosophers argue that the power of MNCs brings with it the social responsibility to give resources back to the societies. The idea of Social Responsibility arises due to the philosophy that business people should consider the social consequences of their actions.

They should also care that decisions should have both meaningful and ethical economic and social consequences. Social responsibility can be supported because it is the correct and appropriate way for a business to behave. Businesses, particularly the large and very successful ones, need to recognize their social and moral obligations and give resources and donations back to the societies.

Ethical Decision-Making

Business ethics is a code of conduct that companies may use to make moral decisions.

What Is Ethical Decision-Making?

In business, ethical decision-making is a strategy that prioritizes moral principles as a set of standards, rather than economic considerations, for making business decisions. Businesses that value ethical behavior may consider several ethical values, including how their actions reflect upon themselves and how their decisions affect the company, its employees, and the greater community or world.

Common ethical issues in business include environmental concerns, employee well-being, operations transparency, product honesty, and customer satisfaction; many ethical dilemmas in business weigh these variables against economic growth.

Ethics philosophers have created dozens of models to help guide ethical decision-making, each with varied considerations and concerns.

How to Make Ethical Decisions

Though there is not a single framework for making ethical decisions, each ethical decision-making model incorporates these four core steps:

1. **Identify the facts**. To make a good decision about an ethical problem, you must first verify that you have all the facts. This means basing your choices on verified events, details, and actions rather than a gut feeling, intuition, personal experience, or emotions. In addition, consider your ethical awareness; think through every angle of the situation and determine if you are missing a key point of view. When identifying the facts of a particular situation, you may find that it's best to bring all the affected stakeholders together in a meeting to decide as a team.

2. **Lay out all possible options**. Once you have the facts of the situation, outline all possible options for the business decision. Be open and honest about each option, regardless of its perceived ethicality. Also, be aware of any aspects you may have overlooked in the situation and take time to brainstorm possible solutions you may not have considered.
3. **Sort options by implication**. Once you have outlined all of your options in the ethical decision-making process, it's time to consider the effects or consequences of each option. Consider the following questions: Which options have the greatest benefit (or the greatest good) for the most people? Which options have the fewest negative consequences (or do the least harm) for the most people? Which options benefit your company the most or the least? Which options are in line with your company values? Which options reflect your personal values or ethical standards? Which options do you consider ethical actions, and which do you consider unethical? Why or why not?

4. **Weigh your considerations**. After you've thoroughly considered the implications of each option, decide which ethical principles are most important to your company and which are least important—this is your framework for ethical decision-making. Ethical choices value variables like widespread good, honesty, transparency, fairness and equality, rights, and duty. Decide which model of ethics is right for you and your company, and move forward with the strongest ethical course of action in your situation.

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