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Ethics in International Value Chain Networks: The Case of Telenor in Bangladesh

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ABSTRACT. What is the responsibility of multinational enterprises in international value chain networks in countries with inadequate institutions? In this article, we present an ethical framework that allows for evaluation of institutions at the macro, mezzo, and micro levels. This framework is used to analyze the case of Telenor in Bangladesh. Telenor is a telecommunications company based in Norway. It is the majority owner (62%) in Grameenphone in Bangladesh. The minority owner is Grameen Telecom, which is part of the Grameen group created by the pioneer of micro finance, Nobel Prize winner Dr. Mohammad Yunus. The case of Telenor in Bangladesh is one of many examples of international value chain networks that span different jurisdictions. The case focuses on relevant issues in the value chain networks: the institutions in Norway and Bangladesh, the owners, suppliers, and customers. We highlight the responses made by the major actors in the value chain, and conclude the article by analyzing the responsibility, or ''ability to respond'' of these major actors.

KEY WORDS: ethics, emerging markets, Grameenphone, institutions, international value chain networks

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> Telenor addresses unacceptable working conditions in Bangladesh (14 May 2008). A TV documentary by Danish journalist Tom Heinemann has revealed unacceptable working conditions, pollution and underage labour at the facilities of mobile antenna towers manufacturers in Bangladesh. (www.telenor.com/workingconditions-in-Bangladesh/)

The focus on ethics in business has been increasing; however, most of the theoretical and empirical work has focused on firms operating in one jurisdiction inside one culture (e.g., Hunt and Vitell, 2006) or on multinational enterprises (MNE's) and their subsidiaries in jurisdictions with reasonably benign institutions. Little research attention has been given to normative ethical issues in cases, where international value chain networks for MNE's include suppliers or customers in countries plagued by poor governance and inadequate institutions. (See, for example, Corruption Index Transparency International, 2007; Human Development Index UN, 2007/08; the Economic Freedom Index, Heritage Foundation, 2008.) These situations present complicated ethical issues that need to be adjudicated and resolved by a set of neutral standards and not (necessarily) by the values present in the cultures of (a) the home country or (b) the host country. The purpose of this article is to present such a framework for cross cultural ethical analysis. The framework is applied to the case of Telenor's activities through Grameenphone in Bangladesh.

International value creation networks

An international value chain network is a series of organizations that are linked together by transactions and/or exchanges across countries (Falkenberg,

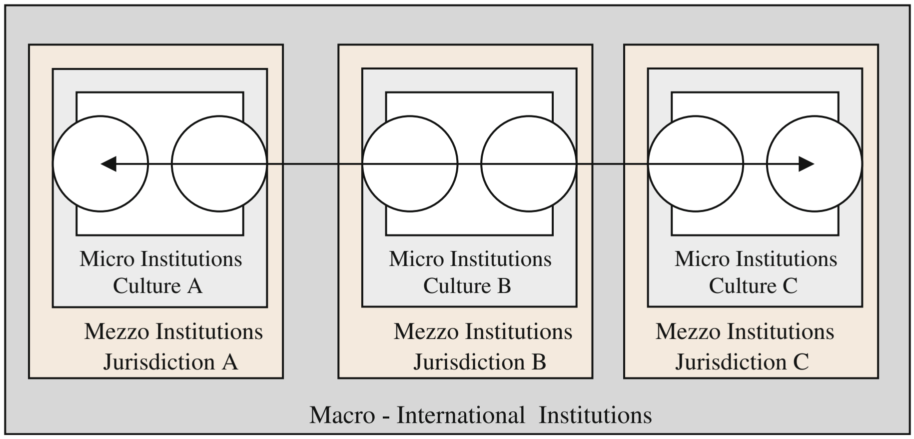

Figure 1. Institutions governing international value creation networks.

2007). Figure 1 depicts six organizations linked together (up-stream to down-stream) in a value creation network across three jurisdictions.

Macro, mezzo, and micro level institutions

The exchanges or transactions in multinational value creation networks are governed by different sets of institutions, that is, (1) laws, (2) regulations, (3) norms, and (4) values that constitute framework behavior for a country (North, 1990). Macro institutions are those that affect international transactions. Mezzo institutions are jurisdiction specific at the national level for each country and are related to the governance of the country. Micro institutions are the traffic rules of behavior emanating from the culture itself. For some countries it may be necessary to revise North's 1990 definition; for example, the formal institutions in a country are based on (1) laws and (2) regulations that may prohibit certain practices (corruption, child labor, and unsafe work practices). However, the more informal institutions based on local (3) norms and (4) values practiced at the mezzo level may tolerate and perhaps accept these practices. In other counties the mezzo institutions may favor the ruling elites and be contrary to the local cultural values. These countries are often plagued by limited economic freedom, monopolies, corruption, and inadequate legal systems.

In addition to the mezzo and micro levels, the value creation system is also subject to international (macro) institutions such as the trading regimes practiced by the EU, NAFTA, or agreed by the WTO.

Responsibility

In this section, we focus on the issue of responsibility, in particular, is a firm responsible for the activities of its suppliers and customers in their value-creating network? It is clear that an organization is legally responsible for how it operates *vis-a-vis* close stakeholders, such as the employees and its owners. A firm is also legally responsible for the contracts it has with internal and external stakeholders. Can an organization be held responsible for the activities of other organizations, up or down the value-creating network? The easy answer to this question is that a firm is response-able if it is able to respond to a problem. Firms may have "power," or the "ability to change the behavior" of actors up- and down-stream. The ability to change the behaviors of others can be used to promote improved consequences (outcomes) for the parties affected by the transactions. This would include both acts committed or omitted. Thus, a failure to remedy a problem can be considered a breach of good ethics. Thus, in addition to the product specification and terms of payment, a contract could include statements about working conditions for the employees of the supplier. While this is not legally necessary, there may be a moral obligation to do so if it is possible. It is also important to recognize that not all firms are in a position of power *vis-a-vis* their trading partners. In extreme cases, they may not be able to respond or use a voice option, leaving them little choice but to exit.

Ethics and institutions

We study ethics in order to improve our lives; the principal concern is the nature of human well-being (Stanford encyclopedia of philosophy, http://plato.stanford.edu/entries/aristotle-ethics/). Following this tradition, the purpose of ethics can be stated as "promoting flourishing lives," or as Aristotle wrote in Eudamian Ethics: "correct actions lead to the greater well-being of the humans immediately connected to the (human) agent." In this section, we focus on the evaluation of institutions, as they promote flourishing lives. Some institutions do this better than others. Institutions should therefore be subject to an ethical analysis to see if they are adequate, that is, if they promote good outcomes for the affected parties. Author (2007) developed a taxonomy to evaluate institutions. He draws on three perspectives of ethics: utilitarianism (and market economics), human rights, and justice.

Figure 2 assumes that we are programmed by our cultures into a set of values, which constitute our moral compass. It consists of the way we feel about right and wrong (an affective component) as well as the reasons why something is considered right or wrong (a cognitive component).

We are all "culturally programmed" (Hofstede, 1997) into a specific set of values depending on when and where we were born and raised. Therefore, it is not sufficient to rely on one's own conscience when dealing across cultures. The institutions in one's own culture may be inadequate or the institutions encountered in the host culture may be inadequate. With the above model as a base, the organization should evaluate the institutions in the cultures in which it will operate: will the parties affected by my transaction experience "flourishing lives" if the organization follows the relevant institutions? Or, will parties affected by the exchange experience diminished flourishing?

Are the institutions "adequate" in the sense that they promote flourishing lives? Utilitarianism, as conceived by John Stuart Mill (1863) is a cost/benefit approach to ethics. The unit of analysis is, however, neither the individual nor the organization nor the country, but the consequences experienced by "the whole sentient creation" or all affected parties. One can also use a human rights perspective (UN and/or Ths. Donaldson 1989) and a justice perspective based an extension of Rawls (1971) by Falkenberg (1996) as evaluative criteria (see Table I).

The three perspectives, which can be used as a test of the adequacy of institutions, are thought to be universal. They represent a basic set of principles, which are intended to enlighten one's own cultural

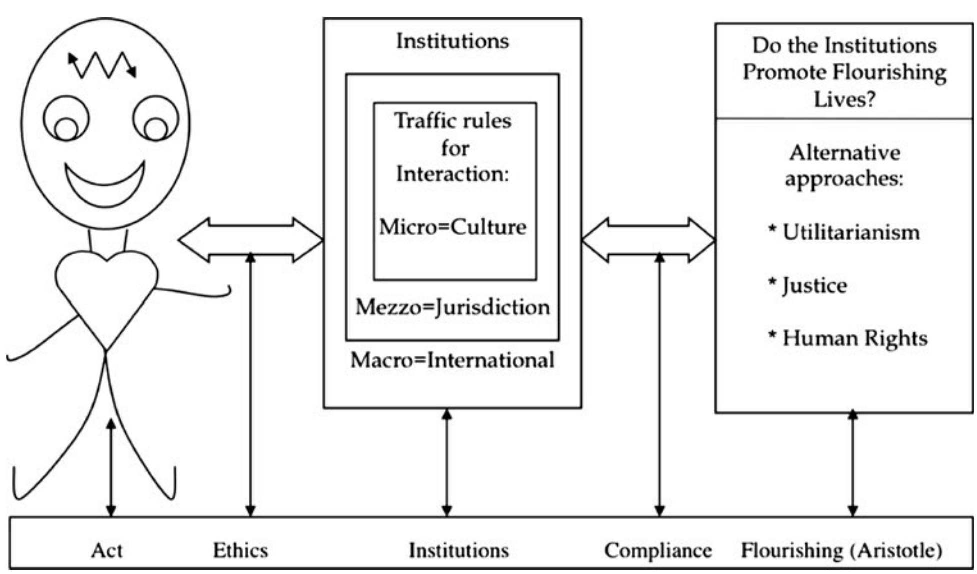

Figure 2. Do institutions promote flourishing? Acts are ethical if they (follow institutions) which promote "flourishing" in terms of utilitarianism and/or human rights and/or justice.

TABLE I

Utilitarianism, human rights, and justice as tests of institutions

Utilitarianism	Basic human rights (e.g.)	Justice: Principles for "The Good" (conceived under a veil of ignorance in the original position (Rawls, 1971))
Acts are right in the proportion as they tend to promote happiness, wrong if they promote the reverse of happiness (promote pleasure and reduce pain) "The standard is not the agent's own greatest happens, but the greatest amount of happens for all... for all man-kind – and not only to them but to the whole sentient creation" (J. S. Mill, 1863)	1. Free physical movement 2. Ownership of property 3. Freedom from torture 4. A fair trial 5. Non-discrimination 6. Physical security 7. Freedom of speech and association 8. Minimal education 9. Political participation 10. Subsistence (Donaldson, 1989)	1. Survival: food, health, education, hand-over, and integrity 2. Equal moral value: dignity, max freedom given equal freedom to all, equality before the law, opportunities, and human rights 3. Maxi–Min; distribution of index goods. As much as possible for the worst off group (Falkenberg, 1996)

values as well as those of other cultures. The Institutions may not promote flourishing as prescribed by utilitarianism (e.g., infliction of unnecessary pain or deprivation of benefit), human rights (e.g., lack of physical security or an unfair trial) or justice (e.g., non-survival or treating someone as a second class citizen). These institutions should be judged as "inadequate."

Response options

Having determined the adequacy of the institutions, in regard to whether they promote flourishing, a firm needs to determine if it is responsible (able to respond) to problems that result due to inadequate institutions. Several options are available as described in Table II. A firm can try to avoid following inadequate institutions and avoid violating adequate institutions. It may be appropriate for a firm to behave better than what the local institutions prescribe. For example, people of different races can be treated equally even if this is not legal or common practice locally (e.g., Sullivan principles during apartheid). In such a case, a firm may engage in "benign civil disobedience." A firm can also pay a living wage even if not required by local mezzo and micro institutions. This would be an example of acts "over and above the call of duty."

We explain Table II with the following examples.

Example a: Anticorruption laws are on the books. This would be an adequate formal institution, which a firm should follow. Not following this formal institutions would be illegal. However, government officials practice corruption widely and the courts are also corrupted, thus the informal institutions seem to be inadequate. Engaging in corruption would not only be illegal, but also unethical by the three tests suggested above. Response options would be voice or exit. Alternatively, a firm could choose to go against these inadequate informal institutions by behaving "over and above the call of duty." If a firm is "able to respond" to the issue, they could insist on transparency and reject corruption.

Example b: Discrimination laws are on the books (f.ex. Apartheid South Africa). These formal institutions are inadequate, so following them would be unethical. A firm could consider "benign civil disobedience" and not practice discrimination. In this case, the informal institutions (the local norms and values) in the majority of the black population favor non-discrimination, so following popular and adequate institution of non-discrimination would be the right thing to do.

TABLE II

Alternatives available under adequate and inadequate institutions

		Formal institutions (laws and regulations)		Informal institutions (cultural norms and values)	
		Adequate	Inadequate	Adequate	Inadequate
Act	Follow institutions	Go ahead	Immoral voice or exit	Go ahead	Immoral voice or exit
	Go against institutions	Illegal	Consider benign civil disobedience	Immoral	Consider behavior "over and above the call of duty"

Example c: A supplier has inferior safety standards resulting in injuries and even death to employees. The supplier has complied with both formal and informal institutions and the work conditions are seen as "normal." The contracting firm, as a major customer, is not legally obliged to seek to affect a change in the way the supplier runs her factory – and there is no local pressure on the customer or the supplier to change practices. However, it is clear that the practices do not promote flourishing for the employees by any of the three ethical tests. If the customer can affect a change (able to respond) to this problem, they may have a moral duty to do so, even if it is not required by the local institutions; formal or informal. It would be unethical not to go against the formal inadequate institutions. This would not constitute "benign civil disobedience," because the firm is not violating formal institutions, but it would be behaving "over and above the call of duty" by the local standards. Based on home country standards, however, the customer would be expected to seek to affect improved working conditions with their suppliers.

Telenor in Bangladesh

We now turn our focus to the international value chain relationships in the case of Telenor in Bangladesh. This case allows us to focus attention on how firms should deal with these relationships in countries, in which the institutions are missing or inadequate (De George, 1993). This extends Spiller's (2000) proposal of an ethical scoreboard for firms, in which he suggests that one should ask critical questions about the relationship with suppliers and customers. Most aspects of institutions at the macro level cannot be changed; therefore Telenor must decide whether it ethically can *adapt to* these institutions. If not, do they choose to exit or not enter emerging markets in which macro institutions are inadequate? At the mezzo level, we analyze whether Telenor can adapt the institutions, i.e., be a force for changing inadequate institutions. This focuses attention on when they are "response-able," able to respond. The micro institutional level encompasses the cultural norms. While it would be an exaggeration to think that any single firm, such as Telenor, would be able to change inadequate institutions at the micro level, we do know that firms, by their actions, can change attitudes, and thus cultural norms. In evaluating the responses, we draw on De George (1993) who advocates competing with integrity (i.e., Does Telenor refrain from taking full advantage of what local, inadequate institutions might allow?) and Sen (1997) who speaks of self-imposed constraints (i.e., Does Telenor choose to obey on moral or conventional or even strategic grounds, rather than pursue profit maximization in all cases?).

In the following sections, we address the role of Telenor and Grameenphone toward their value chain relationships in Bangladesh. We begin by identifying and analyzing the macro, mezzo, and micro level institutions governing business in Bangladesh. We then give the background of Telenor's activities and responses in Bangladesh. The responses of the relevant parties are then analyzed, based on the "ability to respond." The case material is based on secondary, publicly available information in order to reduce any biases that might result from interviews with the companies involved; the one exception was contacting Telenor to obtain factual information regarding the board membership of Grameenphone.

Identifying the institutions

Table III lists a number of formal and informal institutions, which are relevant as we seek to understand the differences between institutions in Norway and Bangladesh. As seen in Table III, in some countries, such as Norway, there is a close correlation between the formal and informal mezzo institutions as well as with the (micro) cultural values. This is a result of a lengthy period of democracy, in which the electorate has been able to elect representatives who have promoted laws and regulations representing the basic cultural values and norms of the population. Politicians and regulators who may have tried to promote laws and regulations contrary to peoples' preferences (the micro institutions) have failed to gain popular support and not been reelected/re-appointed. Thus, we observe no real differences between the formal and the informal mezzo institutions in Norway. However, in Bangladesh there are differences between the formal institutions and the informal institutions at the mezzo and micro levels.

In addition, there are big institutional differences between Norway and Bangladesh. The centralized political and economic power (=lack of economic freedom) and corruption found in Bangladesh inhibit flourishing. Relative to Norway, Bangladesh seems to accept a higher degree of child labor and more unsafe working conditions, even when relevant laws are on the books.

This presents problems for the parties involved. The Norwegian public, owners, and managers see the world through their culture's values and operate in a very different environment compared to that of Bangladeshi public, owners, and managers. It will be hard for Telenor to explain the business practices and business environment in Bangladesh to Norwegians, let alone function well in a Bangladeshi environ-

TABLE III

Comparing formal and informal institutions in Norway and Bangladesh

Mezzo institutions

Norway:		Bangladesh:	
Formal (laws/ regs.)	Informal institutions	Formal institutions (laws/regs.)	Informal institutions
Strict laws re. child labor	similar to formal inst.	Emerging child labor regulations	Est 13 million children at work
Strict laws re. work conditions	----- " -----	Emerging reg. on work conditions	Poor by Western standards
Few remaining monopolies	----- " -----	Monopolies in key arenas	
Strict corruption laws	----- " -----	Corruption is illegal	Corruption is wide spread
Assist the poor	----- " -----	Few transfer payments to the poor	
Well developed legal system	----- " -----	Emerging legal system	Less confidence in the legal system
Extensive "Free" services in health/ education	----- " -----	Limited "Free" services in health/ education	

Micro Institutions

Norwegian culture:	Bangladeshi culture:
Does not accept child labor	Accepts some child labor
Caring for the underdogs	Survival of self/ family
No tolerance for corruption	Corruption tolerated not liked
Distrust of "market forces"	Distrust MNC's profit motive
Questions profit motive	Used to rough business practices
Questions power inequalities	Accepting power differences
Morally liberal	Morally conservative

ment; and *vice versa*. Ethical codexes and operating guidelines conceived in a Norwegian context may not serve as practical guides for managers in Bangladesh. On the other hand, the Norwegian customers, media, government, and public will expect the firm to behave well by Norwegian institutions.

Evaluating the institutions

We can now look at the two countries, Norway and Bangladesh, in terms of flourishing, or quality of life. In a situation with adequate institutions, one would expect to observe great flourishing. If the institutions promote good utilitarian consequences and if they promote basic human rights as well as justice as described above, then this should be reflected in some of the international measures on quality of life. In Table IV, a number of readily available indicators have been chosen that are thought to be surrogate indicators of human flourishing.

The differences in flourishing are great. The table illustrates the differences in the environment, in which Norwegian and Bangladeshi managers find themselves as they seek to cooperate.

The beginnings of Grameenphone

The Grameenphone dream began when, in 1994, Iqbal Quadir, born and raised in Bangladesh until he left to study in the United States, convinced Tormod Hermansen, who was then CEO of Telenor, the Norwegian owned telephone service provider, to join in the development of mobile telephone service for the villages in Bangladesh. Norwegians consider themselves supportive of economic development in poor countries. They contribute about 1% of GNP for development purposes, which is among the most generous in the world (www.odemagazine.com/doc/22/).

Quadir also contacted Grameen Bank to be a partner for the distribution of phones. Grameen Bank was founded by Professor Mohammad Yunus who received the Nobel Peace Prize in 2006 for having pioneered microfinance in Bangladesh. Professor Yunus has achieved a prominent status as a spokesperson for, and a helper of, the poorest of the poor. He has established a number of ventures including Grameen Bank, Grameen Communications, Grameen Fund, Grameen Knitwear, Grameen Shakti, Grameen Shikkha, Grameen Solutions, Grameen Telecom, Grameen Trust, and Grameenphone (www.grameen-info.org).

Quadir's conversations with Professor Yunus resulted in the Village Phone program, coupling Grameen Bank's microcredit with mobile telephony to make telecommunications accessible to the rural poor (Telenor ASA, 2006). Loans could be issued to village telephone ladies who would use the mobile telephone to earn money and thus become an income generating enterprise in their villages. These loans for telephones would help an entire village, supporting the ideals of Grameen Bank, and provide every

TABLE IV

Indicators of realized flourishing in Norway and Bangladesh

	Bangladesh	Norway
GDP per capita, 2007 (CIA Fact Book)	\$475	\$83,000
GDP per capita/ppp 2007 (CIA Fact Book)	\$1400	\$53,000
Life expectancy 2007 (CIA Fact Book)	62.8 years	79.8 years
Gini coefficient, 2000 (CIA Fact Book)	33.4	28
Literacy rate: UNDP 2007/08	47.5%	99%
Quality of life (Rank from UN Human Development Index, 2007/08)	140 of 177	2 of 177
Corruption (Rank, from Transparency International Corruption Index, 2007)	162 of 179	9 of 179
Liberal economy (Rank, from Index of Econ. Freedom, Heritage Foundation, 2008)	149 of 162	35 of 162

villager access to a mobile telephone (www.odemagazine.com/doc/22/).

Ownership of Grameenphone

When operations started on March 26, 1997, the Grameenphone's joint venture partners were Grameen Telecom who owned 35% and Telenor (Norway) who owned 51% plus two minor partners (Singhal et al., 2005). In 2004, the minority partners were almost totally bought out by Telenor. Grameen Bank did not have the funds to buy more than 3% of the available shares (Prasso, 2006). Telenor presently holds a 62% share in the company with Grameen Telecom holding the remaining 38%. Telenor was a government owned telecommunications monopoly until it was deregulated in 1996, however, the Norwegian government maintains a controlling 54% share of Telenor (www.telenor.com) (Figure 3).

Ownership conflicts

Dr. Yunus claimed, during his 2006 visit to Oslo to receive the Nobel Peace Prize, that there was an agreement with Telenor, which would allow Grameen Bank to increase its ownership and gain control of the very profitable Grameenphone. Dr. Yunus would like to see Grameenphone be controlled by Grameen Bank and the many microfinance enterprises established throughout Bangladesh. His expressed dissatisfaction with Telenor makes for a potentially embarrassing situation for Norwegian politicians and for Telenor.

> When Muhammad Yunus travels to Norway to receive the Nobel Peace Prize Dec. 10, he will come prepared to fight for management control over a company he believes is sucking profits from the poor of Bangladesh. While in Oslo, Yunus says he intends to point out the irony that the country that is awarding him the Nobel Prize for his pioneering work on microcredit is also home to a state-controlled company, Telenor, which he says refuses to honor an agreement to allow Yunus's nonprofit Grameen Bank to take majority control of their joint mobile-phone venture. "There's tension between us and Telenor," Yunus told Fortune in an interview in Dhaka ahead of his departure. "There's a philosophical difference. They're oriented toward profit maximization. We're oriented toward social objectives."

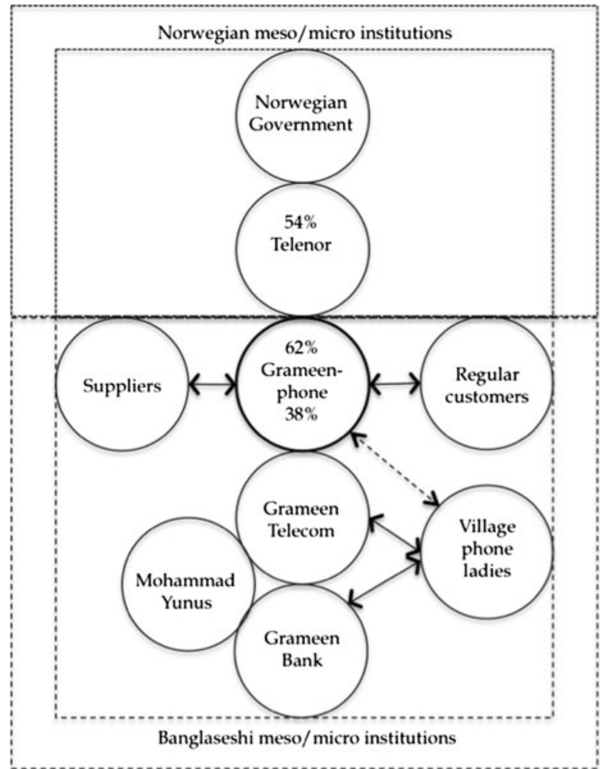

Figure 3. Interacting entities surrounding Grameenphone.

> Sheridan Prasso, Fortune December 5 2006: 6:49 AM EST http://money.cnn.com/2006/12/04/news/international/yunos_telenor.fortune/index.htm.

Mr. Jan Frederik Baksaas, Telenor's CEO, states that the last time a change in ownership structure was discussed when the minority partners were bought out. At that time, Grameen Bank was able to buy only 3% of the shares (Prasso, 2006). However, Dagbladet, a national Norwegian newspaper reported in March 2006 that they had uncovered the text of agreement. When revealed to Telenor, the firm admitted they had made promises to Yunus but claim that the agreement is not legally binding.

Also, the previous chairman of Grameenphone, and present managing director of Grameen Telecom, Muhammad Khalid Shams, states that Grameen has insisted for years that Telenor renegotiate the management structure and honor the pledge made by Mr. Hermansen, the former CEO of Telenor, whom he claims was asked from the beginning to enter into a non-profit venture with Grameen. Mr. Shams claims Telenor has gone back on their word (Prasso, 2006).

On July 30, 2008 BBC News reported that Grameen Telecom had offered to buy an additional 13% stake from Telenor, to gain control of the business. At the same time, the Norwegian business newspaper, Dagens Næringsliv, reported that Telenor was willing to reduce its share by selling 11%, but it was not willing to lose majority control.

On September 4, 2008, Telenor's present CEO, Jan Frederik Baksaas, met with Professor Yunus, at the Nobel Peace Center in Oslo. One of the issues discussed was the ownership conflict. Telenor stated in a press release on September 5 that "the shareholder agreement clearly states that any disagreements should be resolved through Swedish arbitration courts." On his part, Yunus, in a press statement the same day, stated:

> Back in 1996, Telenor and we agreed that the joint company within six years should be a locally operated company with Bangladeshi management and Bangladeshi majority ownership. This has not happened. Telenor is unwilling to let go control of the company. We are now are being told that the words of the written agreement in a legal sense are non-committing statements. We relied on the words of the agreement. We believed in the agreed intentions of the parties. We believed in business ethics and generally accepted company government rules of conduct. We believed that a Norwegian public listed company, controlled by the Norwegian government, a government supportive to the poor people of Bangladesh, would do as agreed. Telenor now tells me that it was a mistake to rely on their words... I am very optimistic about the eventual outcome of this controversy because it is really in the hands of the people of Norway, whom I have come to know and trust. Norwegians set a very high standard for business ethics, and they are the majority owners of Telenor. I am confident the people of Norway will see to it tat the companies that they own and control honor their written intention, in all cases, and especially when dealing with the poor women of Bangladesh. Statement from Dr. Mohammad Yunus, September 5, 2008

During meetings with Telenor's CEO, Dr. Yunus was wearing a hidden microphone (www.abcnyheter.no/node/73556) for the purposes of a documentary, which is under production with Bill Megalos (www.billmegalos.com). Telenor was not aware of this, and it further eroded trust and increased the tension in the joint venture. In the media, the "greedy multinational" is positioned against the "the savior of the poor." This is an uncomfortable situation for Telenor and the Norwegian government, especially in Norway but also in Bangladesh. There has been talk of law-suits, but none has materialized so far (www.business.dk, 9 July, 2008).

Board control

Telenor appoints three board members to Grameenphone and Grameen Telecom appoints two board members; one of whom is also the head of finance at Grameen Bank and associated with the Village Phone Program. Grameen Telecom also has an observer on the board. This means that Grameen Telecom has effective negative control of Grameenphone. However, in a statement by Professor Yunus on September 5, 2008, he writes: "Telenor is effectively running the joint company and has been in charge of the management from the beginning... The people do not understand that Telenor runs the company and that Grameen Telecom hardly has any effective say in the company operation."

The suppliers

Up-stream, Grameenphone has more than 700 suppliers. On May 14, 2008 a television program made by free-lance journalist Tom Heinemann was shown on Danish and Norwegian television. The documentary pointed to several areas of poor working conditions on the part of suppliers who were building telecommunications towers for Telenor and Ericsson. Three major problems were reported: child labor, unsafe working conditions, and pollution problems.

- *Child labor*: One child employee stated there were about 30 children working at one plant; he earned about $1 for an 11 h day.
- *Dangerous working conditions*: The documentary showed people working next to an open acid bath and galvanizing tank containing 500° floating zinc. The towers were rust proofed by being immersed in these tanks. There was inadequate ventilation and protection for the workers. Employees were balancing on the edge of the acid baths. Others were involved in steel construction of the towers wearing

only sandals or assembling 75 m towers without having safety ropes or nets. After the release of the documentary, nine deaths have been reported by Telenor and by the media.

- *Pollution*: Rice fields were reported to be contaminated because of run off water from the plants. NKR Documentary "A Tower of Promise" shown May 2008.

Telenor, after viewing the documentary, stated that their control had not been good enough and accepted responsibility for the lapse in their control system.

> When the case turned up, the simplest solution would have been to import the towers. But that would have had extremely negative consequences for the employees of the companies in Bangladesh. We decided instead to clean up the companies so that they have good production conditions. Telenor has consequently chosen to follow what has become an important rule in the work with ethical guidelines for subcontractors – that is, not to break the contact with factories in developing countries the moment criticisable conditions are revealed, but rather work to improve conditions.
>
> Pål Kvalheim, Telenor's VP for Communications, to Norwatch, May 20, 2008. (Gaarder, 2008).

They instead immediately started an investigation of their suppliers and hired Det Norske Veritas (DnV) to advise them on improving their production conditions. "We have zero tolerance for any breach of local laws and regulations. We have been working methodically with the tower vendors to ensure compliance with all local laws and regulations relating to the use of child labor and health, safety and environment issues." Anders Jensen, chief executive of Grameenphone, top cell phone carrier in Bangladesh (Reuters UK, May 20, 2008). The contractors were notified that Telenor would be coming, and when Telenor arrived, the inspectors saw only one child laborer (Gaarder, 2008).

Telenor sent a formal letter to the companies involved, a "show cause notice." The companies are required to show that they are living up to the contract. The sub-contractors were required to confirm that their firm was in conformance with the HMS requirements and ethical standards as stated in the contracts with Telenor (Gaarder, 2008).

Grameenphone terminated the contract with one of the suppliers, Mizan Hatim Engineering which had delivered 1400 antenna towers since 1997. The supplier had not shown sufficient willingness to comply with the customer's requests for improved working conditions.

The DnV report showed several instances in which the contract terms were not being upheld, and in which the Working Environment Act in Bangladesh and Telenor's own code of conduct were not being followed. Telenor responded by taking steps to deal with the breaches and by setting up a group to secure health, safety, and environment measures for their suppliers (www.telenor.com).

The Norwegian reaction to the Grameenphone situation in Bangladesh has been strong. The CEO of Telenor, Mr. Jan Frederik Baksaas has repeatedly been on the defensive as he has been questioned by the Norwegian news media.

The Daily Star newspaper in Dhaka writes that there are 13 government inspectors whose job it is to inspect the 14,000 factories in Bangladesh. According to UNICEF, there are some 13 million children at work in Bangladesh. The age limit for this kind of work in Bangladesh is 18 and the median age of the population in Bangladesh is 22 years (Telenor Press Release, September 5, 2008).

The customers

Down-stream, Grameenphone sells regular cell phone services to its Bangladeshi customers. Grameenphone has a local market share of 46% representing some 20 million customers. These are regular subscribers similar to what we find in most countries. The company owns and operates a local mobile-phone network which covers 97% of the country (www.grameenphone.com).

In addition, the Village Phone Program represents an interesting market segment. This program was established and financed by Grameen Bank as a microfinance project. The idea behind micro finance is to assist poor people in starting small business in order to stimulate economic and social development. The telephone venture was consistent with this vision. It was the dream of Dr. Yunus to provide every villager access to a mobile telephone. It is estimated that as many as 100,000 million people in Bangladesh now have access to phone services thanks in part to the 300,000 Village Phone Ladies (www.grameenphone.com).

Four businesses were involved in setting up the Village Phone Lady segment: Grameenphone, Grameen Telecom, Grameen Bank, and the mobile handset owner in the village. Grameen Bank provided bank loans to a village member (a Village Phone Lady) so that she could buy or lease a mobile telephone from Grameen Telecom. Grameen Telecom buys blocks of time from Grameenphone for this group of customers. The phone ladies provided telephone services to the other villagers who could not afford a phone (Singhal et al., 2005; Malaviya, et al., 2004).

Although the village phones have contributed only a small percent toward Gameenphone revenues, "they yielded a very high social impact in terms of reaching millions of rural Bangladeshis who previously did not have access to telephone services." This has had "a very positive economic impact in rural areas, creating a substantial consumer surplus, and immeasurable quality-of-life enhancements" (Singhal et al., 2005, p. 430).

Grameen Bank currently covers more than 67,000 villages, which are serviced by 2121 bank branches all over the country. As of May 2006, the bank had 6.33 million micro finance borrowers, 97% of whom were women. Grameen Telecom's objectives are to provide easy access to GSM cellular services in rural Bangladesh, creating new opportunities for income generation through self-employment by providing villagers with access to modern information and communication-based technologies (www.grameen-info.org).

Using Voice Over Internet Protocol

Grameenphone used Voice Over Internet Protocol (VoIP) to receive calls from abroad. This is unlawful and illegal. The law in Bangladesh requires private operators to use the state owned monopoly Bangladesh Telecommunications Company Ltd. (BTRC), the land phone network for international calls. Upon being investigated, Anders Jensen, CEO of Grameenphone stated:

> We regret that such unlawful practices were carried out and not disclosed earlier by Grameenphone… the Grameenphone Board also mandated an investigation by an external auditor to look into all aspects of our operations to ensure that we fully comply with all laws and regulations.

In his September 5, 2008 statement, Professor Yunus separates himself from any of Grameenphone's activities that have been found to be illegal:

> The police report includes severe information regarding Telenor's involvement in the activities, and states, "It can be perceived to the committee members that the majority shareholders of Grameen Phone Ltd are involved in encouraging the illegal VoIP business in the international field.
>
> The people do not understand that Telenor runs the company and that Grameen Telecom hardly has any effective say in the company operation. Grameen Telecom and I have not yet been given all the facts we need to have a complete understanding of the alleged illegal activities. However, those activities should be fully and independently investigated and disclosed. We want the majority shareholder Telenor to authorize complete transparency in all these matters, including the release to the public of the shareholders agreement and all investigations of the alleged charges. We cannot allow the Grameen name to be tarnished directly or indirectly by inappropriate operations.
>
> We recently have received the police report from the authorities' investigation of the illegal activities… The police report includes severe information regarding Telenor's involvement in the activities, and states, "It can be perceived to the committee members that the majority shareholders of Grameen Phone Ltd are involved in encouraging the illegal VoIP business in the international field."

Grameenphone has agreed to pay a fine of \$37.3 million to Bangladesh Telecommunication Regulatory Commission (BTRC). Ten present and former managers of Grameenphone are under investigation. These investigations may be halted if Grameenphone pays the fines. One can raise the issue as to whether this monopoly benefits the population of Bangladesh or if it is a source of revenue for a selected group of government employees (www.business.dk, 9 July, 2008)

Vision and goals

The vision for Professor Yunus was to bring telephone services in the rural areas of Bangladesh and to empower poor rural women by turning them into "telephone ladies."

For its part, Telenor's goals for its activities in Bangladesh, are reflected in their approach to corporate social responsibility: "based on two main principles: to conduct business in a responsible manner and to bring the benefits of mobile communications to a wider audience" (www.telenor.corporate-responsibility).

Professor Yunus, in discussing the ownership conflict with Telenor, states that "Both Telenor and Grameen Telecom seek to maintain and expand the growth and profits in the phone company… The agenda of Telenor to maximize returns for the benefit of its owners is, however, in conflict with the social and non-profit agenda of Grameen Telecom. The differences between Grameen and Telenor relate to business ethics and corporate governance" (Statement made by Professor Yunus in Oslo on September 5, 2008).

These different goals are also relevant with regard to different performance measurements. During the last 5 years, the Telenor shares have by and large followed the index of the Oslo stock exchange from an NOK share price in the high thirties in the beginning of 2004 to a high around 140 in the beginning of 2008 and then back down to the mid-seventies at the beginning of October 2008 (www.dnbnor.no).

In April 2007, Grameenphone was identified as a CSR champion by multiple donor organizations in Bangladesh including UNDP and the Bangladesh Enterprise Institute (www.telenor.com/cr/news/_articles/aktuelt_20070503_2.shtm).

Exemplifying the responses

The case allows us to exemplify the responses proposed in Table II. We begin with a general discussion of the responsibility (ability to respond) of the relevant players. We then focus on responses when formal or informal institutions are adequate and not followed (issue of ownership) and when institutions are inadequate and voice is used (relationship with subcontractors) or when benign civil disobedience is used (the issue of VoIP). Finally, we address two issues of a more general nature concerning responsibility: who is able to respond, and to whom should they respond? The first issue focuses on the ability to respond on the part of the relevant actors; the second concerns the general issue of flourishing, analyzing the stakeholder–shareholder perspectives of the major partners in Grameenphone.

Responsibility

We begin with a general discussion regarding the responsibility of the relevant parties. Here, we include not only Telenor and Grameen Telecom who are the major shareholders in Grameenphone, but also the Norwegian government because of their ownership of Telenor, and Professor Yunus through the Grameen Bank.

Telenor is the majority owner in Grameenphone (62%). In addition to being the majority shareholder, Telenor assigns the role of CEO of Grameenphone and has three of the five shareholders. Telenor can influence the strategy and business practices employed by the firm, and thus is a responsible partner.

The Norwegian Government can exercise some influence on the strategy and business practices employed by Telenor through its 54% ownership, and is "able to respond" or to influence management practices of Telenor.

Professor Yunus has stated that the control lies with Telenor. However, Grameen Telecom, as a representative of the Grameen group, has negative control in Grameenphone (38%). They can voice opinions about the daily operations when the board of Grameenphone has its meetings. The two board representatives do not have the formal votes to force Grameen Telecom's recommendations on the management practices employed. Yet, Professor Yunus can influence the decisions made by Grameenphone through (a) his negative control, (b) through private and public moral suasion, and (c) through his ownership of the name "Grameen."

Responding to the working conditions of the sub-contractors

The most relevant question in the case focuses on the responsibility for the working conditions in the subcontractors, the builders of the mobile towers. The conditions include child labor, unsafe working conditions, environmental concerns, and deaths because of lack of safety measures. The mezzo institutions, Bangladesh laws, are adequate in terms of leading to flourishing. However, the informal institutions in

Bangladesh do not support these formal institutions. There is inadequate follow-up which may then lead to acceptance of unsafe standards. Thus, the informal institutions are inadequate, which keep flourishing from happening as seen through either of the three ethical perspectives; utilitarianism, human rights, and justice. This is reflected in the micro institutions, the working environment for the firms making mobile towers, which are inadequate. Is Telenor responsible? Is Telenor able to respond?

Telenor through Grameenphone as a major buyer of telecommunications towers may have the "ability to respond" to the work conditions of its suppliers. A supplier typically listens to requests from a large customer to land substantial orders. However, requests for improved conditions for employees and non-use of child labor may be deemed unnecessary by local micro institutions and may be met with little understanding by local mezzo and micro institutions. Telenor, through Grameenphone, used voice to gain compliance to the contractual agreements which including specifics on the working conditions. And through this response, they were able to make changes to improve the flourishing. They were able to respond, and did so. This response was viewed as positive, in showing an attempt to make changes in the micro level institutions, rather than only using exit. In the case of one of their suppliers, they chose to exit. The supplier seemed unwilling to comply to the terms of the agreement. Hence, Telenor, through Grameenphone, can respond both by voice and exit when the informal mezzo and micro institutions do not lead to flourishing.

Responding to Bangladeshi Regulatory Agency

The use of VoIP instead of the state owned monopoly system could be a case of benign civil disobedience. Although illegal, if the institutions are inadequate, then an acceptable response would be to ignore the law. Hence, the question becomes, does the institution, in this case, the requirement to use the state owned system, promote flourishing? Complete information is not available for us to determine if using VoIP allowed for higher profits for Grameenphone, in which case, Grameenphone should be fined for illegal activities, or if it allowed for reduced prices for the Village Phone Ladies, in which case benign civil disobedience could be justified.

It could behoove Telenor and Dr. Yunus to help establish policies and routines, which would promote flourishing for affected parties in Bangladesh and even engage in "benign civil disobedience."

Responding to the ownership conflict

A third issue from the case that needs to be analyzed is the ownership conflict between Telenor and Grameen Telecom. Grameen Telecom claims that Telenor should have, within 6 years (2002) renegotiated the management structure and honored the pledge made by the former CEO of Telenor. Telenor states that it was only an intention and not legally binding. This suggests that there may be a mezzo level (in Norway) informal institution, which is different from the macro level formal institution.

Here, the necessary response is clear. The macro level institutions are adequate and can be followed for contractual relationships. If there exists a binding contract, Telenor and Grameen Telecom need to follow the terms stated in the agreement. Even if Norway's and/or Bangladeshi informal institutions suggest a different interpretation of the agreement, there would be a moral obligation on both parts. If the terms of the agreement are under question, then macro level institutions regarding arbitration can come into play.

Thus, Telenor and Grameen Telecom can respond to, and follow the macro level institutions for international contracts. The formal institutions are adequate and can be followed. If informal institutions are different, and inadequate, they should not be followed.

Responsibility – to whom?

We conclude this section by analyzing the differences in purposes between Telenor and Grameen Telecom for Grameenphone. Telenor is a publically traded company with a responsibility to its shareholders. In addition to this bottom line, they also have stated their corporate social responsibility.

However, we need to be cognizant of the institutions present in the professional – the organizational – and the industrial environment (Hunt and Vitell, 2006). The organizational culture in Telenor, as a former state owned monopoly with extensive rationing powers, may not be sensitive to the welfare of customers, competitors, suppliers, or others affected by the acts of the firm; i.e., not dedicated to serving customers, but rather serving themselves. These monopoly values may have persisted in some parts of the organization, whereas other parts of the organization have been forced to be more market oriented. These values can be changed, from the top of the organization in order to ensure ethical sensitivity which may allow the organization to uncover potential problem areas, and perform the required analysis. CEO Baksaas is able to respond to this.

A related issue is whether Telenor is responsible to Norwegian or Bangladeshi mezzo institutions? It is difficult to argue ''compliance with Bangladeshi institutions'' as ethically sufficient to a Norwegian audience and to Norwegian political board members. On the other hand, applying Norwegian institutions to a business operation in a Bangladeshi context may not be competitive/possible. However, by establishing what ideal institutions may look like, one can at least move in the direction of the ideal; move from the ''real'' toward the ''ideal.'' In an ideal situation, children should perhaps go to school full time in order to be able to lead rich and flourishing lives. However, this may not possible in Bangladesh, where many children need to work to ensure ''survival'' (justice) for themselves and their families. An improvement may be that children are hired to do light and safe work for a limited number of hours, get a meal and perhaps a few reading lessons.

This kind of arrangement may be ''over and above'' what is necessary by local institutions and thus more costly for the firm. On the other hand, MNC's from the flourishing world can be good examples for local actors and show that social *equity* and economic *efficiency* can be achieved simultaneously.

Conclusions

In ethical analysis, it is important to ask the correct questions. The framework presented here allows a multinational organization to ask a number of key questions about the institutions at different levels (macro, mezzo, and micro). It also allows a test of the relevant institutions against a few key ethical perspectives to see if the institutions indeed promote flourishing. Furthermore, a set of possible responses to ethical dilemmas are outlined along with a rule of thumb regarding power and responsibility for conduct inside the value creation network. Much work remains in this area, including a thorough understanding of the institutions at work in different jurisdictions.

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