

International Business 7e

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Chapter 4

Ethics in International Business

Introduction

- ❖ **Ethics** refers to accepted principles of right or wrong that govern the conduct of a person, the members of a profession, or the actions of an organization
- ❖ **Business ethics** are the accepted principles of right or wrong governing the conduct of business people
- ❖ **Ethical strategy** is a strategy, or course of action, that does not violate these accepted principles

Ethical Issues In International Business

The most common ethical issues in business involve:

- ❖ employment practices
- ❖ human rights
- ❖ environmental regulations
- ❖ corruption
- ❖ the moral obligation of multinational companies

Employment Practices

If work conditions in a host nation are clearly inferior to those in a multinational's home nation, should companies apply:

- ❖ home country standards
- ❖ host country standards
- ❖ something in between

Human Rights

- ❖ In developed countries, basic human rights such as freedom of association, freedom of speech, freedom of assembly, and freedom of movement, are taken for granted
- ❖ In other countries, these rights may not exist

Environmental Pollution

- ❖ Ethical issues arise when environmental regulations in host nations are far inferior to those in the home nation
- ❖ Environmental questions take on added importance because some parts of the environment are a public good that no one owns, but anyone can despoil
- ❖ The **tragedy of the commons** occurs when a resource held in common by all, but owned by no one, is overused by individuals, resulting in its degradation

Corruption

- ❖ The U.S. **Foreign Corrupt Practices Act** outlawed the practice of paying bribes to foreign government officials in order to gain business
- ❖ The **Convention on Combating Bribery of Foreign Public Officials in International Business Transactions** adopted by the Organization for Economic Cooperation and Development (OECD), obliges member states to make the bribery of foreign public officials a criminal offense

Corruption

- ❖ Some economists believe that in a country where preexisting political structures distort or limit the workings of the market mechanism, corruption in the form of black-marketeering, smuggling, and side payments to government bureaucrats to “speed up” approval for business investments may actually enhance welfare
- ❖ Other economists have argued that corruption reduces the returns on business investment and leads to low economic growth

Moral Obligations

- ❖ **Social responsibility** refers to the idea that business people should take the social consequences of economic actions into account when making business decisions, and that there should be a presumption in favor of decisions that have both good economic and good social consequences
- ❖ Social responsibility can be supported for its own sake simply because it is the right way for a business to behave
- ❖ Advocates argue that businesses need to recognize their **noblesse oblige** (honorable and benevolent behavior that is the responsibility of successful companies) and give something back to the societies that have made their success possible

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Which is *not* an area where multinational firms are concerned about ethics?

- a) Human rights
- b) Trade regulations
- c) Environmental regulations
- d) Corruption

Ethical Dilemmas

- ❖ **Ethical dilemmas** are situations in which none of the available alternatives seems ethically acceptable
- ❖ The ethical obligations of a multinational corporation toward employment conditions, human rights, corruption, environmental pollution, and the use of power are not always clear cut

The Roots Of Unethical Behavior

❖ There is no clear cut reason why managers behave unethically

The causes of unethical behavior are complex and reflect:

- ❖ Personal ethics
- ❖ Decision-making processes
- ❖ Leadership
- ❖ Unrealistic performance expectations
- ❖ Organizational culture

The Roots Of Unethical Behavior

Figure 4.1: Determinants of Ethical Behavior



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All of the following except _____ contribute to unethical behavior by international managers.

- a) Decision-making processes
- b) Leadership
- c) Personal ethics
- d) National culture

Personal Ethics

- ❖ **Personal ethics** (the generally accepted principles of right and wrong governing the conduct of individuals) influence business ethics
- ❖ Expatriates may face pressure to violate their personal ethics because they are away from their ordinary social context and supporting culture, and they are psychologically and geographically distant from the parent company

Decision Making Processes

People may behave unethically because they rely on economic analysis when making decisions and fail to ask the relevant question:

❖ Is this decision or action ethical?

Organizational Culture

- ❖ **Organization culture** refers to the values and norms that are shared among employees of an organization
- ❖ In firms with an organization culture that does not emphasize business culture, unethical behavior may exist

Unrealistic Performance Expectations

- ❖ When the parent company sets unrealistic performance goals, managers may cut corners or act in an unethical manner
- ❖ Organizational culture can legitimize unethical behavior or reinforce the need for ethical behavior

Leadership

- ❖ Leaders help to establish the culture of an organization, and set the example that others follow
- ❖ When leaders act unethically, subordinates may act unethically, too

Philosophical Approaches To Ethics

- ❖ There are several different approaches to business ethics
- ❖ Some approaches deny the value of business ethics or apply the concept in an unsatisfactory way
- ❖ Others are favored by moral philosophers and are the basis for current models of ethical behavior

Straw Men

❖ Straw men approaches offer inappropriate guidelines for ethical decision making in a multinational enterprise

There are four common straw men approaches:

❖ The **Friedman doctrine** suggests that the only social responsibility of business is to increase profits, so long as the company stays within the rules of law

❖ **Cultural relativism** argues that ethics are culturally determined and that firms should adopt the ethics of the cultures in which they operate, or in other words, “when in Rome, do as the Romans do”

❖ The **righteous moralist** approach claims that a multinational’s home country standards of ethics should be followed in foreign countries

❖ The **naïve immoralist** asserts that if a manager of a multinational sees that firms from other nations are not following ethical norms in a host nation, that manager should not either

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According to _____, a company's home-country standards of ethics are the appropriate ones to follow in foreign countries.

- a) the righteous moralist
- b) the naïve immoralist
- c) the Friedman doctrine
- d) cultural relativism

Utilitarian And Kantian Ethics

- ❖ **Utilitarian** approaches to ethics hold that the moral worth of actions or practices is determined by their consequences
- ❖ Actions are desirable if they lead to the best possible balance of good consequences over bad consequences
- ❖ Problems with utilitarianism include measuring the benefits, costs, and risks of an action, and the fact that the approach fails to consider justice
- ❖ **Kantian** ethics are based on the philosophy of Immanuel Kant who argued that people should be treated as ends and never purely as means to the ends of others

Rights Theories

- ❖ **Rights theories** recognize that human beings have fundamental rights and privileges which transcend national boundaries and cultures
- ❖ Rights theories establish a minimum level of morally acceptable behavior
- ❖ Moral theorists argue that fundamental human rights form the basis for the *moral compass* that managers should navigate by when making decisions which have an ethical component

Rights Theories

- ❖ The **Universal Declaration of Human Rights** specifies the basic principles that should always be adhered to irrespective of the culture in which one is doing business
- ❖ The declaration was prompted by the idea that some fundamental rights transcend national borders and cultures

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_____ recognize that human beings have fundamental rights and privileges which transcend national boundaries and cultures.

- a) Kantian ethics
- b) Utilitarian approaches
- c) Straw men
- d) Rights theories

Justice Theories

- ❖ Justice theories focus on the attainment of a just distribution of economic goods and services
- ❖ A **just distribution** is one that is considered fair and equitable
- ❖ One theory of justice that is particularly important was proposed by John Rawls who argued that all economic goods and services should be distributed equally except when an unequal distribution would work to everyone's advantage

Justice Theories

❖ According to Rawls, impartiality is guaranteed by the **veil of ignorance** (everyone is imagined to be ignorant of all his or her particular characteristics)

When these conditions exist:

- ❖ each person is permitted the maximum amount of basic liberty compatible with a similar liberty for others
- ❖ once equal basic liberty is assured, inequality in basic goods social goods are to be allowed only if they benefit everyone

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The _____ suggests that everyone is imagined to be ignorant of all his or her particular characteristics.

- a) tragedy of the commons
- b) veil of ignorance
- c) code of ethics
- d) the Universal Declaration of Human Rights

Ethical Decision Making

To ensure ethical issues are considered in business decisions, firms should:

- ❖ favor hiring and promoting people with a well grounded sense of personal ethics
- ❖ build an organizational culture that places a high value on ethical behavior
- ❖ makes sure that leaders within the business not only articulate the rhetoric of ethical behavior, but also act in manner that is consistent with that rhetoric
- ❖ put decision making processes in place that require people to consider the ethical dimension of business decisions
- ❖ develop moral courage

Hiring And Promotion

- ❖ Businesses should strive to identify and hire people with a strong sense of personal ethics
- ❖ Companies should refrain from promoting individuals who have acted unethically
- ❖ Prospective employees should find out as much as they can about the ethical climate in an organization prior to taking a position

Organization Culture And Leadership

To foster ethical behavior, businesses need to build an organization culture where:

- ❖ the business explicitly articulates values that place a strong emphasis on ethical behavior, perhaps using a **code of ethics** (a formal statement of the ethical priorities a business adheres to)
- ❖ leaders in the business give life and meaning to the code of ethics by repeatedly emphasizing their importance, and then acting on them
- ❖ the business puts in place a system of incentives and rewards that recognize people who engage in ethical behavior and sanction those who do not

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What is a company's formal statement of ethical priorities called?

- a) Mission statement
- b) Code of ethics
- c) Code of values
- d) Organizational culture

Decision-Making Process

To determine if a decision is ethical, managers can ask:

- ❖ Does my decision fall within the accepted values of standards that typically apply in the organizational environment?
- ❖ Am I willing to see the decision communicated to all stakeholders affected by it?
- ❖ Would the people with whom I have significant personal relationships approve of the decision?

Decision-Making Process

❖ Managers can also use a five step process to think through ethical problems:

Step 1: Managers identify which **stakeholders** (the individuals or groups who have an interest, stake, or claim in the actions and overall performance of a company) a decision would affect and in what ways

❖ **Internal stakeholders** are people who work for or who own the business such as employees, the board of directors, and stockholders

❖ **External stakeholders** are the individuals or groups who have some claim on a firm such as customers, suppliers, and unions

Step 2: Managers determine whether a proposed decision would violate the fundamental rights of any stakeholders

Decision-Making Process

Step 3: Managers establish **moral intent** (the business must resolves to place moral concerns ahead of other concerns in cases where either the fundamental rights of stakeholders or key moral principles have been violated)

Step 4: The company engages in ethical behavior

Step 5: The business audits its decisions, reviewing them to make sure that they were consistent with ethical principles

Ethics Officers

❖ To ensure ethical behavior in a business, a number of firms now have ethics officers

Ethics officers ensure:

- ❖ all employees are trained in ethics
- ❖ ethics is considered in the decision-making process
- ❖ the company's code of conduct is followed

Moral Courage

Moral courage:

- ❖ enables managers to walk away from a decision that is profitable, but unethical
- ❖ gives an employee the strength to say no to a superior who instructs her to pursue actions that are unethical
- ❖ gives employees the integrity to go public to the media and blow the whistle on persistent unethical behavior in a company
- ❖ does not come easily and employees have lost their jobs when acting on this courage

Summary of Decision-Making Steps

- ❖ In the end, there are clearly things that an international business should do, and there are things that an international business should not do
- ❖ But, not all ethical dilemmas have a clean and obvious solution