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Chapter 4

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Ethics in International Business

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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

Question: When work conditions in a host nation are clearly inferior to those in a multinational's home nation, what standards should be applied?

- The standards of the home nation?
- The standards of the host nation?
- Something in between?

Human Rights

Question: What is the responsibility of a foreign multinational when operating in a country where basic human rights are not respected?

- Basic human rights taken for granted in the developed world such as freedom of association, freedom of speech, freedom of assembly, freedom of movement, and so on, are by no means universally accepted

Environmental Pollution

Question: Should a multinational feel free to pollute in a developing nation if doing so does not violate laws?

- When environmental regulations in host nations are far inferior to those in the home nation, ethical issues arise
- 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

Classroom Performance System

Multinational companies are concerned with ethics in all of the following areas except

- a) Employment practices
- b) Human rights
- c) Environmental regulations
- d) Trade regulations

Corruption

Question: Is it ethical to make payments to government officials to secure business?

- In the United States, the **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 suggest that the practice of giving bribes might be the price that must be paid to do a greater good
 - In countries 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
- However, other economists have argued that corruption reduces the returns on business investment and leads to low economic growth

Moral Obligations

Question: Do multinationals have a responsibility to give back to the societies that enable them to grow and prosper?

- The concept of **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

Ethical Dilemmas

- Managers often face situations where the appropriate course of action is not clear
- **Ethical dilemmas** are situations in which none of the available alternatives seems ethically acceptable
- They exist because real world decisions are complex, difficult to frame, and involve various consequences that are difficult to quantify

The Roots of Unethical Behavior

Question: Why do managers behave in an unethical manner?

- Managerial behavior is influenced by
 - Personal ethics
 - Decision making processes
 - Organizational culture
 - Unrealistic performance expectations
 - Leadership

The Roots of Unethical Behavior

Determinants of Ethical Behavior



Personal Ethics

- Business ethics reflect personal ethics (the generally accepted principles of right and wrong governing the conduct of individuals)
- 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

- Studies show that business people may behave unethically because they fail to ask the relevant question—is this decision or action ethical?
 - Decisions are made based on economic logic, without consideration for ethics

Organizational Culture

- Unethical behavior may exist in firms with an **organization culture** (the values and norms that are shared among employees of an organization) that does not emphasize business ethics
 - Values and norms shape the culture of a firm, and that culture influences decision making

Unrealistic Performance Expectations

- Pressure from the parent company to meet performance goals that are unrealistic, and can only be attained by cutting corners or acting in an unethical manner can cause unethical behavior

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Leadership

- If a firm's leaders fail to act in an ethical manner, other employees may not act ethically
 - Actions speak louder than words

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Classroom Performance System

Which of the following does not contribute to unethical behavior by managers?

- a) Unrealistic performance goals
- b) Leadership
- c) Organizational culture
- d) Restrictions on bribes

Philosophical Approaches to Ethics

- There are several approaches to business ethics including
 - Straw men
 - The Friedman doctrine
 - Cultural relativism
 - The righteous moralist
 - The naïve immoralist
 - Utilitarian and Kantian
 - Rights theories
 - Justice Theories

Straw Men

- Straw men approaches to business ethics are raised by business ethics scholars primarily for the purpose of demonstrating that they offer inappropriate guidelines for ethical decision making in a multinational enterprise
- Four such approaches are
 - the Friedman doctrine
 - cultural relativism
 - the righteous moralist
 - the naïve immoralist

Straw Men

The Friedman Doctrine

- Economist's Milton Friedman's suggests that the only social responsibility of business is to increase profits, so long as the company stays within the rules of law
 - Friedman does not believe that companies should undertake expenditures beyond those mandated by law and those required for the efficient running of a business

Straw Men

Cultural Relativism

- Cultural relativism is the belief that ethics are culturally determined and that firms should adopt the ethics of the cultures in which they operate
 - “when in Rome, do as the Romans do”

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Straw Men

The Righteous Moralist

- The righteous moralist claims that a multinational's home country standards of ethics are the appropriate ones for companies to follow in foreign countries
 - This approach is common among managers from developed countries

Straw Men

The Naïve Immoralist

- 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
 - Actions are ethically justified if everyone else is doing the same thing

Utilitarian and Kantian Ethics

- Utilitarian approaches to ethics hold that the moral worth of actions or practices is determined by their consequences
 - Actions have multiple consequences, some good, some not
 - Actions are desirable if they leads to the best possible balance of good consequences over bad consequences
- Problems with this approach include measuring the benefits, costs, and risks of a course of action, and the fact that the philosophy fails to consider justice

Utilitarian and Kantian Ethics

- 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
 - People have dignity and need to be respected, they are not machines

Rights Theories

- Rights theories recognize that human beings have fundamental rights and privileges that transcend national boundaries and culture
- Moral theorists argue that fundamental human rights form the basis for the moral compass that managers should navigate by when making decisions that have an ethical component
- The idea that some fundamental rights transcend national borders and cultures was the underlying motivation for the UN's **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)

Justice Theories

- Justice theories focus on the attainment of a **just distribution** (one that is considered fair and equitable) of economic goods and services
- John Rawls argued that all economic goods and services should be distributed equally except when an unequal distribution would work to everyone's advantage
 - Impartiality is guaranteed by the **veil of ignorance** (everyone is imagined to be ignorant of all his or her particular characteristics)

Justice Theories

Question: What system would people design under a veil of ignorance?

- A system where people would agree that 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
 - the **difference principle** suggests that inequalities are justified if they benefit the position of the least advantaged person

Classroom Performance System

Which philosophy claims that a company's home-country standards of ethics are the appropriate ones to follow in foreign countries?

- a) Cultural relativism
- b) Righteous moralist
- c) Friedman doctrine
- d) Naïve immoralist

Implications for Managers

Question: How can managers ensure that ethical issues are considered in business decisions?

Managers 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
- Prospective employees should find out as much as they can about the ethical climate in an organization

Organization Culture and Leadership

- Businesses need to build an organization culture that places a high value on ethical behavior
 - the business must explicitly articulate 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 should give life and meaning to the code of ethics by repeatedly emphasizing their importance, and then acting on them
 - the business should put in place a system of incentives and rewards that recognize people who engage in ethical behavior and sanction those who do not

Decision-Making Processes

- A moral compass can help determine whether a decision is ethical. If a manager can answer “yes” to the following questions, the decision is ethically acceptable.
 - 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 Processes

- A five-step process can also help managers think through ethical issues
- 1. How would a decision affect **stakeholders** (the individuals or groups who have an interest, stake, or claim in the actions and overall performance of a company)
 - **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

Decision-Making Processes

2. Managers need to determine whether a proposed decision would violate the fundamental rights of any stakeholders
3. Managers need to establish **moral intent** (the business must resolve to place moral concerns ahead of other concerns in cases where either the fundamental rights of stakeholders or key moral principles have been violated)
4. The company should then engage in ethical behavior
5. The business must audit its decisions, reviewing them to make sure that they were consistent with ethical principles

Ethics Officers

- To encourage ethical behavior in a business, a number of firms now have ethics officers
- Ethics officers ensure that
 - employees are trained to be ethically aware
 - ethical considerations enter decision-making
 - the company's code of ethics is followed

Moral Courage

- Employees in an international business may need significant moral courage
 - Managers need to be able too walk away from decisions that are profitable, but unethical
 - Employees need to be able to say no to actions that are unethical

Classroom Performance System

A company's formal statement of ethical priorities is called its

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

Summary of Decision-Making Steps

- International businesses should
 - strive to hire and promote people based on ethical considerations as well as other metrics of performance
 - establish an ethical culture within the organization
 - appoint ethics officers
 - create an environment that facilitates moral courage
- Even so, it is important to recognize that not all ethical dilemmas have a clear and obvious solution

Critical Discussion Question

1. A visiting American executive finds that a foreign subsidiary in a poor nation has hired a 12-year old girl to work on a factory floor, in violation of the company's prohibition on child labor. He tells the local manager to replace the child and tell her to go back to school. The local manager tells the American executive that the child is an orphan with no other means of support, and she will probably become a street child if she is denied work. What should the American executive do?

Critical Discussion Question

2. Drawing upon John Rawls' concept, the veil of ignorance, develop an ethical code that will
- (a) guide the decisions of a large oil multinational towards environmental protection, and
 - (b) influence the policies of a clothing company to outsource its manufacturing process.

Critical Discussion Question

3. Under what conditions is it ethically defensible to outsource production to the developing world where labor costs are lower when such actions also involve laying off long-term employees in the firm's home country?

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Critical Discussion Question

4. Are facilitating payments ethical?

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Critical Discussion Question

5. A manager from a developing country is overseeing a multinational's operations in a country where drug trafficking and lawlessness are rife. One day, a representative of a local "big man" approaches the manager and asks for a "donation" to help the "big man" provide housing for the poor. The representative tells the manager that in return for the donation, the "big man" will make sure that the manager has a productive stay in his country. No threats are made, but the manager is well aware that the "big man" heads a criminal organization that is engaged in drug trafficking. He also knows that the big man does indeed help the poor in the run down neighborhood of the city where he was born. What should the manager do?

Critical Discussion Question

6. Reread the Management focus feature on Unocal and answer the following questions:
- a) Was it ethical for Unocal to enter into a partnership with a brutal military dictatorship for financial gain?
 - b) What actions could Unocal have taken, short of not investing at all, to safeguard the human rights of people impacted by the gas pipeline project?