

Chapter Four

Ethics in International Business

Introduction

- Business ethics are the accepted principles of right or wrong governing the conduct of business people
- An ethical strategy is a strategy or course of action that does not violate these accepted principles


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Ethical Issues in International Business

- Many of the ethical issues and dilemmas in international business are rooted in the fact that political systems, law, economic development, and culture vary significantly from nation to nation
- In the international business setting, the most common ethical issues involve
 - Employment practices
 - Human rights
 - Environmental regulations
 - Corruption
 - Moral obligation of multinational corporations

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Employment Practices

- Ethical issues associated with employment practices abroad include
 - When work conditions in a host nation are clearly inferior to those in a multinational's home nation, what standards should be applied?
 - While few would suggest that pay and work conditions should be the same across nations, how much divergence is acceptable?

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Human Rights

- Questions of human rights can arise in international business because basic human rights still are not respected in many nations
 - Rights that we take for granted in developed nations, such as freedom of association, freedom of speech, freedom of assembly, freedom of movement, and freedom from political repression are by no means universally accepted
- The question that must be asked of firms operating internationally is: "What is the responsibility of a foreign multinational when operating in a country where basic human rights are trampled on?"

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Environmental Pollution

- Ethical issues arise when environmental regulations in host nations are far inferior to those in the home nation
 - Developing nations often lack environmental regulations, and according to critics, the result can be higher levels of pollution from the operations of multinationals than would be allowed at home
- 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

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Corruption

- Corruption has been a problem in almost every society in history, and it continues to be one today
- International businesses can, and have, gained economic advantages by making payments to government officials
- The United States passed the Foreign Corrupt Practices Act to fight corruption
 - Outlawed the paying of bribes to foreign government officials to gain business
- In 1997, the trade and finance ministers from the member states of the Organization for Economic Cooperation and Development (OECD) followed the U.S. lead and adopted the **Convention on Combating Bribery of Foreign Public Officials in International Business Transactions**
 - Obliges member states to make the bribery of foreign public officials a criminal offense

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Moral Obligations

- Multinational corporations have power that comes from their control over resources and their ability to move production from country to country
- Moral philosophers argue that with power comes the social responsibility for corporations to give something back to the societies that enable them to prosper and grow
 - Social responsibility refers to the idea that businesspeople should consider the social consequences of economic actions when making business decisions
 - Advocates of this approach argue that businesses need to recognize their noblesse oblige (benevolent behavior that is the responsibility of successful enterprises)

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Ethical Dilemmas

- Managers must confront very real ethical dilemmas
 - 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
 - Ethical dilemmas are situations in which none of the available alternatives seems ethically acceptable

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The Roots of Unethical Behavior

- Why do managers behave in a manner that is unethical?
 - Business ethics are not divorced from personal ethics
 - Businesspeople sometimes do not realize they are behaving unethical because they fail to ask if the decision is ethical
 - The climate in some businesses does not encourage people to think through the ethical consequences of business decisions
 - Pressure from the parent company to meet unrealistic performance goals that can be attained only by cutting corners or acting in an unethical manner
 - Leaders help to establish the culture of an organization and they set the example that others follow

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The Roots of Unethical Behavior

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graph TD
    PE[Personal Ethics] --> EB((Ethical Behavior))
    DMP[Decision-Making Processes] --> EB
    OC[Organization Culture] --> EB
    L[Leadership] --> EB
    UPG[Unrealistic Performance Goals] --> EB
  
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Philosophical Approaches to Ethics: Straw Man

- Straw man approaches to business ethics are raised by business ethics scholars primarily to demonstrate that they offer inappropriate guidelines for ethical decision making in a multinational enterprise
 - The Friedman Doctrine states that the only social responsibility of business is to increase profits, so long as the company stays within the rules of law

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 **Philosophical Approaches to Ethics: Straw Man**

- Cultural Relativism believes that ethics are nothing more than the reflection of a culture ('When in Rome, do as the Romans')
- The Righteous Moralist claims that a multinational's home-country standards of ethics are the appropriate ones in all countries
- The Naïve Immoralist asserts that if a manager sees that firms from other nations are not following ethical norms in a host country then they should not either

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 **Philosophical Approaches to Ethics: Utilitarian and Kantian Ethics**

- Utilitarian approaches to ethics hold that the moral worth of actions or practices is determined by their consequences
 - An action is judged to be desirable if it leads to the best possible balance of good consequences over bad consequences
 - One problem with utilitarianism is in measuring the benefits, costs, and risks of an action
 - The second problem related to utilitarianism is that it does not consider justice, so the minority will always be at a disadvantage

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 **Philosophical Approaches to Ethics: Utilitarian and Kantian Ethics**

- Kantian ethics hold that people should be treated as ends and never purely as means to the ends of others
 - People are not instruments like a machine
 - People have dignity and need to be respected
 - Kantian ethics are viewed as incomplete

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 **Philosophical Approaches to Ethics:
Rights**

- **Rights theories** recognize that human beings have fundamental rights and privileges which transcend national boundaries and cultures
- Rights 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

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 **Philosophical Approaches to Ethics:
Rights**

- The notion that there are fundamental rights that transcend national borders and cultures was the underlying motivation for the United Nations Universal Declaration of Human Rights
 - All human beings are born free and equal in dignity and rights
 - They are endowed with reason and conscience and should act toward one another in a spirit of brotherhood
 - Everyone has the right to work, to free choice of employment, to just and favorable conditions of work, and to protection against unemployment

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 **Philosophical Approaches to Ethics:
Rights**

- United Nations Universal Declaration of Human Rights
 - Everyone, without any discrimination, has the right to equal pay for equal work
 - Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection
 - Everyone has the right to form and to join trade unions for the protection of his interests

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Philosophical Approaches to Ethics: Justice

- 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
 - There is no one theory of justice
 - Several theories of justice conflict with each other in important ways
- Valid principles of justice are those with which all persons would agree if they could freely and impartially consider the situation
 - Impartiality is guaranteed by a conceptual device called the *veil of ignorance*
 - Under the veil of ignorance, everyone is imagined to be ignorant of all of his or her particular characteristics
 - race, sex, intelligence, nationality, family background, and special talents

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Philosophical Approaches to Ethics: Justice

- Rawls argues that under the veil of ignorance people would unanimously agree on two fundamental principles of justice
 - Each person be permitted the maximum amount of basic liberty compatible with a similar liberty for others
 - Once equal basic liberty is assured, inequality in basic social goods is to be allowed only if such inequalities benefit everyone
 - Difference principle states that inequalities are justified if they benefit the position of the least-advantaged person
- Moral philosophers have a problem with Rawls' concept of the veil of ignorance because decisions generally include some of the factors

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Ethical Decision Making

- Five things that an international business and its managers can do to make sure ethical issues are considered
 - 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
 - Make sure that leaders within the business not only articulate the rhetoric of ethical behavior, but also act in a manner that is consistent with that rhetoric
 - Implement decision-making processes that require people to consider the ethical dimension of business decisions
 - Develop moral courage

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Decision-Making Process

Five-step process to think through ethical problems

1. Businesspeople should identify which stakeholders a decision would affect and in what ways
 - Stakeholders are individuals or groups that have an interest, claim, or stake in the company
2. Judge the ethics of the proposed strategic decision, given the information gained in Step 1
3. Managers must establish moral intent
4. Implement the ethical behavior
5. Review the decision to make sure it was consistent with ethical principles

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Moral Courage

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

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