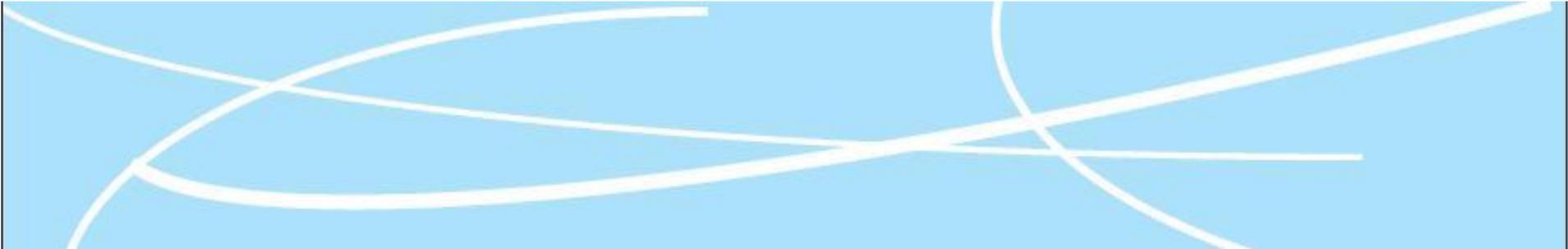


International Business

9e

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Chapter 5

Ethics in International Business

What Is Ethics?

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

Which Ethical Issues Are Most Relevant To International Firms?

- The most common ethical issues in business involve
 1. employment practices
 2. human rights
 3. environmental regulations
 4. corruption
 5. the moral obligation of multinational companies

How Are Ethics Relevant To Employment Practices?

- Suppose work conditions in a host nation are clearly inferior to those in the multinational's home nation
- Which standards should apply?
 - home country standards
 - host country standards
 - something in between

How Are Ethics Relevant To Employment Practices?

- Firms should
 - establish minimal acceptable standards that safeguard the basic rights and dignity of employees
 - audit foreign subsidiaries and subcontractors regularly to ensure they are meeting the standards
 - take corrective action as necessary

How Are Ethics Relevant To Human Rights?

- Basic human rights are taken for granted in developed countries
 - freedom of association
 - freedom of speech
 - freedom of assembly
 - freedom of movement
- **Question:** What are the responsibilities of firms in countries where basic human rights are not respected?

How Are Ethics Relevant To Human Rights?

- **Question:** Is it ethical for companies to do business with countries with repressive regimes?
 - Myanmar
 - Nigeria
- **Question:** Does multinational investment actually help bring change to these countries and ultimately improve the rights of citizens?
 - China

How Are Ethics Relevant To Environmental Regulations?

- Some parts of the environment are a public good that no one owns, but anyone can despoil
- What happens when environmental regulations in host nations are far inferior to those in the home nation?
 - Is it permissible for multinationals to pollute in developing countries simply because there are no regulations against it?
 - legal versus ethical behavior
- 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

How Are Ethics Relevant To Corruption?

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

How Are Ethics Relevant To Corruption?

- But, is it permissible for multinationals to pay government officials facilitating payments if doing so creates local income and jobs?
 - is it ok to do a little evil in order to do a greater good?
 - does grease money actually improve efficiency and help growth?

How Are Ethics Relevant To Moral Obligations?

- **Social responsibility** refers to the idea that managers should consider the social consequences of economic actions when making business decisions
 - there should be a presumption in favor of decisions that have both good economic and good social consequences
 - it is the right way for a business to behave

How Are Ethics Relevant To Moral Obligations?

- Advocates argue that businesses need to recognize their **noblesse oblige** - honorable and benevolent behavior that is the responsibility of successful companies
 - give something back to the societies that have made their success possible
- But, are multinationals morally required to use their power to enhance local welfare?

What Are Ethical Dilemmas?

- **Ethical dilemmas** - situations in which none of the available alternatives seems ethically acceptable
 - real-world decisions are complex, difficult to frame, and involve consequences that are difficult to quantify
 - the ethical obligations of an MNE toward employment conditions, human rights, corruption, environmental pollution, and the use of power are not always clear cut
 - the right course of action is not always clear

Why Do Managers Behave Unethically?

- Several factors contribute to unethical behavior including
 1. **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
 - managers fail to question whether a decision or action is ethical, and instead rely on economic analysis when making decisions

Why Do Managers Behave Unethically?

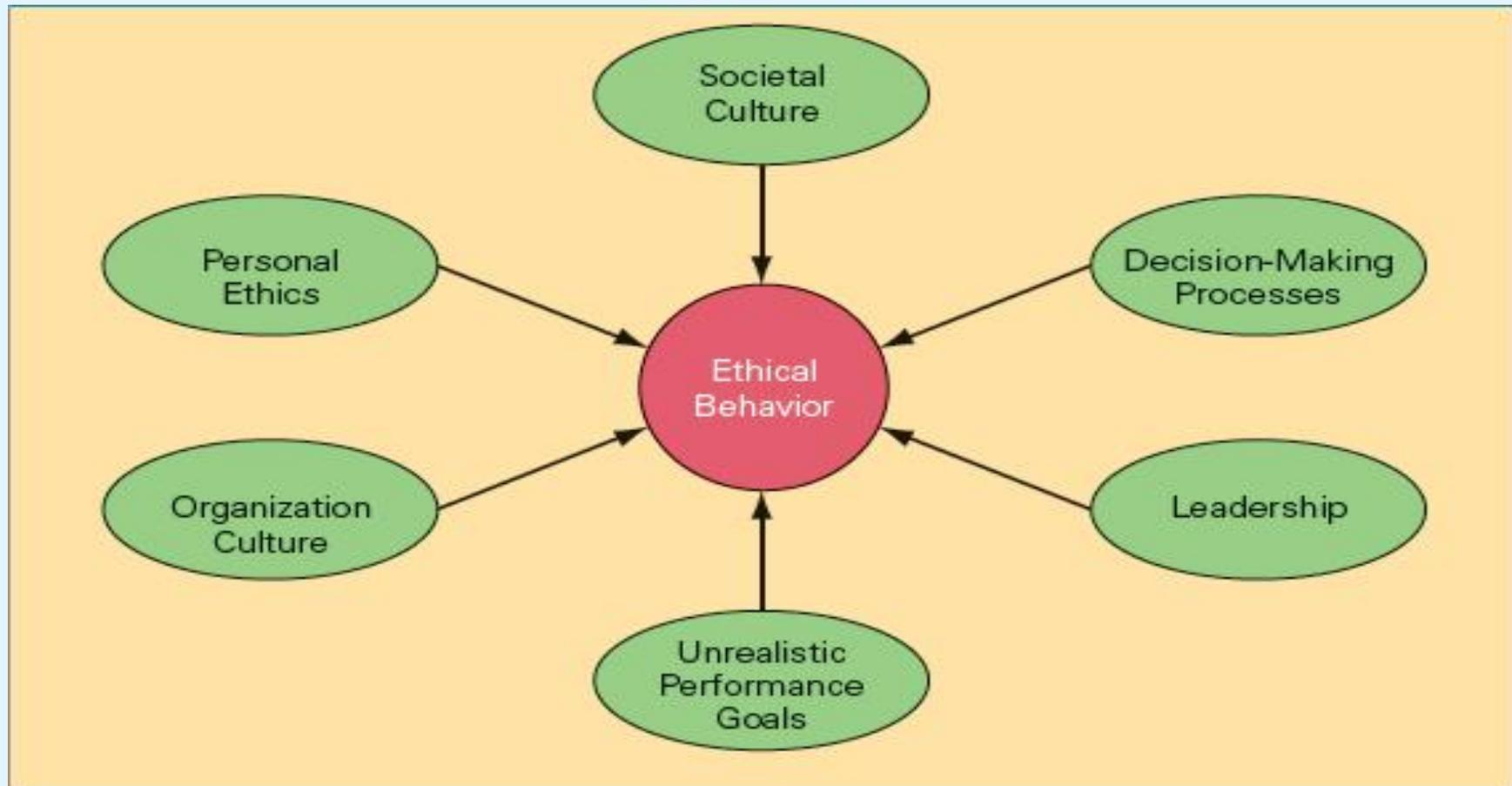
2. **Decision-making processes** - the values and norms that are shared among employees of an organization
 - organization culture that does not emphasize business culture encourages unethical behavior
3. **Organizational culture** - organizational culture can legitimize unethical behavior or reinforce the need for ethical behavior
4. **Unrealistic performance expectations** - encourage managers to cut corners or act in an unethical manner

Why Do Managers Behave Unethically?

5. **Leadership** - helps establish the culture of an organization, and set the examples that others follow
 - when leaders act unethically, subordinates may act unethically, too
6. **Societal culture** – firms headquartered in cultures where individualism and uncertainty avoidance are strong are more likely to stress ethical behavior than firms headquartered in cultures where masculinity and power distance rank high

Why Do Managers Behave Unethically?

Determinants of Ethical Behavior



What Are The Philosophical Approaches To Ethics?

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

What Are The Straw Men Approaches To Business Ethics?

- There are four common straw men approaches
 1. **Friedman doctrine** - the only social responsibility of business is to increase profits, so long as the company stays within the rules of law
 2. **Cultural relativism** - ethics are culturally determined and firms should adopt the ethics of the cultures in which they operate
 - “when in Rome, do as the Romans do”

What Are The Straw Men Approaches To Business Ethics?

3. **Righteous moralist** - a multinational's home country standards of ethics should be followed in foreign countries
 4. **Naïve immoralist** - 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
- All approaches offer inappropriate guidelines for ethical decision making

What Are Utilitarian And Kantian Approaches To Ethics?

- **Utilitarian ethics** - (David Hume, Jeremy Bentham, John Stuart Mills) - 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
 - but, it is difficult to measure the benefits, costs, and risks of an action
 - the approach fails to consider justice

What Are Utilitarian And Kantian Approaches To Ethics?

- **Kantian ethics** - (Immanuel Kant) - people should be treated as ends and never purely as means to the ends of others
 - people have dignity and need to be respected
 - people are not machines

What Are Rights Theories?

- **Rights theories** - human beings have fundamental rights and privileges which transcend national boundaries and cultures
 - establish a minimum level of morally acceptable behavior
 - the **Universal Declaration of Human Rights** - basic principles that should always be adhered to irrespective of the culture in which one is doing business
- 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

What Are 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
- 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

How Can Managers Make Ethical Decisions?

1. Hire and promote people with a well grounded sense of personal ethics
 - refrain from promoting individuals who have acted unethically
 - try to hire only people with strong ethics
 - prospective employees should find out as much as they can about the ethical climate in an organization prior to taking a position

How Can Managers Make Ethical Decisions?

2. Build an organizational culture that places a high value on ethical behavior
 - articulate values that place a strong emphasis on ethical behavior
 - emphasize the importance of a **code of ethics** - formal statement of the ethical priorities a business adheres to
 - implement a system of incentives and rewards that recognize people who engage in ethical behavior and sanction those who do not

How Can Managers Make Ethical Decisions?

3. Make sure that leaders within the business articulate the rhetoric of ethical behavior and act in a manner that is consistent with that rhetoric
 - give life and meaning to words
 - make sure that leaders emphasize the importance of ethics verbally and through their actions

How Can Managers Make Ethical Decisions?

4. Put decision making processes in place that require people to consider the ethical dimensions of business decisions
 - Ask whether
 - decisions fall within the accepted values of standards that typically apply in the organizational environment
 - decisions can be communicated to all stakeholders affected by it
 - if colleagues would approve of decisions

How Can Managers Make Ethical Decisions?

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

Step 1: 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

How Can Managers Make Ethical Decisions?

- Step 2:** Determine whether a proposed decision would violate the fundamental rights of any stakeholders
- Step 3:** Establish **moral intent** - place moral concerns ahead of other concerns in cases where either the fundamental rights of stakeholders or key moral principles have been violated

How Can Managers Make Ethical Decisions?

Step 4: Engage in ethical behavior

Step 5: Audit decisions and review them to make sure that they are consistent with ethical principles

- this step is often overlooked even though it is critical to finding out whether a decision process is working

What Is An Ethics Officer?

- Many firms now have **ethics officers** to ensure
 - all employees are trained in ethics
 - ethics is considered in the decision-making process
 - the company's code of conduct is followed

How Can Managers Make Ethical Decisions?

5. Develop 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

How Can Managers Make Ethical Decisions?

- 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, it is important to remember that not all ethical dilemmas have a clean and obvious solution
 - in these situations, firms must rely on the decision making ability of its managers