

International Business Ethics and Social Responsibility¹

Collin Starkweather

Shanghai University / SILC
上海大学悉尼工商学院

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Ethics

Definition (Ethics)

The study of morality and standards of conduct.

Definition (Ethical Strategy)

A strategy, or course of action, that does not violate business ethics. [3, p. 79]

Personal and Business Ethics

Definition (Business Ethics)

The accepted principles of right and wrong governing the conduct of businesspeople [3, p. 79].

Definition (Personal Ethics)

The generally accepted principles of right and wrong governing the conduct of individuals [4, p. 132].

Contemporary Ethical Issues in International Business

Prominent contemporary issues in international business ethics include:

- Employment practices
- Human rights
- Environmental pollution
- Corporate corruption
- Moral obligations of MNCs

Employment Practices

Which working conditions should be applied?

- Home country standards
- Host country standards
- Something in between

Human Rights

Charles W. L. Hill cites several cases in which Western companies were criticized for operating in certain countries where critics contended there were human rights abuses

- Investments in South Africa by Exxon, GM, Kodak, IBM, and Xerox
- Investments by Royal Dutch Shell in Nigeria

Definition (Human Rights)

Rights (such as freedom from unlawful imprisonment, torture, and execution) regarded as belonging fundamentally to all persons.

Environmental Pollution

Environmental pollution as an ethical issue arises because

- Environmental regulations may differ between countries
- The environment is a public good

Definition (Public Good)

A good or service that is both non-excludable, so that it is impossible to prevent consumers from using it, and non-rivalrous, so that one consumer's use of the good does not reduce others' ability to use the product.

Definition (Tragedy of the Commons)

When individuals acting rationally in their own self-interest deplete a shared resource to the detriment of all consumers of that resource, it is known as the *tragedy of the commons*.

Corporate Corruption

Corporate corruption is of concern for business people because

- It can lead to low returns on business investment
 - It can increase risk and the perceptions of risk
 - It can increase the cost of doing business
 - It is a business expense that goes to no productive purpose
 - In the United States it has increased costs in the form of additional regulation and monitoring and verification of financial information
- Corruption is associated with low levels and growth in economic activity [1] [11] [2]
 - Though researchers have noted in some cases, in the presence of a highly distorted market, corruption can actually increase efficiency [4, p. 129]

Sarbanes-Oxley (SOX) Act

As a result of Enron, WorldCom, and other contemporaneous accounting scandals, the Sarbanes-Oxley Act (SOX) was passed in the U.S. in 2002 that set standards for corporate boards, management, and accounting firms. Among other things, it specified rigorous reporting requirements for corporate financial statements and requiring the CEO and CFO to approve and declare accurate public financial statements. The CEO and CFO are liable for criminal penalties if they sign statements later found to be false or misleading.

These regulations can impose significant costs (in the form of reporting burdens) on multinational firms operating in the United States. There is currently debate as to the effectiveness of the regulations relative to the costs.

Examples of Corporate Corruption

Relatively recent examples of corporate corruption in the United States and Europe include:

- Enron
- WorldCom
- Tyco
- Parmalat
- Bernie Madoff

Corporate Codes of Ethics

Many firms promulgate a code of ethics which details the expected ethical conduct of employees. Codes of ethics differ depending on a variety of factors, including the industry in which a firm operates.

Definition (Code of Ethics)

A guide of principles designed to help professionals conduct business honestly and with integrity. A code of ethics document may outline the mission and values of the business or organization, how professionals are supposed to approach problems, the ethical principles based on the organization's core values and the standards to which the professional will be held [6].

Example: Navigant Code of Ethics

Navigant's code of ethics includes sections detailing conduct regarding:

- 1 Compliance with laws, rules, and regulations, including the FCPA
- 2 Prohibition against insider trading
- 3 Corporate conflicts of interest
- 4 Fair dealing
- 5 Protection and proper use of company assets
- 6 Public company reporting and internal controls
- 7 Reporting of illegal and unethical behavior

For more information, see the Navigant Consulting Code of Business Standards and Ethics on the Navigant web site.²

²http://www.navigant.com/about_nci/corporate_governance/code_of_business_standards_and_ethics

Insider Trading and Conflicts of Interest

Definition (Conflict of Interest)

A situation in which a person's or organization's impartiality or obligations to a third party are limited by interests in or obligations to a second party.

Definition (Insider Trading)

The buying or selling of a security by someone who has access to material, nonpublic information about the security.

The Foreign Corrupt Practices Act

In 1977, the United States passed the Foreign Corrupt Practices Act (FCPA)

- A bribery scandal accompanied the Watergate scandal and led to the FCPA [10, p. 43]
- The intent was to stop American MNCs from perpetuating corruption in foreign governments and to improve the image of American business abroad [10, p. 43]
- The act makes it unlawful for American businesspeople, corporations, and foreign issuers of securities in the U.S. to make payments to foreign government officials to obtain or retain business

The FCPA (Continued)

According to the U.S. Department of Justice [9],

Specifically, the anti-bribery provisions of the FCPA prohibit the willful use of the mails or any means of instrumentality of interstate commerce corruptly in furtherance of any offer, payment, promise to pay, or authorization of the payment of money or anything of value to any person, while knowing that all or a portion of such money or thing of value will be offered, given or promised, directly or indirectly, to a foreign official to influence the foreign official in his or her official capacity, induce the foreign official to do or omit to do an act in violation of his or her lawful duty, or to secure any improper advantage in order to assist in obtaining or retaining business for or with, or directing business to, any person.

The FCPA (Continued)

The FCPA also requires companies whose securities are listed in the United States to meet its accounting provisions. These provisions require that corporations

- 1 Keep books that accurately and fairly reflect the transactions of the corporation, and
- 2 Maintain an adequate system of internal accounting controls.

The FCPA (Continued)

Following passage of the FCPA in 1977,

- The FCPA was amended to allow for “facilitating payments”
- Amendments to the FCPA passed in 1998 extended the anti-bribery provisions of the FCPA to foreign firms and persons “who cause, directly or through agents, an act in furtherance of such a corrupt payment to take place within the territory of the United States.” [9]
- U.S. MNCs do not appear to have been significantly impacted, and in fact at least one study has shown that exports to “bribe prone” countries has actually increased since the passage of the act.[10, pp. 43–44,68-69]
- In fact, many feel that it has had a net benefit, as it gives the U.S. firms a reason to refuse to pay bribes [10, pp. 43–44,68-69].

The FCPA (Continued)

Definition (Facilitating Payment)

Payments to facilitate or expedite performance of a “routine governmental action” such as obtaining permits, licenses, or other official documents, processing governmental papers such as visas and work orders, etc. “Routine governmental action” does not include any decision by a foreign official to award new business or to continue business with a particular party. Also known as “speed money” or “grease money.” [8]

The OECD Anti-Bribery Convention

The OECD passed the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions in 1997

- Signatories make the bribery of foreign public officials a criminal offence
- As with the FCPA, facilitating payments are excluded
- As of 2009, there are 36 signatories, 6 of whom are not OECD nations

The Corruption Perceptions Index

Transparency International's Corruption Perceptions Index (CPI)

- Ranks perceptions of corruption in 176 countries or territories with a “Corruption Perceptions Index” (CPI) score
- Note that the index measures the *perception* of corruption, not *actual* corruption
- The index is based on “different assessments and business opinion surveys carried out by independent and reputable institutions”³

³<http://www.transparency.org/cpi2012/results>

Corruption Perceptions Index (Continued)

According to the recently-released results from the 2012 Corruption Perceptions Index survey results, the following countries were perceived to be least and most corrupt:

Perceived as Least Corrupt

- Denmark
- Finland
- New Zealand
- Sweden
- Singapore
- Switzerland
- Australia
- Norway
- Canada
- Netherlands
- Iceland
- Luxembourg
- Germany
- Hong Kong

Perceived as Most Corrupt

- Somalia
- North Korea
- Afghanistan
- Sudan
- Myanmar
- Uzbekistan
- Turkmenistan
- Iraq
- Venezuela
- Haiti
- Chad
- Burundi
- Zimbabwe
- Equatorial Guinea

Moral Obligations of MNCs

Definition (Corporate Social Responsibility (CSR))

The actions of a firm to benefit society beyond the requirements of the law and the direct interests of the firm.

Definition (Nongovernmental Organizations (NGOs))

Private, not-for-profit organizations that seek to serve society's interest by focusing on social, political, and economic issues such as poverty, social justice, education, health, and the environment.

Mission Statements

A mission statement is a short statement describing the purpose of a person, group, or organization. It is not uncommon for the largest companies to spend many years and millions of dollars developing and refining their mission statement [7]. The mission statement should guide decision-making and provide “the framework or context within which the company’s strategies are formulated.” [5, p. 7]

Definition (Mission Statement)

A short sentence or paragraph used by a company to explain, in simple and concise terms, its purposes for being. These statements serve a dual purpose by helping employees to remain focused on the tasks at hand, as well as encouraging them to find innovative ways of moving towards an increasingly productive achievement of company goals [7].

Example: Ben & Jerry's Ice Cream

Ben & Jerry's ice cream company is considered a model of a socially responsible company in the U.S. Their mission statement reflects their social values in the form of their social mission, product mission, and economic mission.

Example: Ben & Jerry's Mission Statement

Ben & Jerry's is founded on and dedicated to a sustainable corporate concept of linked prosperity. Our mission consists of 3 interrelated parts:

- 1 **Social Mission:** To operate the Company in a way that actively recognizes the central role that business plays in society by initiating innovative ways to improve the quality of life locally, nationally and internationally.
- 2 **Product Mission:** To make, distribute and sell the finest quality all natural ice cream and euphoric concoctions with a continued commitment to incorporating wholesome, natural ingredients and promoting business practices that respect the Earth and the Environment.
- 3 **Economic Mission:** To operate the Company on a sustainable financial basis of profitable growth, increasing value for our stakeholders and expanding opportunities for development and career growth for our employees.

Underlying the mission of Ben & Jerry's is the determination to seek new and creative ways of addressing all three parts, while holding a deep respect for individuals inside and outside the company and for the communities of which they are a part.

Prominent NGOs

Prominent NGOs include

- *Save the Children* – Provides support for the children afflicted by poverty and malnutrition
- *Oxfam* – A confederation of charitable organizations that support the alleviation of poverty, provide relief in the event of humanitarian disasters, and promotion of social equity
- *CARE* – Promotes community development, such as education and health care, and emergency relief in the event of humanitarian disasters
- *World Wildlife Fund (WWF)* – Promotes environmental conservation and protection for endangered species
- *Conservation International* – Promotes environmental conservation
- *Rainforest Action Network (RAN)* – An organization that “campaigns for the forests, their inhabitants and the natural systems that sustain life by transforming the global marketplace through education, grassroots organizing and non-violent direct action.” Their motto is “environmentalism with teeth.”

Response to Social Obligations

MNCs are under increasing pressure from NGOs and other organizations to contribute positively to communities, societies, and the environment by threatening financial harm, and target firms try to limit damage by bringing their behavior in line with the organizations' mandates [12].

Commitments that many MNCs have agreed to abide by, such as the U.N. Global Compact and the Sullivan Principles, specify standards and codes of conduct in domestic and global operations.

The United Nations Global Compact

The U.N. Global Compact specifies 10 principles which MNCs should abide by [10, p. 67]:

- 1 Support and respect the protection of international human rights within their sphere of influence,
- 2 Ensure that MNCs are not complicit in human rights abuses,
- 3 Freedom of association and recognition of the right of collective bargaining (i.e., the right for unions to exist),
- 4 Elimination of all forms of forced and compulsory labor,
- 5 Elimination of child labor,

The United Nations Global Compact (Continued)

- 6 Elimination of discrimination with respect to employment and occupation,
- 7 A precautionary approach to environmental challenges,
- 8 Undertake initiatives to promote greater environmental responsibility,
- 9 Encourage development and dissemination of environmentally friendly technologies, and
- 10 Business should work against all forms of corruption, including extortion and bribery.

The Global Sullivan Principles

Companies that agree to the Global Sullivan Principles, issued by the Rev. Leon Sullivan and United Nations Secretary General Kofi Annan in 1999, state that:

As a company which endorses the Global Sullivan Principles we will respect the law, and as a responsible member of society we will apply these Principles with integrity consistent with the legitimate role of business. We will develop and implement company policies, procedures, training and internal reporting structures to ensure commitment to these principles throughout our organization. We believe the application of these Principles will achieve greater tolerance and better understanding among peoples, and advance the culture of peace.

The Global Sullivan Principles (Continued)

Accordingly, we will:

- 1 Express our support for universal human rights and, particularly, those of our employees, the communities within which we operate, and parties with whom we do business.
- 2 Promote equal opportunity for our employees at all levels of the company with respect to issues such as color, race, gender, age, ethnicity or religious beliefs, and operate without unacceptable worker treatment such as the exploitation of children, physical punishment, female abuse, involuntary servitude, or other forms of abuse.
- 3 Respect our employees' voluntary freedom of association.
- 4 Compensate our employees to enable them to meet at least their basic needs and provide the opportunity to improve their skill and capability in order to raise their social and economic opportunities.

The Global Sullivan Principles (Continued)

- 6 Provide a safe and healthy workplace; protect human health and the environment; and promote sustainable development.
- 7 Promote fair competition including respect for intellectual and other property rights, and not offer, pay or accept bribes.
- 8 Work with governments and communities in which we do business to improve the quality of life in those communities – their educational, cultural, economic and social well-being – and seek to provide training and opportunities for workers from disadvantaged backgrounds.
- 9 Promote the application of these principles by those with whom we do business.

We will be transparent in our implementation of these Principles and provide information which demonstrates publicly our commitment to them.

Ethical Dilemmas

Ethical decisions are by nature difficult and are often ambiguous or lack a clear solution.

Definition (Ethical Dilemma)

Ethical dilemmas are situations in which none of the available alternatives seems ethically acceptable.

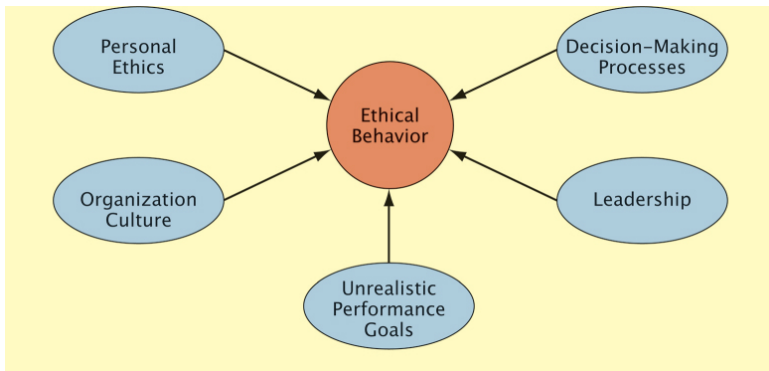
Roots of Unethical Behavior

On April 14, 2001, the ten largest global (multinational) corporations were [10]:

- 1 Exxon Mobile
- 2 Wal-Mart Stores
- 3 General Motors
- 4 Ford Motors
- 5 General Electric
- 6 Citigroup
- 7 Enron
- 8 IBM
- 9 AT&T
- 10 Verizon Communications

As of December, 2001, Enron was bankrupt. At the time, this was the largest bankruptcy in history.

Roots of Unethical Behavior (Continued)



Ethical Decision-Making

Charles W. L. Hill proposes that there are five things that an international business and its managers should focus on when considering business decisions with ethical implications [3, pp. 94–98]:

- 1 Hiring and Promotion
- 2 Organizational Culture and Leadership
- 3 Decision-making Processes
- 4 Ethics Officers
- 5 Moral Courage

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