



# Ethics in international business

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## Abstract

**Purpose** – *The purpose of this paper is to emphasise the importance of the study of ethics in an international context in business courses.*

**Design/methodology/approach** – *The paper begins with proposed learning outcomes. It examines, using contemporary examples, the increased importance of corporate social responsibility (CSR), the implications of national and international legislation concerning ethical issues and the need for sound overall corporate governance. It concludes with analysis of recent progress towards sustaining ethical standards. The various key ethical dilemmas which occur in business are examined using recent examples, both from the UK and internationally.*

**Findings** – *The paper presents an optimistic analysis of recent progress made in the development of ethical standards in business, including suggestions for future good practice, both internationally and at company level.*

**Originality/value** – *The paper emphasises the importance of sound governance, which is fundamental to the success in fostering ethical practices in international business.*

**Keywords** *Ethics, Corporate social responsibility, Corruption, Counterfeiting, Whistleblowing, Corporate governance*

**Paper type** *General review*

## Teaching ethics

Business ethics is now included as an essential part of the teaching of most MBA and other business courses at University, either as a stand-alone module or incorporated as an element in the teaching of other modules, in particular HR management, marketing, advertising and accounting. Its aims can be variously stated, but often the emphasis is on providing an understanding and analysis of the potential conflict between business and ethical behaviour. Students are familiarised with the basic ethical issues in business, using case studies as an integral part of the teaching.

Learning outcomes would include, *inter alia*:

- Analysis of the dilemma that exists between business based on the profit-maximising policy and ethical issues.
- Understanding the increased importance for business of corporate social responsibility (CSR), both for ethical reasons and as a factor in gaining competitive advantage.
- Understanding the implications of international and environmental legislation concerning ethical issues.
- Awareness of the principles of sound ethical corporate governance.
- Appreciation of the work of international and other agencies in the area of business ethics.

## Definitions

Definitions of ethics abound. These include among others:

The discipline dealing with what is good and bad and right and wrong or with moral duty and obligation (*Webster's New International Dictionary*, 1976).

It is also considered as the study of “human duty in its wider sense”, underlining the common thread of the recognition of obligation and acceptance of responsibility for how one’s actions would impact on other people.

Here we encounter the relativism/normatism debate. Relativism explains how ethical values are relative to the culture or society upholding them. Interference by others would be considered unethical as it is questionable whether other cultures/societies should attempt to impose their standards on others. The normatism argument is that there are universal standards of acceptable behaviour and absolute values such as human rights. Non-intervention to support these would be considered unethical. This approach often poses dilemmas, such as the debate over “just wars” and intervention to depose an abhorrent regime and the recent effects in the Irrawaddy Delta in Myanmar of Cyclone Nargis when the government for weeks refused outside aid, in particular from the West.

It is generally agreed that ethical principles are devised mainly from the fundamental beliefs and value systems developed within a culture, such as religious beliefs, traditions, importance of the family structure, national identity and cohesion. Ethics attempts to tell us what is and what is not morally acceptable within a particular society or culture. It is about how people ought to behave towards each other in various contexts, including business. Business ethics, therefore, can be defined as the application of moral and ethical considerations in a business setting. The ethical dilemma here is that the success of business strategy is often measured by how well it has met the company’s declared objectives. In practice, the company’s goals are often expressed in terms of meeting certain financial targets and less frequently in terms of its relationships with those with whom the business interacts, i.e. its “publics”, its internal and external stakeholders.

## Conflict of profit and ethics

It was Milton Friedman who emphasised that, following Adam Smith’s *Wealth of Nations*, business had “the social responsibility to increase its profits and that the business of business is business”. In other words, a company’s management is acting ethically if it follows the company’s self-interest and meets the needs of the market. His view has been much challenged with the emphasis increasingly on CSR to include respect and concern for all parties which have a stake in the business and whose interests and rights are thereby affected. This was endorsed by Professor Michael Porter, the author of *The Competitive Advantage of Nations*, speaking in 2000 at The London Business School, when he emphasised a new factor in the concept of competition, namely social responsibility. It is spurred on by changes in social expectations and the greater spending power of consumers, which allows them to be more selective. Furthermore, with the growth of globalisation, mistakes, transgressions and bad practice are highlighted by the media, the growth of consumer power and the influence of pressure groups. In addition, domestically, the range of stakeholders, both internal and external, who are affected by business decisions, is now recognised as being much wider than before. As a consequence, appropriate ethical decisions are now an important part in the battle to gain competitive advantage in the international business arena. The problem, of course, is the realisation that in the international business context, there is no clear body of analysis as to precisely what is meant by ethics in practice. Multinational companies are often confronted with moral and ethical dilemmas that are very difficult to balance with business objectives. For example, they are at times tempted with bribes and pay-offs. Is it better to pursue business in less developed countries even if local ethical standards are lower, or alternatively, is it better to accept these standards but enable people to be employed and therefore have some expectation of improvement in their standard of living and, above all, hope for the future for themselves and their families?

**“An ethically sound policy can benefit millions, but the decisions are never always straightforward.”**

In the twenty-first century, actions cast a longer shadow than ever before in the history of mankind. An ethically sound policy can benefit millions, but the decisions are never always straightforward; for example, the decision to develop GM crops or stem-cell research. Global consequences loom large and man-made boundaries do not stop corrupt practices, eradicate pandemic diseases, tainted water supplies, environmental degradation or increased carbon emissions.

### **Ethics and corporate culture**

In the world of international business, the core values of large organisations are often considered as part of their “corporate legacy”, part of their essential corporate culture which is developed and, where necessary, redefined by top management. A case in point is that after the merger of Cadbury with Schweppes, Sir Adrian Cadbury was much concerned that the fundamental core values of Cadbury would remain an essential part of the new Cadbury Schweppes culture. In order to ensure this, these values were clearly defined in a document *The Character of the Company*. This included a strong commitment to ability, quality, simplicity, transparency and a clear responsibility to the shareholders. The continued observance of these fundamental ethical values played a large part in helping the new company maintain its position in a changing world. This was challenged in July 2007 when Cadbury was fined for unknowingly selling chocolate contaminated with salmonella which caused illness among a small number of customers in the biggest test of food safety laws in Britain. This case caused the company to issue a statement, which said:

Quality has always been at the heart of our business, but the process we followed in the UK in this instance has been shown to be unacceptable.

In large multinationals with global reach the utility or even the desirability of producing a company statement on their ethical policy can be seen perhaps as a hostage to fortune, but it can be argued that providing there is unequivocal top management commitment to such ethical values, their moral force is invariably enhanced. As a result, major companies include both in their mission statement and their annual report to shareholders a declared commitment to uphold certain ethical standards. An example of this is BG Group's 2007 Annual Report which states:

At BG Group, Corporate Responsibility (CR) is how we work. It is central to how we deliver our business strategy and is embedded within our decision-making processes.

The Group's CR Committee “oversees all CR issues including health, safety, security and environment (HSSE), community relations, human rights, Business Principles, and sustainable development”.

### **Bribery and corruption**

The area of ethical dilemma perhaps most frequently encountered by many companies is dealing with potential bribery and corruption. Corruption is intrinsically immoral and at times downright criminal, causing harm to the economy, public life and individuals, and, if accepted, may encourage organised crime. The anti-corruption NGO Transparency International, founded in 1993, defines corruption as: “the misuse of public power for private gain”. It publishes a *Corruption Perception Index* (CPI) which ranks countries according to their perceived level of corruption. The CPI score for accounting this is derived from the perception of the degree of corruption as seen by business people and specialist analysts. Gallup International began in 1999 to produce a Bribe Payers Index, which ranks leading exporters to developing countries.

Corruption can include:

- attempts to secure government or other contracts by bribery;
- payments because of extortion, blackmail and protection;
- facilitating government services that companies are entitled to receive but whose provision is delayed by excessive bureaucracy; and
- price-fixing.

However, there is always the temptation to produce arguments to justify going along with corrupt practices. These include what has been described as “cultural relativism” whereby western companies should not try to impose their standards on others, as few absolute values apply to all cultures. What are bribes to some are recognised as gifts to others and are considered acceptable as an integral part of normal business relations.

Gifts are frequently perceived as indicators of friendship, trust and goodwill, intended to further relationships. Gifts are often reciprocated and may not in themselves create any expectation of preferential treatment. To avoid any possible problems in this area, most companies set strict guidelines on what can be accepted or given, their value, frequency and timing. In all cases it is recommended that such gifts should be openly declared as company policy. Companies have also tightened their regulations concerning permissible expenses that can be claimed.

As a result of the spotlight on bribery and corruption, many companies have designed their own code of ethics. Their development has been strongly endorsed by K. Rushton, the Director of the London-based Institute of Business Ethics, as “a code of ethics underpins the values of any business. Without it a corporation will have no moral compass.”

### **Whistle-blowing**

A “whistle-blower” has been defined as someone who “sounds an alarm within an organisation in which he or she works, aiming to spotlight neglect or abuses which threaten the public interest” (Drummond and Bain, 1994). It therefore includes disclosure of what is believed to be any wrongdoing by an organisation that may cause harm to customers, clients or workers.

“Whistle-blowers” have to be of resolute character and of high principles as they are, in many cases, likely to receive some form of retaliation, ranging from outright dismissal, a block on promotion, ostracisation or even physical threats to themselves and their family. Clearly there are potential conflicts of interest here between loyalty and confidentiality towards the company and ethical standards of behaviour. “Whistle-blowers” should, in the first instance, report any concerns to line management, having first examined their own motives. In all cases, factual evidence should be collected and only recourse to outside agencies, including the media, taken if all other attempts to articulate their concerns within the company have failed. Whistle-blowing is therefore best seen as the option of last resort. This was used in the case when the Virgin Atlantic lawyers blew the whistle in June 2006 on the illegal arrangements whereby Virgin Atlantic and BA were accused of price-fixing and BA was fined by both the UK’s Office of Fair Trading and the US Department of Justice in 2007.

### **Counterfeiting**

Counterfeiting, or the production of fake goods, which is the result of the theft of intellectual property, is another area of ethical concern in business. It can have the following effects:

- stealing jobs and revenue from legitimate producers;
- flooding the market with cheap counterfeit goods;
- potential health hazards for customers, e.g. fake pharmaceutical products, cigarettes, unsafe manufactured goods, e.g. tyres, toys and electrical goods; and
- depriving artists of royalties, e.g. CDs, DVDs, etc.

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According to the World Customs Organisation in 2005, between 5-7 per cent of all global trade in merchandise, some £270 billion, was attributable to counterfeit goods, and the total for 2007 is greater. Low-cost Chinese manufacturers are some of the major culprits. It is estimated that over 50 per cent of all fake products entering the USA come from China with a value of \$25 billion.

Luxury brand manufacturers, e.g. Gucci and Louis Vuitton, now use chips and barcodes within their products so genuine items can be more easily identified. However, in many cases, respect for the genuine brand drops when a large numbers of fakes are produced. In China attempts have been made to introduce tougher laws to prevent counterfeiting. In May 2007 Zheng Xiaoyu, the former head of China's state Food and Drug Administration, was sentenced to death for corruption for taking bribes to approve unsafe medicines that caused the death of dozens of patients. Some EU countries have introduced legislation targeting consumers who knowingly buy fake products.

## CSR

HBOS in 2007 stated that:

Our Corporate Responsibility approach focuses on best serving the diverse interests of our key stakeholders . . . These comprise shareholders, customers, colleagues and society and progress is measured by Key Performance Indicators year on year.

Some would argue that the increased concern to display CSRs has become to some extent a bandwagon. So what really are the driving forces behind CSR? These include in no order of priority:

- need to build reputation and trust among customers;
- shareholder activism;
- influence of pressure groups;
- concern for the environment;
- development of ethical investment;
- increased demand for transparency and accountability;
- demographic changes – increased affluence, better education, consumer trends; and
- legislation – human rights, health and safety, equal opportunities, minimum wage, EU regulations, etc.

In an interview in *The Sunday Times*, 25 May 2008, Sir Stuart Rose, the new chairman of Business in the Community, when asked why it was so important to business to ensure their staff are fully engaged in CSR work, replied: “Many companies find their employees and potential recruits asking ‘What are you doing for the local community or the environment or local schools?’ People care about these things and they realise that powerful organisations can make a big difference.”

## Business in less developed countries

In emerging markets and in less developed countries, business is often primarily a question of attempting to balance opportunity and risks, particularly in those markets where there is strong evidence of corruption and human rights abuse. Some multinational companies

(MNCs) with strong ethical values have decided to withdraw under pressure from their own governments and increasingly from their shareholders. However, a strong case can be made for them to stay with the aim of attempting to persuade governments and institutions to change their attitude, adopt reform and promote stability through their own principled operating standards. Problems, however, may continue as many international companies rely extensively on agents or intermediaries in the host nation who may demand additional payment.

### **Ethical investment**

Ethical investment has been partly influenced by shareholder pressure on the Boards of companies to invest in business activities that meet high ethical standards. In recent years this has been extended to ethical banking. An example is the UK arm of the Dutch Triodos Bank, which provides savings products for ethical investors and lends money for investment in socially and environmentally useful products. Investors see this approach in contrast to investing in, for example, companies active in the arms trade or tobacco products. Another example is the Co-operative bank, which announced in May 2008 that it intended to boycott some sovereign wealth funds on account of the poor human rights records of their controlling governments. In a different context, Islamic banking, which can be described as a faith-based system of financial management, is derived from the ethos of the Sharia Islamic law which stipulates that money alone cannot be used to make money, i.e. no usury or direct interest. However, it is permissible for lenders to share in the risks or profits of an enterprise and that any wealth created must be used for the improvement of the whole of society and not merely for the benefit of a small élite. In respect of these prerequisites, Western banks have recently developed Sharia-compliant financial services, for example mortgages of property.

In the same way that potential investors are now more attracted to invest in companies that are perceived to be ethical, ethical standards are playing an increasing role in recruitment. Human resource departments are recognising that a company with an ethical policy will have an added incentive to attract good quality staff and this would help in their retention. Dell's ethical policy, for example, focuses on employee relations and the company stresses local community involvement with strong links with local schools and sponsorship.

### **Transparency in accounting**

One of the results of recent cases has been a demand by the authorities and shareholders for greater transparency in accounting procedures in big business. There has been an attack on "creative accounting", which at times has been blatantly fraudulent, tending to flatter corporate performance in the short term at the expense of shareholders. Recent scandals, for example in Enron in the USA where the finance director has been jailed, have highlighted this. In March 2007 in Japan, the Japanese entrepreneur Takafumie Horie, in the Livedoor case in the so-called "Japanese trial of the century", was given a two-and-a-half-year prison sentence for false accounting over the collapse of the internet company. When testifying he said:

I never studied accounting. A management book I read said "leave that to specialists", so that is what I did.

In July 2006, the so-called "NatWest Three" were extradited to the USA to face charges that they plotted to deceive NatWest about the true value of the bank's stake in the Enron partnership. In February 2008 they were each sent to prison for 37 months for their part in the fraud. In France in 2008, the rogue trader, Jérôme Kerviel, with Société Générale has been accused of losing his bank £3.9 billion in one of the world's largest financial scandals, where despite warning signs in the system, he was able to continue unchecked in unauthorised deals. In 2007 a group of international investment banks faced a claim for damages and a trading ban in Italy for allegedly turning a blind eye to widespread fraud that enabled Parmalat to hide huge debts through false accounts.

## Ethics in marketing and advertising

Ethical issues in this area include inappropriate advertising and representation in such areas as:

- exaggerated and unsubstantiated claims for products;
- inappropriate portrayal of gender, race and age; and
- arousing unrealistic expectations.

Here there is an ethical dilemma between business aims and possible manipulation of the customer's ability to choose. This has been evidenced, for example, in the advertising of some cosmetics, health foods and financial products with the use of unsubstantiated expressions such as "low-fat", "healthier", "the natural look". In the UK in advance of possible government legislation, the Portman Group which represents many of the UK's drink companies, announced that replica football shirts sold to children would no longer carry the logos of any sponsors from the alcohol industry. The Advertising Standards Authority is the watchdog in this area and aims to tighten up regulations, as the ethical concern is not just the letter of the law but the spirit of the law and how it concerns customers.

There has been a growth internationally in initiatives such as the Fairtrade Foundation, whose sales in the UK have reached £400 million and the number of retail products carrying the Fairtrade mark reached 3000. Marks & Spencer, Debenhams and Top Shop have increased their sales of Fairtrade cotton and Café Direct has guaranteed a fair price for coffee. Body Shop introduced the concept of Trade Not Aid (renamed Direct Trading) through direct sourcing of indigenous products. However, despite these ethical initiatives Fairtrade cotton makes up only a very small percentage of cotton produced worldwide. Cotton farmers in the USA continue to receive subsidies. In a possible world recession, customers may be less keen to pay for such products as Fairtrade. All these initiatives will need to be balanced against the often increased cost to the customer of such products and the pressure to reduce "food-miles" in the interest of the environment.

## The future

Having surveyed the problems in the area of business ethics, what of the future? The key would seem to be the continuing development of the culture of good governance, both nationally and internationally. There are a number of encouraging developments:

1. The move in 2007 by the G8 countries to strengthen their commitment in the fight against counterfeiting and piracy.
2. Wider acceptance of The Polluter Pays Principle (PPI), first drafted at the 1992 Earth Summit in Rio de Janeiro, to deal with environmental pollution, particularly in the case of oil spillage.
3. In the UK, proposals for the Financial Services Authority (FSA) to have plea-bargaining powers so that "whistle-blowers" can be granted immunity from prosecution in return for evidence.
4. Increased concern over cases involving alleged corporate negligence, occasioned by, for example, the explosion of a pesticide factory in 1984 in Bhopal, in the UK by the 1999 Paddington train crash, the 2000 Hatfield disaster and in the USA the catastrophic fire in 2003 at BP's Texas City refinery.
5. Increased development of codes of conduct.
6. Increased visibility of the role of the Serious Fraud Office, the Office of Fair Trading and the Advertising Standards Authority in the UK and similar bodies in other countries.

At company level there is an increasing commitment to:

- Setting up specific ethical programmes which clarify a company's business ethics.
- Setting up induction and ongoing awareness programmes.

- Selection procedures that take into account candidates' ethical principles.
- Development of ethical policy statements that are published internally and made known externally to customers, shareholders and other stakeholders.
- Publication of codes of ethics.
- Appointment of a company ethical ombudsman as a point of reference for all employees.
- Setting up ethics committees within a company to advise on ethical standards and keep company practices under review.
- Attempts to balance the privacy of the individual against e-mail abuse and company confidential matters.

All these initiatives are set against a growing concern for the very future of our planet because of climate change and the imperative for sustainable development. If ethical standards in business are to prevail in the present climate of fierce global competition, they must have the full and visible support of top management as an example to the entire company. Only in this way will companies reap the benefits not only of an increase in staff morale, but also in efficiency and market share.

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