

Chapter 6

Ethics in International Business



Introduction

- International business ethics attempts to deal with question of **what to do in situations where ethical standards come into conflict as a result of the differing cultural practices?**
- **Example :**
- Should an international business pay bribes to corrupt government officials to gain market access to a foreign country?

How and whether it is possible to act ethically at international level?

- International business ethics has a number of open questions and dilemmas. Today it is characterized by **the following elements:**
- Every culture and nation has its own values, history, and traditions, thus it has own understanding of ethical principles and standards .

How and whether it is possible to act ethically at international level?

- There is a lack of governments' initiative to create ethical framework and thus to enhance ethical behavior in international business;
- There is no international ethical code of conduct, accepted and followed by all the countries;

What is ethics?

Question: What is Business ethics?

- **Business ethics** : are accepted principles of right or wrong that direct the behavior of a person, the members of a profession, or the actions of an organization in the business environment .

Ethical Dilemma

- **Question: What is ethical dilemma?**
- **An ethical dilemma** is a situation with uncertainty about what is right to do from a moral or ethical perspective.
- Managers often face situations where the appropriate course of action is not clear .

Ethical Dilemma

- **For example**, the manager of a company may be put in a position in which he must choose between the interests of his [employees](#) and his [investors](#). Give more profits or increase the salary?

Ethical Issues in International Business

- **The most common ethical issues in business involve :**
 - Employment practices.
 - Environmental regulations.
 - Corruption.
 - The moral obligation of multinational companies.

1. Ethics and Employment Practices

Question: When work conditions in a host nation are clearly poorer 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?

2. Ethics and Environmental Pollution

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

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

3. Ethics and Corruption

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

- In the United States, the [Foreign Corrupt Practices Act](#) forbid the practice of paying bribes to foreign government officials in order to gain business.

4. Ethics and Moral Obligations

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

- The concept of **social responsibility** refers to the idea that business people should take the social benefits into account when making business decisions, and that there should be a belief in decisions that have both good economic and good social benefits.



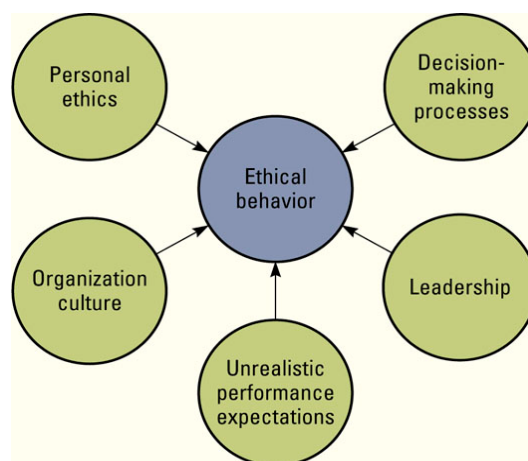
The Roots of Unethical Behavior

Question: Why do international managers behave in an unethical manner?

- **The Roots of Unethical Behavior:**

- Personal ethics
- Decision making processes
- Organizational culture
- Leadership
- Unrealistic Performance Expectations.

The Roots of Unethical Behavior



1. Personal Ethics

- Business ethics reflect personal ethics (the generally accepted principles of right and wrong leading the conduct of individuals).
- International managers 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 .

2. Organizational Culture

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

3. 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.

4. Leadership

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

5. Unrealistic Performance Expectations

- Pressure from the parent company to meet performance goals that are unrealistic, and can only be achieved by acting in an unethical manner which cause unethical behavior.



How Can Managers Make Ethical Decisions?

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

☐ **To encourage ethical decision making, firms should:**

1. **Hire and promote people** with a well grounded sense of personal ethics.
 - refrain from promoting individuals who have acted unethically
 - 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.

- emphasize importance of **code of ethics** –
- **Code of ethics:** is a written document that clearly states what acceptable and unacceptable behaviors are for all of the employees in the organization.

How Can Managers Make Ethical decisions?

3. Develop a 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.

How Can Managers Make Ethical decisions?

4. 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.

Ethical Decision-Making Processes

❑ A four-step process can also help managers think through ethical issues:

1. How would a decision affect **Stakeholders** .

✓ **Stakeholders**: A person, or organization that has direct or indirect stake in an organization because it can affect or be affected by the organization's actions, objectives, and policies. **Key stakeholders include:**

- Customers, directors, employees, shareholders, suppliers ,..... etc.

Decision-Making Processes

2. Managers need to determine whether a proposed decision would violate the fundamental rights of any stakeholders.

3. The company should then engage in ethical behavior.

4. The business must audit its decisions, reviewing them to make sure that they were consistent with ethical principles.

Critical Discussion Question

What should the manager do?

- A manager from a developing country is overseeing a multinational's operations in a country where drug trading and lawlessness are common.
- 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.