

## “ETHICS OF INTERNATIONAL BUSINESS IN GLOBAL ECONOMY”

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### ABSTRACT

Global Economic Interdependence surged over the past quarter-century, significantly reshaping business strategies while exerting a powerful influence on international politics. The impact on business and politics is now widely recognized and generally assumed to be irreversible. Corporations adapt research, production, marketing and service strategies in an effort to "think global, act local". National governments grudgingly accept growing constraints on the sovereign scope for unilateral action even as they maneuver for competitive gains from global commerce. This international demand has captured the interests of companies such as Apple, Pfizer, Microsoft and other alike. To enable these companies to successfully develop and market their products and or services internationally a clear understanding of the social and ethical responsibilities of all stakeholders must be established. These ethical and social standards need to be embedded into an organizations allowing a more predictable and positive impact on all. This paper examines that Do countries with lower ethical views attract businesses, Can Ethical Business Practices be applied Globally, Which organizations are safe guarding ethical practices and is it working, and How will ethics and social responsibility impact the world of tomorrow.

**Key Words:** *Business Ethics, Global business, International Organizations*

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## Introduction

Ethics in business are nothing but the do's and don'ts by the business users in the business. In other words it could be referred as set of principles a business man ought to follow. "There should be business ethics" means that the business should be conducted according to certain self recognized moral standards. Few unethical elements in the present day business are cheating, stealing, lying, bribing, corrupting etc.

Importance of ethics in the business world is superlative and global. New trends and issues arise on a daily basis which may create an important burden to organizations and end consumers. Nowadays, the need for proper ethical behavior within organizations has become crucial to avoid possible lawsuits. The public scandals of corporate malfeasance and misleading practices, have affected the public perception of many organizations. It is widely known that advertising does not promote the advancement of human moral sensibility. Lasch's contention (1978: 1) that modern advertising "Seeks to create needs, not to fulfill them: to generate new anxieties instead of allaying old ones. It addresses itself to the spiritual desolation of modern life and proposes consumption as the cure" seems to still be true.

As multinational companies expand globally and enter foreign markets, ethical conduct of the officers and employees assume added importance since the very cultural diversity associated with such expansion may undermine the much shared cultural and ethical values observable in the more homogeneous organizations (Mahdavi, 2001). Although understanding of other cultures and recognition of differences among them will enhance the cross-cultural communication, it may not be sufficient to provide viable guidelines of proper ethical behavior in organizations.

## Objective

The main objective of this paper is to identify the vital few concerns of international business which influence the ethical status of a business and to identify the necessary measures, How ethical business Practices be applied Globally and How will ethics and social responsibility impact the world of tomorrow.

## Description

### Defining Ethics and Social Responsibility

According to the Webster dictionary ethics is "the discipline dealing with what is good and bad or right and wrong or with moral duty and obligation" while Social Responsibility is "moral, legal or mental accountability". Together, these two terms make up the foundational principles and character, which drive the decisions a company and individual present. Ethics sometimes get confused with a person's feelings; however, doing what is right may differ from one's feelings. "In fact, feelings frequently deviate from what is ethical". In reality, ethics and social responsibility is the study and governance of one's morals by which acceptable standards are based on. The combinations of the two make up the corporate values company's stand for. These values in turn underpin the leadership characteristics and purpose of a company, which enable the following:

1. "Building an Organization that truly makes a difference in the marketplace
2. Becoming a leader of great purpose; and
3. Bringing your purpose to life so that your constituents know exactly what you stand for.

### Why Ethics Matters?

Ethics deals with the identification, assessment and selection of values to be used as standards for judgment and guidelines for action. Values lie at the heart of all decisions, providing the normative basis for choosing among alternative conclusions and courses of action. As a term, "ethics" is commonly misused to signify some ideal but unrealistic standard that bears little relationship to practical daily decisions. In reality, ethical analysis offers a way to examine the values that do guide daily decisions in all aspects of human life. Decisions involve choice, and choice is guided by values, Ethics matters because its methodologies offer a way to identify, understand and consciously choose among the values embodied in different judgments and actions. The fundamental importance of ethics stems from the belief that intentional, informed choice produces the best decisions and outcomes.

Explicit considerations of ethical choice often appear absent from many discussions of politics, economics and business. Yet decisions made in these fields inherently involve choices among competing and sometimes conflicting values. When the political system exacts retribution for actions adjudged wrong, some value standard determines what punishment a person justly deserves, and why. When economics traces the flow of scarce resources, some value standard determines the allocation of those resources among individuals based on distributive justice

choices such as equality, contribution, effort or need. When business seeks to obtain or retain a public charter to operate within a host country, some value standard determine, whether those operations offer sufficient public good to merit approval by the sanctioning authorities.

The important role of ethical choice often escapes notice because the common use of instrumental terms can obscure the value standards that actually guide political, economic and business decisions. For example, nation-state actions typically find justification in the pursuit or preservation of the "national interest," but the exact nature of that interest, or what values are sacrificed on its behalf, are seldom specifically identified and evaluated in public debate. Economics may focus on the pursuit of efficiency, assuming the term functions in a value-neutral fashion while demurring on the choice of which ends are served by enhancing efficiency. Business operations can define goals in terms of maximizing profits, ignoring broader impacts and disregarding the instrumental nature of profits as a means to some end that is decided by whoever receives the distributed profits.

### **Do Countries with Lower Ethical Views Attract Businesses**

There is evidence that some countries will sacrifice wage and benefit provisions, workplace safety regulations or maximum workweek provisions in order to make employment competitively attractive to multinational corporations. If we accept our definition of ethics then we can conclude that these actions represent low ethical values. The question is do these low ethical values attract business. In some respects the answer is yes but overall the answer is no.

The increase in competition amongst developing countries for foreign investments can lead to a "race to the bottom" where states compete by offering an environment with the least amount of regulations. While most multinational corporations do not generally commit willful human rights violations they are often indirectly complicit in such abuses. For example, due to the current and forecast increasing demand for rubber, Chinese companies have secured deals in Myanmar to produce rubber trees. Myanmar suffers from severe localized food insecurity according to the FAO. It appears that farmers are being forcibly displaced to make room for Chinese investment without any objections from the Chinese enterprises involved. The United Fruit Company relied on a tremendous amount of manipulation of land use rights in Central America to maintain its market dominance in banana production. In order for the company to maintain its unequal land holdings, they had to get government concessions. These concessions

were often at the detriment of the local people. United Fruit Company also found it necessary to become involved in local politics even though they were an American company. A “banana republic” signifies a country that is politically unstable, dependant on limited agriculture and ruled by a corrupt elite class that is heavily influence by multinational organizations. The term “banana republic” came into existence because of multinational companies taking advantage of a host countries low ethical environment.

Despite the evidence above there is even more substantial evidence that countries with lower ethical views do not attract businesses. There is little evidence that corporations direct their investment to countries that have lower labor or environmental standards. The research arms of multiple international organizations such as the OECD and the World Bank, have conducted studies investigating the claims that trade liberalization reduces regulatory standards, and found no support for the proposition. The balance of the evidence goes against conventional wisdom in that it suggests that foreign direct investment tends to be greater in countries with stronger worker rights. A strong reason for this is that countries with higher labor standards tend to achieve higher economic growth. Higher economic growth is a chief attractant of foreign direct investment. Given the importance of industrialized country markets, many multi-national corporations tend to operate globally with the most stringent standards calculating that in the future most developing countries will adopt these same standards.

### **Can Ethical Business Practices be Applied Globally?**

Due to a range of societal values, be they religious, philosophical, or cultural, a universally accepted code of ethical standards is difficult, if not impossible, to create. Even though certain ethical norms such as honesty, integrity, and loyalty are integral parts of most societies, the intensity of adherence to these norms can vary substantially from person to person across cultural boundaries. Thus, any questions concerning international business ethics are becoming increasingly more difficult to deal with by multinational corporations.

Recently, multinational companies have been encouraged by many scholars to develop clear and specific codes of conduct that outline their objectives, duties, and obligations in the international markets in which they operate. These codes are to be implemented company-wide, across all divisions and departments. To be truly useful, the code of ethics should take into consideration the vested interests of both the host country and the host population. Another

dimension is that ethics is a framework, which changes over large periods of time. To try an understand ethics one must decompose its structure into its parts. Ethics are comprised of morals, which are made up of a collection of values, which help us to determine what is "right" or "wrong". These morals are derived from Social, Civic and Educational Institutions as well as family (CORMIER, 2009). Given that cultures change over time, consequently, so do values, morals and ethics. For example, the Roman Empire would normally sponsor Gladiator games, which called for fatal acts of combat. These games were part of the Roman culture and the Gladiators were viewed as individuals with high status in society, similar to a 'Rock Star' in today's era. If someone were to take these same events and host them in today's society they would be considered morally wrong and unethical. As a result, when evaluating ethics we try look to understand the casuistry of a given situation and its circumstances and not just a single event or action. When evaluating ethics or ethical behavior on a global scale we must evaluate the facts and circumstances.

### Major Sources of Ethical Issues in International Business

Although the ethical issues identified in international affairs are extremely numerous and different, we consider that most of them mainly originate in five fundamental sources of ethical dilemmas, synthetically presented in Table no. 1.

**Table 1. Major sources of ethical dilemmas in the international managers' activity**

SOURCE OF ETHICAL DILEMMAS	FUNDAMENTAL ETHICAL ISSUE
<b>Corruption</b>	Is it ethical to make a payment to a governmental clerk providing it depends on succeeding in a business?
<b>Industrial espionage</b>	Is it ethical to use some information about the competitors' activity, obtained through methods that are at the edge of the law?
<b>Relation with the environment</b>	Is the organizational behavior ethical, though it has the possibility to go over the environment standards imposed by the legislation, staying competitive, is satisfied to respect them?
<b>Relation with the employees</b>	Is it an ethical behavior for the organization to apply different personnel policies regarding employment, promotion and remuneration of the employees on different markets where it acts?
<b>Relation with the consumers</b>	Is it ethical for the behavior of an organization which does not completely inform its target consumers about the features of the offered product and which has big prices for the key products in order to maintain the consumers' health and life, even though the legislation in the host country allows it?

## 1. Corruption

Thus, one of the most important ethical dilemmas that international managers must face is that of **corruption**, respectively the opportunity of **paying a governmental clerk**, providing this action leads to making some business, employing local labor force and, implicitly, increasing the organizational efficiency and the living standard in the respective community.

In most developed or underdeveloped countries, the bribe is a daily aspect, which led to the opinion that in such countries, the governmental payments are an indivisible side of a successful business. Many of the multinational companies that have applied such practices motivate that they are determined by their competitors who put them into practice and they do not want to stay behind.

- **Offering or paying some amounts of money to different political parties, candidates or foreign public clerks**, holding influential positions, which they may use in order to support the organization to get or keep some business;
- **Forms of indirect payment** - companies are forbidden to pay if they know or suspect that any part of that sum will get to an illegal fund or for corruptive activities.

For example, the company **Lockheed**, constructing aircrafts, faced such a situation on the Japanese market. Lockheed paid 12 million dollars to the Japanese Prime Minister, to the president of the Japanese Airlines Association, as well as to other seven political persons in order to facilitate its business on the respective market. When revealed, the company motivated that the payments made to the enumerated officials represents less than 3% of the profits obtained by selling the model L-1011 and that, anyway, according to the federal laws, such payments are not interdicted (Baron, 1996, p. 664), although, obviously, such practices are not by far ethical.

The managers of the transnational corporations that face with such financial demands from some governmental officials on the foreign markets where they act may solve these demands in an ethical manner, without having the risk to break the relations with the host state if they respect the following three general principles:

1. Respecting the basic human rights;
2. Respecting local traditions;
3. Making the difference between good and bad by examining the context (Certo, 2002, p. 136).

More precisely, the managers of the transnational corporations may respond to such demands in an ethical manner if they apply one of the following methods:

- **Donations in money** in order to create or develop various public services (such as building hospitals or roads) for the host state, correspondingly promoted and managed, may increase the public appreciation to the organization and prevents the money disappearance in private pockets;
- **Donations in goods or services** may be medical equipments for hospitals, computers for schools or aids for underprivileged persons and, if promoted correspondingly, may facilitate the future development of the business and they are absolutely ethical;
- **Donations in jobs** refer to employing some persons in the host country in some projects meant to sustain the organizational activity, but also to increase their trust in it. For instance, **Coca-Cola** hired, in Egypt, six hundred persons to plant hundreds of acres with orange trees, recuperating the respective land from the deserted zone, and obtained thus an increase of confidence from the Egyptian community, without violating the principles of business ethics (Fadiman, 1991, pp. 34-35).

## 2. Industrial espionage

Industrial espionage is another unorthodox and absolutely illegal method which transnational corporations use in order to go ahead of their competitors. John Pepper, the general manager of **Procter & Gamble** faced such an ethical issue, and the manner in which he solved it may represent a real model for all contemporary organizations.

Thus, a few years ago, Pepper was informed by his managers that the company employees responsible for the “competition analysis” (department which studied and predicted the movements of the main competitors) set a system that allowed them to spy the activity of their main competitor, respectively Unilever.

These employees contracted a company which, in its turn, had contracted other twelve smaller companies whose employees entered the property of Unilever pretending to be market analysts and they analyzed the garbage resulted from the productive process of the main production unit.

Thus, it seems that the so-called analysts obtained enough secret information about the products and the production processes of Unilever in order to make the company face some competitive issues.

When he found about his employees' initiative, John Pepper stopped the action, fired the responsible employees and turn the issue public, both inside his organization and outside it. Then he informed Unilever about the measures he adopted and accepted this company's solicitation to supervise the activity of Procter & Gamble for one year by an impartial auditor to prevent using any of the information obtained illegally (Dessler, 2004, p. 26).

### 3. Relation with the Environment

Another source of ethical issues that multinational companies have to face is their relation with the environment. Being aware of the devastating effects of the post-war "wild capitalism", we face the conception according to which protecting the natural environment must be considered a major social task of humankind and, especially, of its representatives in the business world.

Presently, the international organizations must respect not only the national legislation regarding environment protection, but also the one of the host countries and the international regulations that get tougher and tougher sanctions in case of disrespecting them.

In spite of all this, there is a big temptation to break these rules, as the costs required to obey them often significantly diminish the companies' profits and competitive capacity. Many times, famous names in the economic international business were involved in pollution scandals, with lasting effects in the reputation and the image perceived by the consumers.

One of the numerous examples **Mitsubishi Corporation** which, in 1989, was boycotted by the activists in the organization called „Rainforest Action Network”, who accused the company of being responsible to a great extent for the destruction of the forests in the S-E Asia, South and North America and Siberia.

The boycott aimed at the products of two companies that are members of the above mentioned corporation: Mitsubishi Motor Sales of America and Mitsubishi Electric America. The boycott ended in 1998. In December 2001, nine companies belonging to the international company Mitsubishi Corporation were fined by the European Commission with 313.7 million Euros, as the 1990s represented a cartel to keep the high price of non-charcoal paper.

In November 2002, Mitsubishi Corporation declared itself ready to start immediately to respect the international regulations regarding forest exploitation (Werner and Weiss, 2004, p.354).

### 4. The relation with the Employees

The relation with the employees is another important aspect upon which the managers of the multinational corporations must make ethical decisions, without compromises. The managers

have the heavy task to create a climate of respect and mutual confidence, by respecting the rights of the executive personnel that are subordinated to them. The employees will really get involved into their tasks, for the success of the organization, only if they have a certain status at their workplace, liberty, intimacy, and a fair salary.

As poverty is often, in underdeveloped countries, a good reason to ignore the fundamental human rights and liberties, the organizations must not only respect the law but also respect the traditions of employment and personnel remuneration. This attitude will only worsen the situation of these people who are ready to work even for less than they need to survive.

As a consequence, the multinational companies must fulfill the minimum legal provisions with what they consider to be necessary to increase the respect of the employees in the host countries and to improve their living standard.

An interesting example is the one of **Levi Strauss**, which set a system of evaluating the opportunities to approach each country apart in order to develop businesses. This system specifies, among other things, that the company “will not initiate or continue the businesses in the countries where there are frequent violations of the fundamental human rights”.

After applying this evaluation system, the company decided to withdraw itself from China’s market, due to the fact that here there was compelling work and a lack of decent conditions regarding the situation of the employees less capable to protect their rights.

This decision was even harder to adopt as the withdrawal meant losing some important business and, especially, sacrificing some opportunities of future substantial development. In spite of all this, the company had a major benefit. According to the declaration made by the general manager, **“no other action of the company enjoyed any spontaneous and important support, coming from the people all over the world”** (Grace and Cohen, 2005, p. 212).

##### **5. The Relation with the Consumers**

The relation with the consumers is almost a permanent source of ethical dilemmas for contemporary managers. Thus, starting with practicing some exaggerated prices up to spending huge amounts to promote their products, starting with practicing excessive value added taxes, using cheating practices of packaging, promoting and selling, starting with bringing into the market some products that do not correspond from the point of view of quality and security up to the planned moral usage, the cases of unethical behaviors of the organizations in their relation with the consumers face an impressing diversity.

The worst situations are the ones in which the organizations violate not only the ethical business principles, but also the consumers' fundamental rights, which takes them in front of the law, in case of such practices.

For instance, the biggest ethical challenge faced by McDonald's in recent years concerns issues of health and nutrition. With critics claiming that a diet of fast food has been a major contributor to escalating rates of obesity, McDonald's, as the world's leading fast food company, has inevitably been first in the firing line. Among the arguments made by its critics are that the company has failed to provide a balanced menu, that it provides insufficient nutritional information and guidance, and that it actively encourages consumers (especially children) to make unhealthy choices, for example by promoting 'super size' portions.

In this context, it was no surprise that the attack in the US quickly escalated to litigation. An initial lawsuit against the firm, brought on behalf of two New York children, was filed with great publicity in 2002. This accused the fast-food chain of misleading young consumers about the healthiness of its products, and understandably stirred up fears that food companies could come under the similar sort of legal attacks that hammered the tobacco industry in the 1990s. Although the initial lawsuit was dismissed, elements regarding deceptive advertising were reinstated as admissible following appeal in 2005. So, whilst the company continues to regard the suit as 'frivolous', the threat of future litigations still unmistakably hangs over the company (Stanwick and Stanwick, 2009, p. 38).

Also, the organizations promote, numberless of times, a customer manipulation, if not illegal, at least unethical. Thus, suggesting that chewing gum replaces brushing the teeth is an example of unethical manipulation, as, in reality, false mastication only spoils the teeth and sickening the stomach, and the artificial sweeteners lead to the appearance of some mouth microbial cultures.

The issue of the clients' unethical manipulation is based on the fact that a large part of the persons in the organization find what happens and think that they, their families and friends could be the clients unfairly treated by these companies (Pleter, 2005, p. 523).

## Conclusion

Ethics are a framework of morals and values. These morals are unique to each individual and are influenced by society and family. When determining the ethical nature of a situation one must look at all the circumstances, which make up the situation. Examination of the recent development in the international trade and the far-reaching expansion of global entities lead the authors of this paper to the inevitable conclusion that ethical issues and concerns facing business entities are no longer related to the limited frameworks of national or even regional arenas. These issues have assumed global dimensions and as such require global solutions. To that end, it is postulated that probably an international organization is the best vehicle through which a code of ethics covering all aspects of business can be developed. Once- on the basis of such a code- an international treaty is drafted, signed and ratified; it may be prudent to leave the implementation of the treaty to the member nations subject to regular audit by an independent international body. WTO may eventually take on this role.

Meanwhile, global organizations need to develop and enforce their own codes of ethics specifically directed at the issues related to a multicultural, multinational business environment. In some cases that would be fine as long as that foreign countries ethical and social practices are at the same level or a bit higher than a company's home country. However if they are beneath, a company needs to take some responsibility. Of course opening factories and businesses in foreign markets especially developing one's has proven to be both beneficial to a company's bottom line and in the foreign market they are within. However it is crucial for the well being of all involved that corporations always be aware that they hold extreme social and ethical responsibility within their new environment and as a representative of their home country.

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