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International business ethics: strategies and responsibilities

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ABSTRACT

This paper examines the importance of global ethical business responsibilities. The recent public scandals of corporate malfeasance have heightened this need and organizations face numerous ethical issues. Strategies such as codes of conduct, developed by various international entities, can guide multinational corporations in this effort. The authors also analyze various ethical climate and ethical problems. Author concludes that a global code of ethics, developed and enforced by an international agreement is the best means of bringing ethics to international businesses.

Key Words: Business Ethics, Global business, International Organizations



INTRODUCTION

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 (e. g., Enron, Arthur Andersen, WorldCom etc.). 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.

The recent expansion of global business and fall of trade barriers worldwide have further underlined the interest in the topics of ethical behavior and social responsibility (See among others, Jones, 1991: 366-395). In addition, as many scholars believe, human rights and environmental conservation are gaining increasing more recognition in both academic and commercial settings.

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 mores 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. Thus, concerns about unethical behavior of corporations in other countries, are manifested in legislations such as The Foreign Corrupt Practices Act of 1977, and the Sarbane-Oxley Act of 2002. In the academic arena, on the other hand, the culture-based consequentiality model is developed to explain, among other things, how cultural differences alter the ethical perception and actions of individuals engaged in making decisions with ethical overtones (Robertson and Fadil, 1999: 385-392).

Turnen-Red and Woodland (2001:61) stated:

"Through the post-World War II period international trade policy reform has seldom been absent from the mind of policy-makers. The formation of General Agreement of Tariffs and Trade (GATT) as a forum for the discussion of international trade and policy issues and the resolution of disputes, and as a sponsor of regular rounds of multilateral negotiations leading to a substantial drop in the average level of tariff protection, has ensured the trade policy issues have retained currency. More recently, there has been considerable focus on bilateral and regional trade agreements with the expansion of the customs union of the European Community and the advent of organizations such as the North America Free Trade Agreement (NAFTA) and Mercusor. Nevertheless, cooperative trade policy remains an important part of the international landscape"

Wimbush and Shephard (1984: 637-647) reported that businesses annually spend an estimated \$40 billion on the ethical behavior problems. Thus, pointing to the fact that ethical dimension of employees' behavior has a clear impact on the profitability of the company. In order to improve the ethical climate of an organization, management must effectively communicate proper ethical behavior throughout the organization. Training sessions, codes of

ethics, reward systems, and coaching are a few methods that organizations employ in this regard (Delaney and Sockell, 1992:719-727; Lacznia and Indemedan, 1987: 297-307; Jansen and Von Glinow, 1985: 814-822).

Therefore, the problems that organizations face today are: How ethical values are communicated most effectively to employees? Which communication channel works best?

American business in spite of all of its faults and weaknesses, still form a key model for much of the world. An important force in disseminating the American style of management is the role of the U.S. as the world's largest manufacturer of contemporary culture. Moreover, many researchers have pointed to the significant role that the American business schools play in propagating the U.S. style of management throughout the world. (See Mahdavi, 2001; and Nimgade, 1989:104, among others)

Morf (1999: 265) believes: "Ethics is the moral principle that individuals inject into their decision making process and that helps temper the last outcome to conform to the norms of their society". Moreover, ethical principles have the very profound function of making behavior predictable (Mahdavi, 2003). The truly global companies must come to grips with the legal and moral atmosphere in which they operate. But above all, they need to establish an environment that fosters ethical behavior, because in the final analysis to do otherwise cuts into their profitability.

In contrast to this view a group of scholars put forth the theory of Virtuous Ethics, which is defined as a theory that focuses mainly on an individual's moral character. According to these scholars, marketing researchers have paid little attention to virtuous ethics. Furthermore, they propose that without taking virtuous ethics into account, a comprehensive analysis of the ethical character of marketing decision makers and their strategies cannot be attained.

ETHICAL PROBLEMS IN INTERNATIONAL BUSINESS

Getz (1990: 567-577) analyzed international codes of conduct in four entities: (1) the Organization for Economic Cooperation and Development (OECD), which is the primary policy-maker for industrialized nations, (2) the International Chamber of Commerce (ICC), which is concerned with fair treatment among multinational corporations, (3) the International Labor Organization (ILO), which is concerned with direct investment in developing countries, and (4) the Center for Transnational Corporations (CTC), whose objective is to maximize the contributions of transnational corporations to economic development and growth and to minimize the negative effects of the activities of these corporations.

These various codes were developed in order to establish order among multinational corporations; although, some organizations refuse to abide by these codes, mainly because national governments have not sanctioned them completely. Without uniform and full enforcement, multinational organizations could have rampant choice in international ethical issues. Underlying this lack of consensus is the issue of national as well as corporate culture (See Hofstede, 1980: 46-47). Every nation is different and every multinational organization is in one way or another distinct in the way they do business, especially in other countries.

In addition to these codes, the moral corporation should address human rights and whistle blowing and the international ethics code under which it operates. These issues are not very new. In a survey of 300 multinational corporations, 80 percent agreed with seven items being ethical issues for business: (1) employee conflict of interest, (2) inappropriate gifts to corporate personnel, (3) sexual harassment, (4) unauthorized payments, (5) affirmative action (6) employee privacy; and (7) environmental issues (Brooks, 1989; Berenheim, 1987, 1989: 117-129).

ETHICAL CLIMATE & ETHICAL PROBLEMS

Strategies, such as these codes of ethics, are only one means of achieving the ultimate goal of having ethical international responsibility in the engagement of business worldwide. As stated above, there are many ethical responsibilities faced by multinational organizations. Theorists generally agree that situational variables such as organizational climate can affect ethical behavior of individuals (Kelly et al., 1989: 327-340). However, there have been no attempts to study the relationship of ethical climate of an organization and ethical behavior of its members.

Ethical climate, it must be emphasized, is not the same as culture is commonly perceived, but rather a broader concept of culture (Schein, 1990, pp. 109-119). Culture is believed to be more associated with deeper beliefs, values and assumptions (Denison, 1996, pp. 619-654). Therefore, just as one can value an individual's culture by his or her actions and personal activities, ethical climate can be observed on a larger scale; in this case, the organization. Ethical climate is, in essence, the employee's perception of the norms of an organization (Bartels et al., 1998: 799-804).

As Bartels and others have shown (1998:799-804), organizations with a strong ethical climate experienced few serious ethical problems, and were more successful coping with such problems. Their research suggests that it is imperative for managers to consider developing strong ethical climates if they aim to provide organizational members the ability to handle ethical dilemmas and to avoid any inherent liabilities. Managers must create and maintain a clear and strong set of norms to promote good ethical behavior.

In this approach, a person's own beliefs and values and their influence on his/her perception and behavior are not taken into account. Nonetheless, ethical climate is a very potent tool in steering the behavior of an organization's members. As Mahdavi has shown (2003, 2005), an organization's codes of ethics and enforcement of rules go a long way to control and direct behavior of social entities.

Based on the above discussion, global corporations must recognize the need for a uniform code of business ethics since without such a code, behavior of actors in this arena remains unpredictable. Furthermore, national governments must realize that probably the most effective means of protecting their citizens, their national interests, and the global environment against the ravages of the over-reaching global business rest in the development, adoption and enforcement of such a code. Until then, it is not realistic to hope for any such international agreement to be adopted.

However, a growing momentum for such a movement is observable. As stated in previous pages, international organizations, especially those involved in international business, finance, labor, economics and environment are developing rules and policies that can be regarded as the building blocks of a universal code of business ethics. Until such a uniform body of rules is drawn, signed and enforced, global corporations and organizations will be doing well to develop their own codes of conduct, applicable to all of their officers regardless of location.

CONCLUSION

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.

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