16 CHAPTER

Defining Ethics and Corporate Social Responsibility in the International Marketplace

We need to address transparency, accountability, and institutional capacity. And let's not mince words: we need to deal with the cancer of corruption.

JAMES WOLFENSOHN, PRESIDENT OF THE WORLD BANK, ANNUAL MEETING, 1996

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- Understand the ethics of doing business abroad.
- Differentiate between the law and ethics.
- Determine whether there are universal ethical standards.
- Argue whether an MNC can be an ethical citizen.
- Determine the social responsibility of an MNC.
- Argue whether a company can afford not to be ethical.

You are the newly appointed manager of ABC (Ltd.) Company's subsidiary in Manila, the Philippines. Your company manufactures and distributes educational equipment for high schools, including audiovisual teaching materials. A large shipment worth about €50,000 has just arrived and is waiting to be released at customs. The customs authorities have informed you that there are "administrative delays" preventing the release of the equipment. After a week, you are told that "delays" are still in force. When you ask the customs official in charge when the equipment will be released, he replies that it is hard to say but, if you would make a small donation to the union vacation fund, it would be possible to secure a prompt release. You know that the shipment is being stored in an unsecure place and theft is certainly a possibility. Also, many schoolchildren are in need of the educational equipment. Payments to government officials are frequent in this country in order to "prioritize" decision making. They are not illegal here. However, you are also aware that your home government has anti-bribery legislation that could apply to this situation and possibly result in a fine for your company. What are the alternatives to this dilemma? What should you do?

Cases like the above occur only too frequently in international commerce. The solutions to such dilemmas are all the more difficult when both parties come from different ethical cultures. This chapter deals with providing a framework that will help dealing with dilemmas in a global environment and provide a response that is acceptable to both sides. First, let us review some of the costs that accrue from unethical practices such as bribery and corruption.

THE COST OF DOING BAD BUSINESS

Taking the path of least resistance to requests for bribes, companies and individuals risk the chance of being caught and subjected to investigation, bad public relations, and if convicted, fines and even imprisonment. While there are many examples of firms and individuals being fined for illegal payments (Example 1), there are examples of fines being levied for lacking proper safeguards against such practices (Example 2).

Example 1: An employee of CBRN Team, a UK consulting firm and an official of the Uganda government, pleaded guilty to bribery charges stemming from a payment by the British firm in order to secure a contract to advise the Presidential Guard of Uganda. The UK Serious Fraud Office gave the CBRN employee a suspended sentence, while the Ugandan official was sentenced to serve a year in prison.
Source: Adapted from: www.badfaithinsurance.org. Retrieved May 10, 2009.

Example 2: A subsidiary of Aon Corp (UK), the world's largest insurance broker, was fined 5.25 million pounds ($7.9 million) by Britain's Financial Services Authority for not having sufficient anti-bribery controls. Aon Ltd. made allegedly "suspicious payments" totaling approximately $7 million to overseas companies in countries such as Indonesia, Vietnam, Bahrain, and Burma from 2005 through 2007.
Source: Adapted from: "The Global Bribery Crackdown," growthbusiness.co.uk. Accessed June 22, 2011.

These two examples show that there are regulatory agencies at the country level that monitor bribery and corruption behavior on the part of companies and individuals. As we will learn below, governments and multinational organizations such as the United Nations and the International Monetary Fund (IMF) monitor such activities. However, monitoring illegal and unethical activities starts at home. Companies have to monitor themselves, and many do. Bribery and corruption on a global scale are activities that cannot be ignored. According to the United States Department of Commerce, bribery affected the outcome of 294 international contracts amounting to $145 billion over a five-year period from 1994 to 1999. In another area of the world, the Asian Development Bank estimated that the "corruption task" in Asia costs governments approximately 50 percent of their tax revenues.[1]

According to a survey by **Transparency International,**[2] global bribery amounts to $1 trillion annually, and as shown in Table 16-1, the incidence of payments is greater in developing countries. Bribery and corruption hurt the poor disproportionately—by diverting funds intended for development, undermining a government's ability to provide basic services, feeding inequality and injustice, and discouraging foreign investment and aid. Bribery and corruption are not the only problems that managers face in a global world. Dishonesty, fraud, occupational health, safety, environmental concerns, and industrial espionage are also prevalent. Employee fraud alone costs firms $600 billion annually in the United States, which amounts to approximately six percent of GDP.[3] While many of these practices are monitored by laws and regulations, they are

1. "The Global Fight against Bribery and Corruption: United States Law and Policy," speech by Ambassador Schneider "Transparency Unveiling Corruption," Deloitte & Touche, Amsterdam, October 1, 1999.

2. Transparency International is an NGO based in Germany that monitors the incidence and content of global bribery and corruption. See a full discussion of this agency on page 447.

3. www.josephsoninstitute/org/pdfworkplace-flier_0604.pdf

TABLE 16-1 Prevalence of Bribery in Selected Countries

Countries	% Reporting a Bribe Paid in Last 12 Months*
Austria, Canada, Costa Rica, Denmark, Spain, Finland, France, Germany, Hong Kong, Iceland, Ireland, Israel, Japan, South Korea, Netherlands, Norway, Portugal, Singapore, Switzerland, Taiwan, UK, Uruguay, United States	Less than 5%
Argentina, Bulgaria, Bosnia and Herzegovina, Columbia, Croatia, Kosovo, Luxembourg, Macedonia, Malaysia, Nicaragua, Panama, Philippines, Poland, South Africa, Thailand, Turkey, Venezuela	5–10%
Ethiopia, Ghana, Guatemala, Lithuania, Nigeria, Romania, Togo, Bolivia, Czech Republic, Dominion Republic, Ecuador, Greece, Indonesia, India, Kenya, Pakistan, Peru, Russia, Senegal, Serbia, Ukraine	11–30%
Cameroon, Paraguay, Cambodia, Mexico	31–45%

*Question: "In the past 12 months, have you or anyone living in your household paid a bribe in any form?"

Source: Adapted from: Transparency Global Corruption Barometer. (2005).

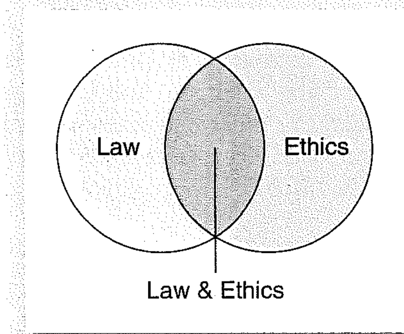

Figure 16-1 Relationship between Law and Ethics

not uniformly enforced around the world. Therefore, managers of global corporations must have answers to questions like these:

- If ethical mores differ from society to society, whose rules do you follow?
- How do we do business with integrity in countries where bribery and corruption are widespread?
- How can we develop ethical norms that can guide global marketers and business people to act with integrity and accountability?

ETHICS AND THE LAW

Ethics are behavioral standards determined by society that stipulate how its members should act in a moral manner. Ethical standards vary from society to society, but individuals within the society are expected to maintain these standards. Laws are codes of conduct stipulating how members of a society are *required* to act and are enforced by relevant governance agencies such as the police and courts. Breaking the law carries penalties (fines, prison terms), while disregarding an ethical code may result in sanctions (losing one's job) that are short of criminal proceedings. Law and ethics overlap (Figure 16-1), and what is perceived as unethical may also be illegal (e.g., bribery). In other cases, they do not overlap. In some situations, what is perceived as unethical is

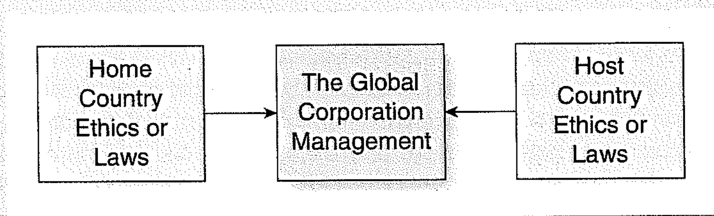

Figure 16-2 Companies in the Global Environment are Affected by both Home and Host Country Ethics and Laws

TABLE 16-2 Three Ethical Philosophies

Ethical Relativism	Ethical Absolutism	Ethical Universalism
No universal set of ethical standards	Giving preference to one's own ethical values	A set of universally accepted and valid ethical standards
The ethical nature of an action can only be determined relative to the moral norms of the particular culture where the action takes place. "When in Rome, do as the Romans do."	"When in Rome, do what one would do at home."	The ethical nature of an action is independent of cultural settings.

still legal (polluting the environment, paying substandard wages), and in others, what is illegal may be perceived as ethical (using company equipment for personal use). In sum, a legal system may not cover all dilemmas concerning "right" and "wrong" (the left side of Figure 16-1). Therefore, the problem of how to behave in such situations falls on ethical codes (the right side of Figure 16-1).

There are those who argue that right is synonymous with legal; i.e., whether an action is ethical is not important as long as one does not break the law. In this case, it is the legal system alone that governs behavior: "If it is legal, it is ethical." However, when doing business globally, the question is, whose law or whose ethics? Is it the law that is in force where a transaction takes place, or is it the law of the home country? Is it the ethical standard of the home or host country that should be followed, especially in those cases when they differ from one another? (See Figure 16-2.)

What happens when cultures collide? Whose standards do you follow: your home standards or those of the host country? There are three broad ethical philosophies or alternatives to choose from when doing business outside of one's home country (see Table 16-2).

Ethical relativists may plan globally, but they act locally when it comes to ethics. They try to adapt the "When in Rome, do as the Romans do" adage. **Ethical absolutists** (some call this "ethical imperialism") "import" their ethical norms to the countries in which they operate. Generally, they believe that their norms are superior and therefore should be adopted by the host country. **Ethical universalists** believe that there are enough universal standards that are found in cultures that vary from one another. These three frameworks suggest that there is no simple answer to the question of what is right and wrong when doing business across different national cultures. This debate leads to questions pertinent to the global community in which MNCs operate: are standards of good and bad relative to the culture and place in which they exist? Are values absolute or could they change over time with each new generation or management structure, for instance? If they vary, whose ethics should prevail? Should social responsibility practices presuppose the existence of a universal set of values?

"Companies must help managers distinguish between practices that are merely different and those that are wrong. For relativists, nothing is sacred and nothing is wrong. For absolutists, many things that are different are wrong. Neither extreme illuminates the real world of business decision making. The answer lies somewhere in between."[4] A typical dilemma of what to do in a seemingly ethical situation is exemplified by the example of gift giving, a normal tradition in many non-Western societies. Sharing small gifts in the Japanese culture, for instance, is an intrinsic part of business interaction, symbolizing reciprocity and relationship building, although it is commonly misconstrued as bribery by Western corporations and misinterpreted as wrong rather than culturally relative. This sort of dilemma illustrates the importance of context when evaluating different practices, while ensuring that they do not violate universal norms. The solution of a dilemma of this sort would depend on the material value of the gift. One should be able to differentiate between what is clearly a bribe and what is an acceptable gift.

THE MULTINATIONAL CORPORATION AS A GOOD CORPORATE CITIZEN

The ethical and social responsibility of the multinational corporation (MNC) is of concern to both host and home country. Because of their large size and economic power, the expectation is that the ethical and social behavior of MNCs should go beyond what is required by law. Social responsibility is a concept of ethics that businesses should act in the interests of society at large, taking into consideration all of its stakeholders and not only stockholders. Thus, the MNC has economic, ethical, legal, and social responsibility to its stakeholders. Therefore, the MNC should integrate core ethical and social responsibility values and goals into its strategic management process.

What is **corporate social responsibility (CSR)?** The European Union Commission defines it as a concept "whereby companies integrate social and environmental concerns in their business operations and their interactions with their stakeholders on a voluntary basis."[5] Likewise, the World Bank views CSR as a contribution by business to "sustainable economic development working with employees, their families, the local community, and society at large to improve their quality of life, in ways that are both good for business and good for development."[6] The International Labor Organization sees CSR as a way in which enterprises give consideration to the impact of their operations on society and affirm their principles and values both in their own internal methods and processes and in their interaction with other actors.[7] In summary, these definitions imply that CSR goes beyond just being ethical and obeying the law in business practice. It assumes that a business should contribute to the welfare of all its stakeholders beyond the goal of providing employment and making a profit (some of which should be shared by the community in which the firm operates).

4. Donaldson, T. (1996, September/October). Values in tension: Ethics away from home. *Harvard Business Review*, 47–62. Reprinted with permission.

5. European Commission. (2001). Retrieved from http://eurlex.europa.eu?lexuriserv/site/en/com/2001/com2001_0366en01.pdf.

6. World Bank. (2003). *Corporate Social Responsibility Practice: Strengthening Implementation of Corporate Social Responsibility in Global Supply Chains*. Washington, D.C.: World Bank.

7. Retrieved from www.ilo.org/public/english/support/lib/resource/subject/csr.htm.

What are the views of business management around the world? While CSR activities and reporting are extensive in developed countries, they are less so in developing and emerging countries. Some of the adoption of CSR activities in non-developed countries is attributed to NGO organizations such as the Global Reporting Initiative and the International Labor Organization. The Global Reporting Initiative (GRI) is a large NGO multi-stakeholder network of thousands of experts, in dozens of countries worldwide, who participate in GRI's working groups and governance bodies, use the GRI Guidelines to report, to access information in GRI-based reports, or to contribute to developing the Reporting Framework in other ways—both formally and informally.[8] Based in Amsterdam, the organization has developed a widely used sustainability reporting framework that has been adopted by 1,500 companies worldwide.

CSR IN THE BRIC COUNTRIES

A study by the Brazilian Institute of Applied Economics showed that about two-thirds of the 445,000 firms surveyed had invested in social programs, while half had intentions to increase their involvement.[9] The adoption of CSR programs in Brazil has been attributed to the increase of NGOs operating in the country, a desire by companies to gain more legitimacy and increase customer loyalty, and the rise of global codes. Some 950 Brazilian companies that account for annual revenues of approximately 30 percent of the Brazilian GDP and employ roughly 1.2 million people are members of a local organization, *Instituo Ethos*, a network of businesses dedicated to social responsibility. About 150 companies have signed the United Nations global compact, agreeing to adhere to fundamental principles in the areas of Human Rights, Labor Relations, Protection of the Environment, and the Combat of Corruption. Box 16-1 is an example of the application of CSR in Brazil.

CSR IN RUSSIA

During the era of the Soviet Socialist Republics, all industry was state-owned. The Soviet economy was based on large industrial plants that encompassed large areas that included housing, schooling, and health and recreation facilities for employees and their families. Thus the industrial complex was socially responsible for its employees. The breakup of the Soviet Union resulted in the privatization of many of these

BOX 16-1 COUNTRY IN FOCUS: BRAZIL

Project Plasma, a partnership between Klabin (paper), Tetra Pak (long-life packaging), Alcoa (aluminum), and TSL Ambiental (residue treatment) joined forces to solve a serious environmental problem in a creative and profitable manner. All three had an interest in recycling the three materials that make up long-life packaging (aluminum, paper, and plastic), used mainly for juices, milk, and other beverages.

8. Retrieved from www.globalreporting.org/AboutGRI/WhoWeAre/.

9. Nascimento, A. (2004). *Corporate Social Responsibility in Brazil: A Comparative Analysis of Two Paper Companies.* Cambridge, Mass.: Massachusetts Institute of Technology.

industries, while others remained state-owned. Thus the industrial complex did not automatically take over the social welfare of employees; this task was now the responsibility of government which, because of budgetary constraints, found it difficult to provide aid for recreation, the environment, contributions to charity organizations, and the like.

To what extent did private business take over the social role of the government? While Russian businesses have come to realize that CSR is crucial to their sustainability, most efforts in this direction are made by large companies such as Norlisk Nickel, Lukoil, Novolipstek Steel, and Yukos (before its takeover by the government), as well as companies that serve Western markets. Two main factors that constrain the adoption of CSR practices in Russia are the lack of transparency of Russian business and a faulty definition of what CSR is all about. According to one observer, CSR is "thought by Russian top managers to be mainly a tool to managing non financial risks and improve capitalization via better public image."[10] According to the Center for Political Technologies in Russia, the issue of corporate social responsibility can only be solved through the modernization of state institutions and the creation of civil institutions to monitor the interaction between businesses and the state.

CSR IN CHINA

CSR is a relatively new phenomenon in China, and the government thus far has not actively promoted it. The large Chinese government bureaucracy hampers the realization of CSR programs.[11] There are more issues related to safety and intellectual property rights violations for Chinese products (81 percent) than for Indian products (6 percent).[12] China accounts for the largest percentage of all illegal products seized by the United States Customs and Border Protection, while India is a distant second. However, the government has recently made efforts to improve the relevant laws and market regulations and to expand supervisory practices to decrease irresponsible corporate behavior. The Chinese Federation for Corporate Social Responsibility was launched in Shanghai during 2007 by 13 foreign and domestic companies. China is only at the beginning of forming a viable CSR philosophy and governance. Examples of initiatives and guidelines include the Recommended CSR Standards for Chinese Corporations and the Compilation of Best Practices published by the Chinese Business Council for Sustainable Development, as well as the Ministry of Commerce guidelines for the preparation of CSR reports.

However, CSR guidelines that require companies to address social and environmental considerations alongside the drive for profits remain unfamiliar to most Chinese businesses. The main cause of the Jilin City chemical explosion in 2005, which killed six and wounded others, was caused by improper handling of equipment by workers. In the same year, another tragedy struck. This time it was the Dongfeng coal mine explosion that resulted in more than 100 worker deaths. In this case, mine managers did not know about the central government's emergency instructions on mining safety and could not tell how many workers they had dismissed immediately following the blast. Such ignorance of work safety, pollution, and educational needs—the underlying

10. Dayman, S. (2008). Russia in 2008: Corporate social responsibility in a post-socialist state. Retrieved from www.ecologia .org/isosr/sergey.html.

11. Lattemann, M., Fetscherin, M., Alon, I., Li, S., & Schneider, A. (2009). CSR communication intensity in Chinese and Indian multinational corporations. *Corporate Governance: An International Review (17)*4, 426–442.

12. Ibid.

BOX 16-2 COMPANY IN FOCUS: LENOVO

Lenovo China has been working with Lenovo International to launch its Environmentally Conscious Products program, which integrates environmental management systems with product specifications. Lenovo uses ISO 14001 as an environmental management system, which includes end-of-life management, supplier environmental performance, and greenhouse gas emission factors.

Yantai in Shandong Province aims to increase the number of green tourist hotels and economy hotels to promote energy saving and emission reductions. The term "green tourist hotel" refers to a hotel that can adhere to clean production, advocate green consumption, protect the ecological environment, and use resources in a rational way.

cause of thousands of tragedies—exists widely in Chinese industries.[13] Some people argue that it is too early for Chinese companies to embrace the CSR concept, since most businesses are still at the early stages of developing technological know-how and are struggling for their survival. However, as Gary Dirks, president of BP China, has noted, CSR goes beyond simply "charitable efforts" and addresses more fundamental questions of profit-making; therefore, it should be mainstreamed into a company's business model from the start, not considered a luxury to add later on. There are optimistic signs, however. The Chinese government and economic organizations are establishing Chinese standards and accreditation criteria of CSR reports and health and safety standards. Western companies operating in China should be aware of and promote CSR standards.

CSR IN INDIA

Spirituality and CSR are deeply rooted in the Indian tradition. Therefore, CSR is not a new phenomenon, but rather is linked to Indian culture and religion. Social duties and engagement in charity by Indian corporations were often implicit, but over time, CSR has become more dominant and broader in scope. Corporate philanthropy is now part of normal business operations and is embedded in corporate activities.[14]

India also has a long tradition of paternalistic philanthropy. Big family-owned firms such as Tata are particularly active in providing basic services, such as schools and healthcare, for local communities. For example, organizations like Bharath Petroleum Corporation Limited, Maruti Suzuki India Limited, and Hindustan Unilever Limited, adopt villages where they focus on holistic development. They provide better medical and sanitation facilities, build schools and houses, and help the villagers become self-reliant by teaching vocational and business skills. Some examples where CSR has paid dividends to Indian companies appear in Table 16-3.[15] Nevertheless, it has been reported that few Indian companies publish a Corporate Sustainability Report or state how much they spend on CSR activities.[16]

13. Zinjung, L. (2005). Lack of corporate social responsibility behind recent China accidents. *World Watch Institute*. Retrieved from http://www.worldwatch.org/node/3859.

14. Lattemann, M., Fetscherin, M., Alon, I., Li, S., & Schneider, A. (2009). CSR communication intensity in Chinese and Indian multinational corporations. *Corporate Governance: An International Review (17)*4, 426–442.

15. The state of CSR in India 2004, acknowledging progress, prioritizing action. (2004, November 10). National Seminar on Corporate Responsibility, New Delhi.

16. Retrieved from www.karmayog.org/redirect/strred.asp?docId=13270.

TABLE 16-3 Corporate Social Responsibility Pays Off

Boosting Profits	Gujarat Ambuja, one of the country's leading cement manufacturers, reports that "our efforts to achieve world standards in environment protection had the outcome of substantially improving efficiency and profitability."
Cutting Costs	Reliance Industries' energy conservation measures have saved the company 1,150 million rupees per annum.
Increasing Revenues	HLL's Project Shakti creates income-generating opportunities for underprivileged rural women, while giving the company enhanced access to hitherto unexplored rural areas.
Strengthening Brand Value	Infosys was among seven international companies to be chosen in the first annual list of "Top Brands with a Conscience."
Enhancing Reputation	The Oil and Natural Gas Corporation has found that its community development program has "generated goodwill and earned the company the reputation of being a company that cares."
Improving Morale	Tata Steel believes that helping the community also provides a new perspective to its employees, thereby strengthening employee morale.

BOX 16-3 COMPANY IN FOCUS: INDIAN INSTITUTE OF MANAGEMENT

The post-graduate programs at the Indian Institutes of Management have initiated an ethics program in the schools. One of their educators was quoted as saying: "Our social conditioning by and large makes us unethical vis-à-vis a lack of civic sense and concern for the environment. Management students are at an age when they are less vulnerable and can differentiate the right from the wrong. The subject has been introduced to sensitize students about ethical issues as and when they take up responsibilities later in their career."

The ethics course is compulsory for all students, and it is joined by a course on social transformation in India, which focuses on the societal issues across the country. Such courses should help the students take sustainable decisions for society when they graduate.

CAN A COMPANY AFFORD NOT TO BE ETHICAL?

Maintaining an ethical stance in all situations may be difficult. As an anonymous reader of a business magazine commented in an article supporting ethics in a global organization:

> *Ethics do differ around the world. [In] some countries a bribe is required to do business and in others it is illegal. The only thing to do is follow your own country practices and live with the results.*

A study of 127 companies in the UK, taken from the FTSE 350 for which full and comparable company data was available for the years 1997–2001, was divided into two cohorts: those who have had codes of ethics/conduct/principles for five years or more and those who explicitly said they did not. The results showed that:

- Regarding financial performance, from three of the four measures of corporate value used in this study (EVA, MVA, and P/E ratio), it was found that those companies in the sample with a code of ethics had, over the period 1997–2001, outperformed a similar-sized group who said they did not have a code.
- Companies with a code of ethics generated significantly more economic added value (EVA) and market added value (MVA) in the years 1997–2000 than those without a code.
- Companies with a code of ethics experienced far less P/E volatility over a four-year period than those without them. This suggests that they may be a more secure investment in the longer term. Other research has suggested that a stable P/E ratio tends to attract capital at below average cost; having a code may be said to be a significant indicator of consistent management.
- The indicator that showed a different result pattern to the others was Return on Capital Employed. No discernable difference was found in ROCE between those with or without a code for 1997–1998. However, from 1999 to 2001, there was a clear (approximately 50 percent) increase in the average return of those with codes, while those without codes fell during this period.

Some academic work has been done in the United States comparing the long-term added value of corporations with business ethics policies (e.g., codes of ethics) with those who do not have them. It indicated that there is a correlation between those with a reputation for integrity and the growth of long-term shareholder value. A 2006 study of nearly 100 research studies that investigated the relationship between corporate performance and ethics found:[17]

- In the 80 studies evaluating whether corporate social performance contributes to corporate financial performance, 53 percent of them point to a positive relationship. No relationship is identified in 24 percent of the studies, 4 percent find a negative relationship, and the remaining 19 percent of the studies yield mixed results.
- Of the 19 studies evaluating corporate social performance as an outcome of financial performance, 68 percent identify a positive relationship, with 16 percent showing no relationship and 16 percent providing mixed results.

Some studies have found that ethical behavior has less impact on corporate performance in the short run than in the long run. In an informal survey of a group of 51 employees of Hungarian companies from the fields of advertising, logistics, packaging, travel, recruitment, and a few others, 67 percent found that companies in Hungary that do business legally and ethically are more successful than other companies in the long term, but may be less successful in the short term.[18]

Are socially responsible companies sustainable? Table 16-4 lists some sustainable companies by their corporate social action. Most of them are well known and successful in what they do. The table lists a few representative companies in several industrial categories.

17. Margolis, J., Walsh, J., & Krehmeyer, D. (2006). *Building the Business Case for Ethics*. Business Roundtable Institute for Corporate Ethics.

18. Retrieved from www.ethicalleadershipgroup.com/blog/2006/04/budapest_hungary_does_ethics_p_1.html.

TABLE 16-4 Socially Responsible and Successful Companies

Company	Action
Toyota	Developer of hybrid gas-electric vehicles
Renault	Fuel-efficient cars
Volkswagen	Clean diesel technologies
Hewlett Packard	Ecological standards
Toshiba	Developer of eco-efficient products
Dell	Recycling of used computer hardware
Royal Dutch Shell	Invests in wind and solar energy
Norsk Hydbro	Assesses social and environmental impact of its operations
Suncor Energy	Helps solve ecological and social issues in Northern Canada
Nokia	Leads in phasing out toxic materials
Ericsson	Wind- and fuel-cell-powered telecom systems in Nigerian villages
Motorola	Disclosure of environmental impact of operations
Philips Electronics	Innovator of energy-saving appliances
Sony	Considerate of green issues and monitors safety and labor standards of its suppliers
Matsushita Electric	Produces state-of-the-art green products
Roche	Invests in drug research for third world use
Novo Nordisk	Sells diabetes drugs in poor nations at a substantial discount
GlaxoSmithKline	First to offer AIDS drugs at cost

A study of firms in the UK examined the impact of ethical identity on their financial performance by comparing two dimensions of a firm's ethical identity: corporate applied ethics (CAE) and corporate revealed ethics (CRE). Since most companies have a revealed code of ethics, those companies that specifically provided training on their code of ethics to their employees were categorized as those with corporate applied ethics. It also tested whether business ethics has a stronger influence on accounting measures than on market measures. Corporate financial performance was measured using both accounting-based and market-based indicators over a five-year period (2001–2005). It was found that in the short run, there was no significant difference between the financial performances of the companies in both categories, while in the long run, companies with CAE significantly outperformed those with CRE. Also, this study found an indication that accounting measures are more influenced by business ethics than market measures.[19] In effect, the ethics code is a policy statement that employees are expected to follow. However, a code in itself is not sufficient; it has to have monitoring features and someone who is responsible for overseeing that the code is implemented. The *Sarbanes-Oxley Act* requires a company to publicly disclose their code of ethics if their stock is traded under the auspices of the Securities Exchange Act of 1934.

THE FIGHT AGAINST CORRUPTION AND BRIBERY

There are two major factors that motivate corruption and bribery: monetary gain and weak governance. While the monetary motive is difficult to remove, there is much that can be done to improve governance. There are three main organizations that have the resources to monitor and prevent corruption and bribery: governments, non-governmental organizations, and business firms. Before the 1990s, there were few non-governmental

19. Ugoji, K. (2006). *Does Business Ethics Pay? Ethics and Financial Performance* [MSc thesis]. Cranfield School of Management.

TABLE 16-5 A Chronological Listing of Anti-Corruption Organizations

1993	Transparency International
1995	Transparency International Corruption Perception Index
1997	OECD Anti-Bribery Convention
1999	Transparency International Bribe Payers Index
2001	Transparency International Global Corruption Barometer
2003	UN Convention Against Corruption

agencies that dealt with these problems; since then, some non-governmental organizations have been formed, like Transparency International, and conventions have been enacted by existing bodies such as the OECD and the UN. Table 16-5 shows some of these developments chronologically.

One major non-governmental organization is *Transparency International* (TI), a global network headquartered in Germany with more than 90 national chapters and chapters-in-formation around the world. These chapters bring together relevant stakeholders from government, civil society, business, and the media to promote transparency in elections, in public administration, in procurement, and in business. TI's global network of chapters and contacts also use advocacy campaigns to lobby governments to implement anti-corruption reforms. TI publishes a number of surveys that measure the extent of corruption and bribery including the Corruption Perception Index, Bribe Payers Index, and Global Corruption Barometer. The 2008 CPI ranks 180 countries in terms of perceived levels of corruption, as determined by expert assessments and opinion surveys; the TI Bribe Payers Index evaluates the supply side of corruption—the likelihood of firms from the world's industrialized countries to offer or pay bribes abroad—while the Global Corruption Barometer is a survey that assesses general public attitudes toward and experience with corruption in dozens of countries around the world.

Figure 16-3 shows the 2008 CPI rankings. The three least corrupt countries are Denmark, New Zealand, and Sweden, while the most corrupt are Somalia, Myanmar, and Iraq. In the Bribe Payers Index, of the 22 countries surveyed, the firms least likely to bribe when operating abroad are headquartered in Belgium, Canada, the Netherlands, and Switzerland, in that order, while firms headquartered in Russia, China, Mexico, and India are the most likely to bribe when operating abroad. Note that companies operating in these countries are not necessarily owned by nationals but could also be affiliates of multinationals.

THE OECD BRIBERY CONVENTION

The **OECD Anti-Bribery Convention** establishes legally binding standards to make bribery of foreign public officials in international business transactions a criminal offense and provides for a host of related measures that make this effective. The 30 OECD member countries and eight non-member countries—Argentina, Brazil, Bulgaria, Chile, Estonia, Israel, the Slovak Republic, and South Africa—have adopted this convention. The convention forbids payments to public officials, elected or appointed, in order to obtain business favors. Such payment is a criminal offense under the convention. Enforcement of the convention is the responsibility of the signatory countries who are expected to enact legislation dealing with such activities. While the OECD does not have the authority to implement the convention, it does monitor the effectiveness of legislation in force by member countries. This monitoring

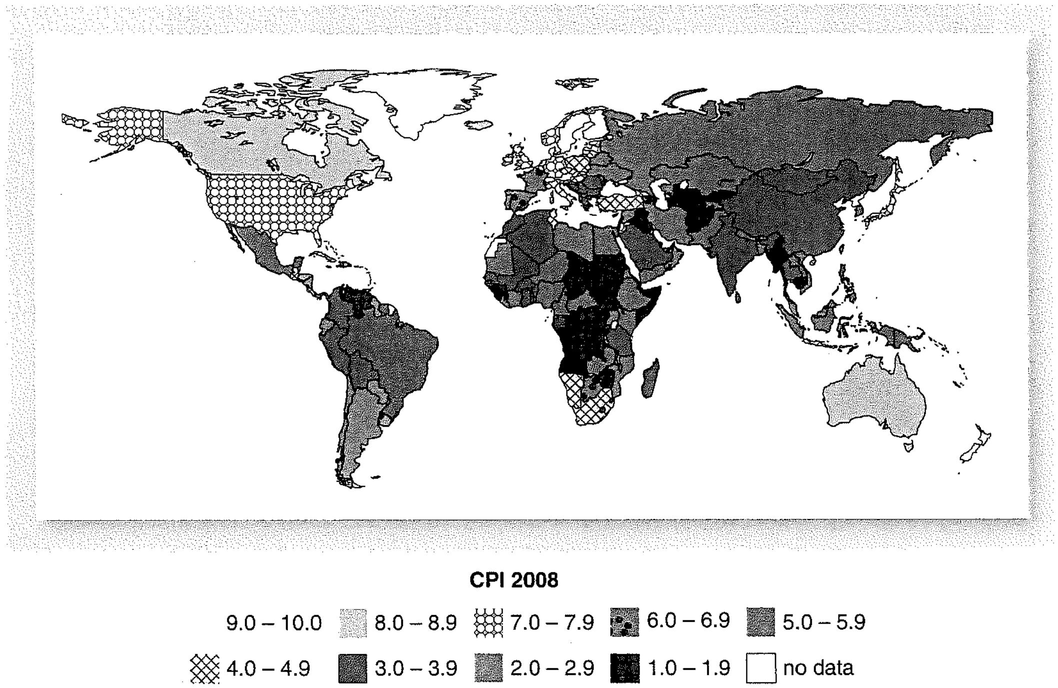

Figure 16-3 Map of Countries Rated by the Corruption Perception Index

Source: Data from Transparency International. Retrieved from www.transparency.org/policy-research/surveys-indices/cp/2010.

does have weight, as exemplified by the United Kingdom's Serious Fraud Office. The UK Serious Fraud Office's decision to drop an investigation into BAE Systems over bribery allegations relating to a £43bn arms deal with Saudi Arabia, and other alleged corruption cases, led to an investigation by the OECD that concluded that reform was urgently needed in the UK to address "systemic deficiencies" in the legal system.

The report sharply criticized the UK for failing to bring its anti-bribery laws into line with its international obligations under the OECD Anti-Bribery Convention and urged the rapid introduction of new legislation. Existing UK laws made it very difficult for prosecutors to bring an effective case against a company for alleged bribery offences, the OECD said. The criticism was a major factor in the enactment of the UK Bribery Bill, making it a criminal offense to offer a bribe at home or abroad.

UN CONVENTION AGAINST CORRUPTION

The **UN Convention Against Corruption** prohibits corruption in both the public and private sectors, although the prohibition concerning the private sector is not mandatory. The convention covers four areas: prevention, criminalization, anti-corruption policies, and coordination for implementation. Corruption also includes money laundering and embezzlement. Embezzlement is a sensitive issue because it raises questions about public officials who live beyond their means in expensive housing and lead egregious lifestyles. However, the convention calls for an investigation whenever such asymmetries arise. International cooperation also calls for repatriation of assets that have been transferred illicitly to another country. The UN Convention has limitations. It does not cover bribery in the private sector, nor political corruption. Moreover, the UN does not have authority to enforce state compliance with the rules of the convention; it only serves as a watchdog agency that leaves enforcement to the countries involved.

GOVERNMENT ANTI-CORRUPTION AND BRIBERY ENFORCEMENT

Governments have a key role to play in ensuring that foreign bribery is stopped at the source—and by making good on commitments to prevent and prosecute such practices. Some governments have enacted anti-corruption and bribery legislation in accordance with the OECD and UN conventions. Some examples follow.

UNITED STATES FOREIGN CORRUPT PRACTICES ACT OF 1977

The United States was the first country to enact ant-corruption legislation. The **United States Foreign Corrupt Practices Act of 1977 (FCPA)** contains two major provisions. First, its anti-bribery provision makes it illegal to bribe foreign officials to retain or obtain business. Its second provision requires companies to make and keep books, records, and accounts that accurately and fairly reflect their transactions. Companies are also required to maintain a system of controls that can provide reasonable assurances of the propriety and legality of those transactions.

The FCPA began to take on a higher profile in the early 2000s. One key factor of this was the passage of the **Sarbanes-Oxley Act of 2002,** which emphasized greater corporate transparency, senior management accountability, enhanced control systems, and whistle-blower protections. The increased focus on Sarbanes-Oxley requirements and the additional resources dedicated to implementing them in many instances led to the discovery of improper payments and of control and compliance weaknesses that enabled such payments to go undetected. Moreover, companies sought to reduce their potential liability for violations found by voluntarily disclosing such conduct to the authorities and pledging to conduct thorough investigations, report the results of such investigations to the government, and remediate the gaps in their control structures.[20]

The number of FCPA investigations and cases brought by the Department of Justice and the Securities and Exchange Commission grew from nine in 2003 to 29 in 2007, and, on a cumulative basis, investigations involving 82 corporations remained open at the beginning of 2008. Similarly, corporate FCPA anti-bribery prosecutions and enforcement actions rose from five in 2004 to 38 in 2007. At mid-year 2008, 16 new prosecutions were underway—more than in any full year prior to 2007.[21]

UK BRIBERY BILL

The UK Bribery Bill:

- Makes it a criminal offense to give, promise, or offer a bribe and to request, agree to receive, or accept a bribe either at home or abroad. The measures cover bribery of a foreign public official.
- Increases the maximum penalty for bribery from seven to 10 years' imprisonment, with an unlimited fine.
- Introduces a corporate offense of negligent failure to prevent bribery by persons working on behalf of a business. A business can avoid conviction if it can show that it generally has good systems in place to prevent bribery.

20. Rial, E. (17 April 2009). Beyond reproach, why compliance with anti-corruption laws is increasingly critical for multinational businesses. *Deloitte Review*.

21. 2008 Mid-year FCPA update. (2008, July). Gibson, Dunn & Crutcher LLP.

- Ensures that evidence from proceedings in Parliament can be considered by the courts in bribery cases by removing Parliamentary Privilege in the prosecution of an MP or Peer.

Emerging countries have also passed anti-corruption and bribery legislation. Take Lithuania, for example. Article 282 of the criminal code defines the *acceptance of a bribe* as accepting, promising to accept, or demanding a bribe by a public official or a civil servant, for himself or herself or for anyone else, for him or her to act or refrain from acting, to make a decision, vote, or express an opinion in favor of a bribe-giver, or the promise to do so. The criminal code also stipulates other corruption-related crimes. These include abuse of office, refraining from official duties (non-feasance), fraud (related to document handling) in office (malfeasance), exceeding one's authority, commercial bribery, and acceptance of undue remuneration.

ANTI-CORRUPTION AND ETHICS POLICY BY BUSINESS FIRMS

One of the options available to business firms is to compile a code of ethics. An **ethics code** is a set of guidelines that stipulates a set of acceptable behaviors. However, a written code is not sufficient unless it includes a mechanism for its enforcement, such as penalties for not adhering to the code and, in some cases, rewards for following it. An ethics code needs the support of all top executives of the firm. A survey by Deloitte & Touche among 4,000 of the top publicly traded firms in the United States found that 83 percent of respondents had codes of conduct but that one-fourth were not enforcing them.[22] About one-half of the firms reported that ethics issues are taken up by the board of directors only when failure occurs.

In order to implement an ethics code, it is necessary to appoint an ombudsman, a manager who has the responsibility for coordinating ethical policy throughout the organization and who serves as an advocate for employees and board members who report, or are involved in, an ethical dilemma. If employees are expected to report what they observe as unethical behavior by their peers (whistle-blowing), they must be protected by the organization (and perhaps rewarded for their actions).

Attempts have also been made to motivate ethical behavior in a company's supply chain. An example of this is the Sedex nonprofit organization based in London, UK, which is open for membership to any company anywhere in the world. Sedex is a knowledge management provider for measuring and improving ethical and responsible business practices in global supply chains. The organization enables member companies to manage efficiently the ethical and responsible practices of their global supply chains, generating transparency through the provision of a secure and user-friendly data exchange.

GLOBAL CORPORATE CITIZENSHIP

Nations are interdependent in a world of globalization. Corporations operating in this world have the opportunity to build an international community of virtue and protection of basic human rights.[23] This task can be performed by adhering to universal

22. Retrieved from www.deloitte.com/us/ethicssurvey.

23. Rendtorff, D. *Toward ethical guidelines for international business corporations: Aspects of global corporate citizenship.* Proceedings of the Fourth ISBEE World Congress, Cape Town, South Africa, 15–18 July 2008. International Society of Business, Economics and Ethics.

codes of behavior such as those promulgated by the United Nations, OECD, and relevant NGOs such as Transparency International. Firms can promote basic, universal human principles, such as physical security, education, decent working conditions, and wages by practicing them in the workplace.

In addition to the Sedex organization, a group of business leaders from Europe, Japan, and the United States met in Caux, Switzerland, to develop "a shared perspective on business behavior acceptable to and honored by all."[24] The deliberations of the group led to the publication of seven general principles of behavior:

1. The responsibilities of businesses: Beyond shareholders toward stakeholders
2. The economic and social impact of business: Toward innovation, justice, and world community
3. Business behavior: Beyond the letter of the law toward a spirit of trust
4. Respect for rules
5. Support for multilateral trade
6. Respect for the environment
7. Avoidance of illicit operations

These suggested modes of behavior contain both ethical (e.g., avoidance of illicit operations) and social responsibility (e.g., respect for the environment) principles that may be applied across nations.

A number of ethicists such as Richard De George,[25] Thomas Donaldson,[26] and Thomas Dunfee[27] have written broadly on the subject of moral values that corporations should follow when doing business abroad (see Table 16-6 for some examples). All three educators have grappled with the problems that arise when home and host cultures differ, especially with respect to moral values. Business practices that may be considered unethical in one culture may be acceptable in another. The dilemma is how to act in a situation where what you consider unethical at home is acceptable elsewhere. This situation is what Donaldson and Dunfee call **moral free space.**[28] In this space there are no right answers, so managers must chart their own course of action, as long as they do not violate **core moral values.** Generally, these core values stem from a company's code of ethics. In the absence of such a code, or if the code does not fit the situation, then the manager must use his or her judgment. Donaldson suggests that most dilemmas occur because of differences between two cultures are of two kinds: **conflict of relative development** and **conflict of tradition.** In the first conflict, a dilemma occurs because of a difference between stages of economic development. In this situation, it is suggested that managers ask whether the practice in question would be acceptable if his or her country was in the same stage of development. If so, then the practice would be ethical. The second case is one of traditional differences. The most prevalent situation is gift giving. In Asian and Middle Eastern countries, it is customary to give business gifts. Here the problem is one of intent and magnitude. If the intention is to fulfill a cultural norm, then the gift may be considered ethical if its magnitude cannot be construed as being beyond the normal value of a gift in the context in which it is given.

24. *Caux Round Table Principles for Business.* (1994). The Hague, Switzerland.

25. De George, R. (1993). *Competing with integrity in international business.* New York: Oxford University Press.

26. Donaldson, T. (1989). *The ethics of international business.* New York: Oxford University Press.

27. Dunfee, T. (2003). Taking responsibility for bribery: The multinational corporation's role in combating bribery. In Rory Sullivan [Ed.], *Business and Human Rights: Dilemmas and Solutions.* Sheffield, UK: Greenleaf Publishing.

28. Donaldson, T. (1996, September/October). Values in tension: Ethics away from home. *Harvard Business Review,* 44–52.

TABLE 16-6 Moral Values and Principles of Selected Firms

Bell Canada Enterprises	Bank of Montreal	General Electric	Nortel
Comply with applicable laws.	Do what is fair and honest.	Obey applicable laws and regulations.	Compete vigorously and fairly in the marketplace.
Work with integrity, honesty, fairness.	Respect the rights of others.	Be honest, fair, and trustworthy.	Treat others with dignity and respect.
Foster environment of trust, respect, and open communication.	Work to the letter and spirit of the law.	Avoid conflicts of interest.	Do what we say we will do.
Maintain a safe and secure workplace and protect the environment.	Maintain the confidentiality of information.	Foster an equal opportunity atmosphere.	Be honest and obey all applicable laws.
Sustain a culture where ethical conduct is recognized, valued, and exemplified by all employees.	Avoid conflicts of interest.	Strive to create a safe workplace and protect the environment.	Committed to live out our values.
	Conduct ourselves appropriately at all times.	Through leadership, sustain culture where ethical conduct is recognized, valued, and exemplified by all employees.	

Source: Adapted from: Schwartz, M. (2005). Universal moral values for corporate codes of ethics. *Journal of Business Ethics*, 59, 33.

SUMMARY

- As multinational companies expand globally and enter foreign markets, ethical conduct of 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 more homogeneous organizations.
- Unethical practices such as bribery and poor working conditions can have negative effects on the firm in the long run in terms of lower profits and tarnished image.
- According to ethical absolutism, global firms need to develop and enforce their own codes of ethics wherever they operate, specifically directed at the issues related to a multicultural, multinational business environment. However, there are those who believe that one should follow the ethical codes that prevail in the host country.
- Corporate social responsibility (CSR) in the international business environment is more challenging because there are many more and diverse stakeholders of international business firms. MNCs face wider CSR expectations and are under increasing pressure to exhibit socially responsible behavior in their global operations.
- International monitoring of bribery and corruption is more widespread thanks to organizations such as Transparency International, the OECD, and the European Commission. Organizations such as these have led to the strengthening of anti-corruption domestic legislation in many countries, as well as multilateral agreements to curb these practices.
- CSR in the BRIC countries ranges from moderate, in the case of Brazil and India, to rather weak in China and Russia.

DISCUSSION QUESTIONS

1. In doing business in a foreign country, whose ethics should you follow, the norms of the foreign country or those of your home country? Discuss.
2. Give three examples of corporate social responsibility in your state or city.
3. What can multinational corporations do to encourage corporate social responsibility among the companies with which they do business abroad?
4. Does a potential whistle-blower have a greater responsibility to the public, to the organization, or to him or herself?

EXPERIENTIAL EXERCISES

1. Obtain via the Internet the ethical codes of two American multinational corporations. Try to compare their codes to those of a French or British MNC (also obtained via the Internet). What similarities have you found in the company codes? Are there any differences?
2. Compare the anti-bribery legislation of the UK and the United States. Which legislation, in your opinion, will do the best job of preventing bribery?

KEY TERMS

Conflict of relative development, p. 451

Conflict of tradition, p. 451

Core moral values, p. 451

Corporate social responsibility (CSR), p. 440

Ethical absolutists, p. 439

Ethical relativists, p. 439

Ethical universalists, p. 439

Ethics code, p. 450

Ethics, p. 438

Moral free space, p. 451

OECD Anti-Bribery Convention, p. 447

Sarbanes-Oxley Act of 2002, p. 449

Transparency International, p. 437

UK Bribery Bill, p. 449

UN Convention Against Corruption, p. 448

United States Foreign Corrupt Practices Act of 1977 (FCPA), p. 449