

International Business Management

Prepared by Dr. Noha Adel





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Ethics, Corporate Social Responsibility, and Sustainability

Chapter 2

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Chapter

02

Learning Objectives

- 2-1 Define business ethics and describe the three levels of ethical standards.
- 2-2 Determine who is responsible for ethical behavior and why ethical lapses occur.
- 2-3 Explain how to establish and maintain high ethical standards.
- 2-4 Understand the ethical, corporate social responsibility, and sustainability issues faced by international business.
- 2-5 Recognize an ethical, corporate social responsibility, and/or sustainability dilemma.
- 2-6 Identify the causes of unethical behavior by managers as they relate to business, corporate social responsibility, or sustainability.
- 2-7 Describe the different philosophical approaches to business ethics that apply globally.
- 2-8 Explain how global managers can incorporate ethical considerations into their decision making in general and for corporate social responsibility and sustainability initiatives.

Ethics

Introduction

Ethics – accepted principles of right or wrong that govern conduct of a person, members of a profession, or actions of an organization

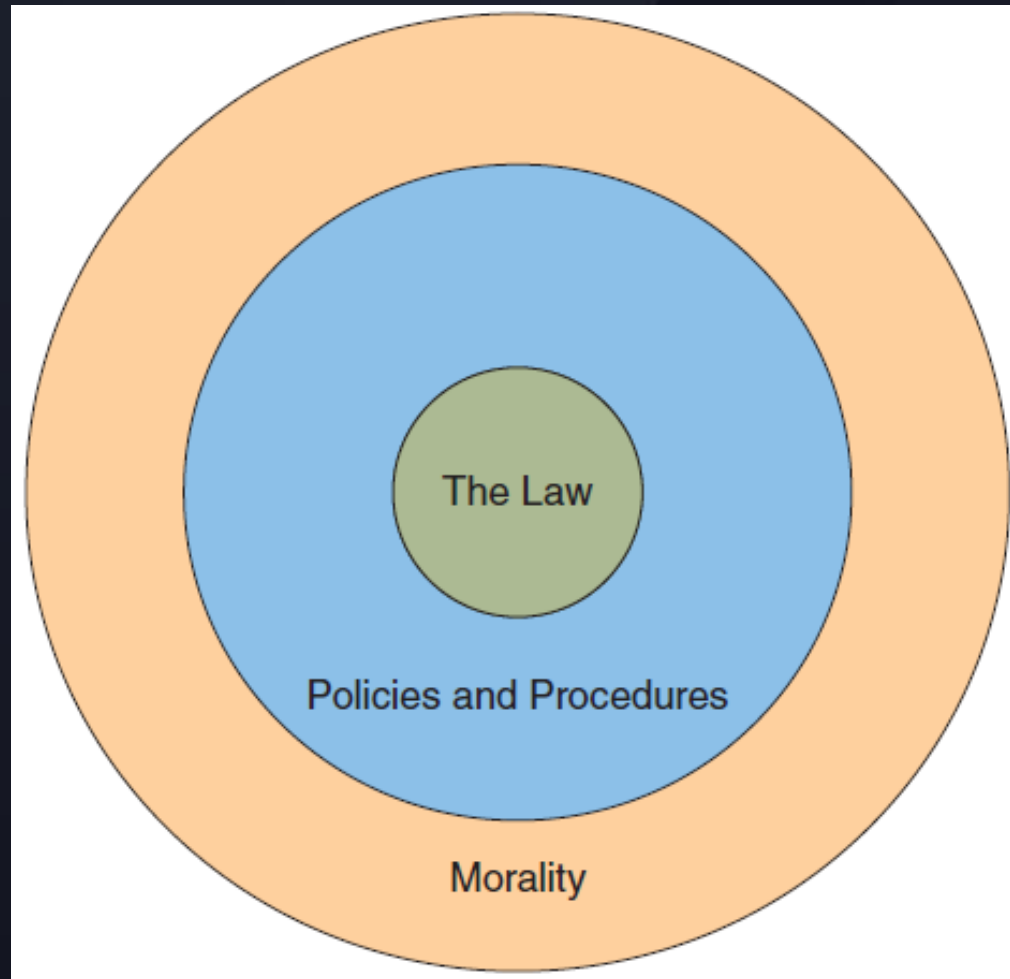
Business ethics: accepted principles of right or wrong governing conduct of business people

Ethical strategy: strategy, or course of action, that does not violate these accepted principles

Ethics: a branch of philosophy that studies and creates theories about the basic nature of right and wrong, duty, obligation, and virtue.

Business ethics: the fundamental moral values and behavioral standards that form the foundation for the people of an organization as they make decisions and interact with stakeholders.

Three Levels of Ethical Standards



Three Levels of Ethical Standards

The law: Laws define for society as a whole actions that are permissible and those that are not. The law is the narrowest level of ethical standards.

Organizational policies and procedures: These serve as specific guidelines for people as they make daily decisions. Policies and procedures include a broader definition of ethical standards that go beyond what is defined by law.

The moral stance: This is what employees take when they encounter a situation that is not governed by levels 1 and 2. It is the broadest and most fundamental definition of ethical standards.

Most common ethical issues in business involve:

- Employment practices
- Human rights
- Environmental regulations
- Corruption
- Moral obligations

Employment Practices

What practices should be used when work conditions are inferior in host nation?

Human Rights

What is the responsibility of a foreign multinational when operating in a country where basic human rights are not respected?

Child Labor



Child labor still exists in some foreign countries.

Environmental Pollution

Should a multinational feel free to pollute in a developing nation if doing so does not violate laws?

Tragedy of the commons

Corruption

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

Foreign Corrupt Practices Act (FCPA)

Convention on Combating Bribery of Foreign Public Officials in International Business Transactions

- Facilitating payments, or *speed money*, excluded

Corruption continued

Some argue paying bribes might be price of doing greater good

When preexisting political structures distort or limit the market mechanism, corruption may enhance welfare

- Includes marketeering, and side payments to government bureaucrats to “speed up” approval for business investments

Others argue that corruption reduces returns on business investment and leads to low economic growth

Many multinationals have adopted a zero-tolerance policy

Should the United States Have Jurisdiction over Foreign Firms?

- ✧ The Foreign Corrupt Practices Act (FCPA) is not just imposed on U.S. companies with operations globally. It also has jurisdiction over foreigners operating in the country. Settling a FCPA investigation, Siemens—Europe's largest engineering company and the largest electronics company in the world—was fined \$800 million by the U.S. Department of Justice and the U.S. Securities and Exchange Commission. Together with various penalties imposed in Germany, Siemens' home country, the penalties total \$1.6 billion. The settlement involved at least 4,200 allegedly corrupt payments totaling some \$1.4 billion over six years to foreign officials in numerous countries. Meetings, negotiations, and bank account transfers were taking place in the United States between Siemens and officials from other countries. **Is it appropriate that the U.S. government can use the FCPA to investigate and fine foreign companies doing business in other countries?**

Managers often face situations where appropriate course of action is not clear

Ethical dilemmas: situations in which no available alternatives seems ethically acceptable

Exist because real world decisions are complex, difficult to frame, and involve various consequences that are difficult to quantify

Moral Management

Organizational Characteristics	Immoral Management	Amoral Management	Moral Management
Ethical norms	Management decisions, actions, and behavior imply a positive and active opposition to what is moral (ethical). Decisions are discordant with accepted ethical principles. An active negation of what is moral is implicit.	Management is neither moral nor immoral; decisions are not based on moral judgments. Management activity is not related to any moral code. A lack of ethical perception and moral awareness may be implicit.	Management activity conforms to a standard of ethical, or right, behavior. Management activity conforms to accepted professional standards of conduct. Ethical leadership is commonplace.
Motives	Selfish. Management cares only about its or its company's gains.	Well-intentioned but selfish in the sense that impact on others is not considered.	Good. Management wants to succeed but only within the confines of sound ethical precepts such as fairness, justice, and due process.
Goals	Profitability and organizational success at any price.	Profitability. Other goals are not considered.	Profitability within the confines of legal obedience and ethical standards.
Orientation toward law	Legal standards are barriers that management must overcome to accomplish what it wants.	Law is the ethical guide, preferably the letter of the law. The central question is, what we can do legally?	Obedience toward letter and spirit of the law. Law is a minimal ethical behavior. Prefer to operate well above what law mandates.
Strategy	Exploit opportunities for corporate gain. Cut corners when it appears useful.	Give managers free rein. Personal ethics may apply but only if managers choose. Respond to legal mandates if caught and required to do so.	Live by sound ethical standards. Assume leadership position when ethical dilemmas arise. Enlightened self-interest.

Benefits of Moral Management

1. Companies avoid the damaging fallout from unethical behavior on their reputation.
2. Dealing with stakeholders is much easier if a company has a solid ethical foundation on which to build.
3. It is easier to attract and retain quality workers.
4. It has a positive impact on a company's bottom line.
5. It has an impact on a company's ability to provide value for its customers.

Why Be Ethical?

Top Five Reasons to Run a Business Ethically

1. Protect brand and company reputation
2. It is the right thing to do
3. Maintain customers' trust and loyalty
4. Maintain investors' confidence
5. Earn public acceptance and recognition

Top Five Factors That Drive Business Ethics

1. Corporate scandals
2. Marketplace competition
3. Demands by investors
4. Pressure from customers
5. Globalization



Establishing an Ethical Framework

Step 1: Identify the personal moral and ethical principles that shape all business decisions.

Step 2: Recognize the ethical dimensions involved in the dilemma or decision.

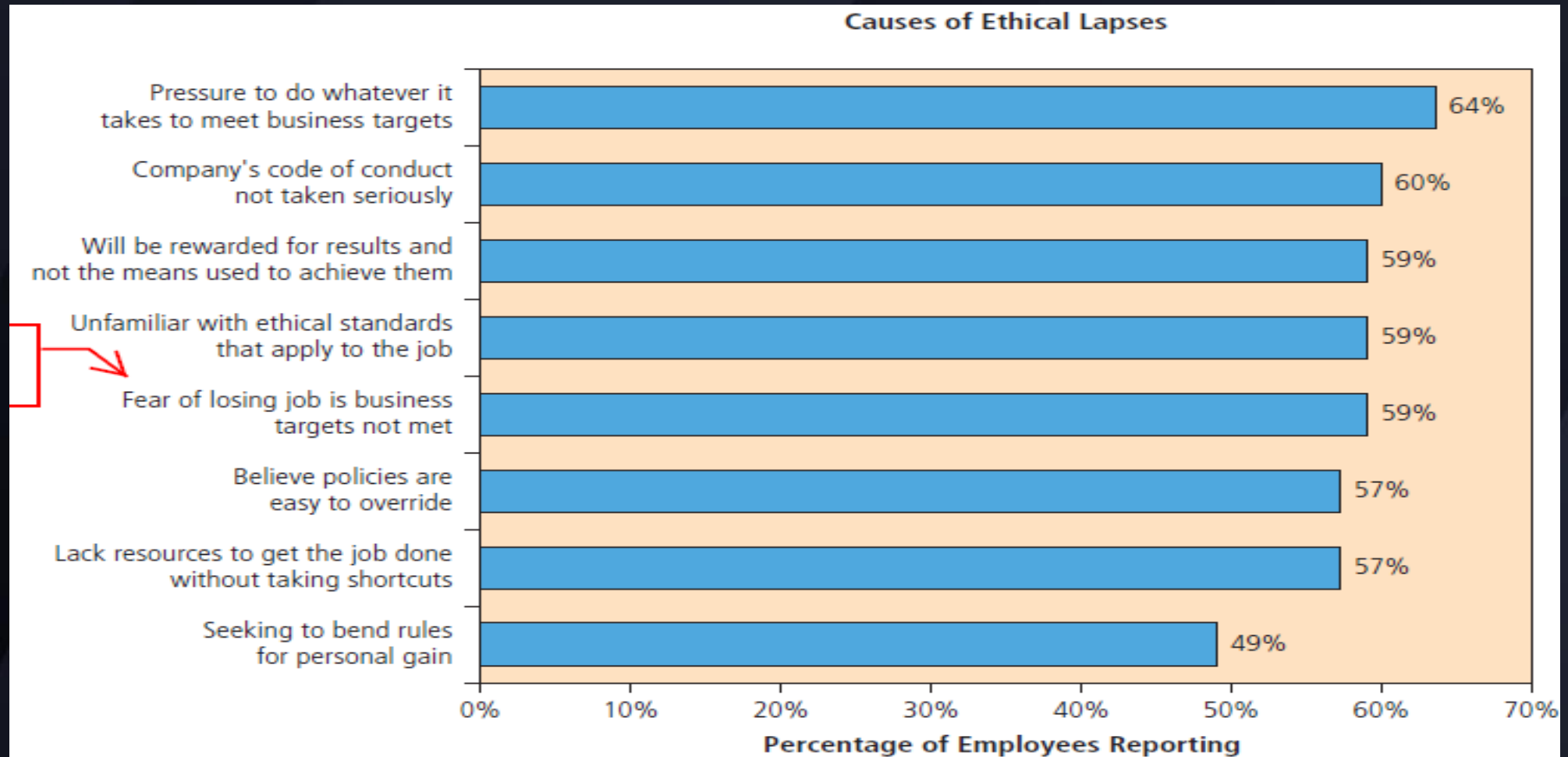
Step 3: Identify the key stakeholders involved and determine how the decision will affect them.

❖ **Triple bottom line (3BL):** measuring business performance using profitability, commitment to ethics and social responsibility, and its impact on the environment (“profit, people, and planet”).

Establishing an Ethical Framework

- Step 4: Generate alternative choices and distinguish between ethical and unethical responses.
- Step 5: Choose the “best” ethical response and implement it.

Why Ethical Lapses Occur?

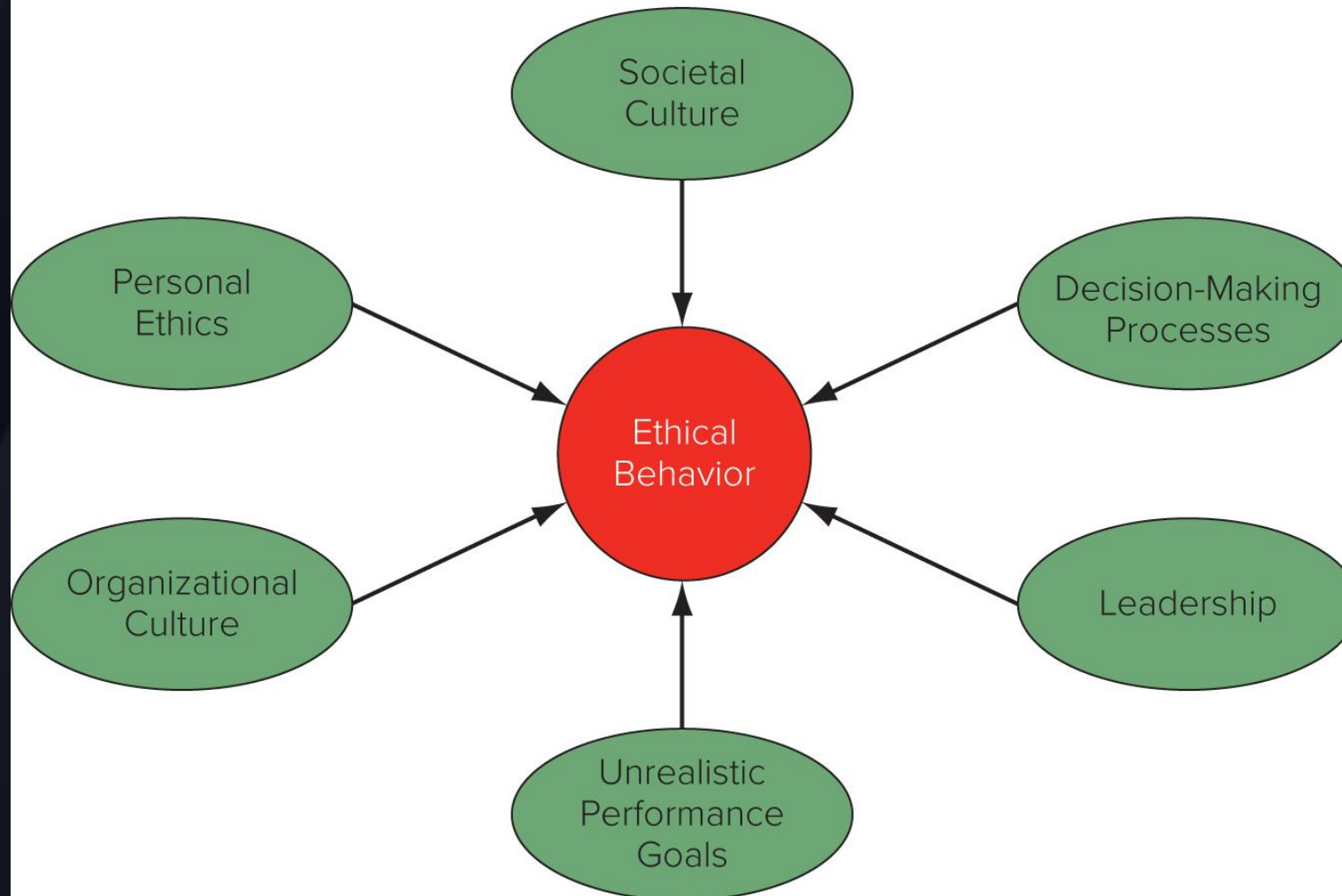


Managerial behavior is influenced by:

- Personal ethics
- Decision-making processes
- Organizational culture
- Unrealistic performance goals
- Leadership
- Societal culture

Figure 5.1 Determinants of Ethical Behavior

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Roots of Unethical Behavior 1

Personal Ethics

Business ethics reflect personal ethics

Expatriates may face pressure to violate personal ethics

Away from ordinary social context and supporting culture

Psychologically and geographically distant from parent company

Decision-Making Processes

Business people may behave unethically because they fail to ask relevant questions

Decisions made based on economic logic

Organizational Culture

Unethical behavior may exist in firms with an **organizational culture** that does not emphasize business ethics

Values and norms shape culture of a firm, and that culture influences decision making

Unrealistic Performance Goals

Pressure from parent company to meet goals that are unrealistic and can only be attained by acting in an unethical manner



Roots of Unethical Behavior 1

Leadership

Employees often take cues from business leaders

Actions speak louder than words

Societal Culture

Ethical policies differ by country

MNEs located in countries with strong individualism and uncertainty avoidance are more likely to emphasize ethical behavior

MNEs located in countries with high masculinity and high power distance are less likely to promote ethical behavior

Utilitarian and Kantian Ethics

Utilitarian approach: moral worth of actions or practices is determined by their consequences

Actions have multiple consequences, some good, some not

Actions are desirable that produce greatest good for greatest number of people

Kantian ethics: Immanuel Kant argued that people should be treated as ends and never purely as means to end of others

People have dignity and need to be respected; they are not machines

Rights Theories

Human beings have fundamental rights and privileges that transcend national boundaries and culture

Form basis of moral compass that managers should navigate by when making decisions that have an ethical component

Idea that some fundamental rights transcend national borders and cultures was underlying motivation for UN's **Universal Declaration of Human Rights**

Certain people or institutions are obligated to provide benefits or services that secure rights of others

Are Human Rights a Moral Compass?

- ✿ The Universal Declaration of Human Rights (UDHR) was adopted by the United Nations General Assembly on December 10, 1948, in Paris, France. The Preamble of UDHR starts by stating that “Whereas recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world” The day on which UDHR was adopted, December 10, is known as “International Human Rights Day,” and this day is also the one on which the Nobel Peace Prize is awarded annually. One human right that we discuss in the text is the right to free speech; by the same token, we have an obligation to respect free speech. **But are there issues, situations, or reasons where free speech should not be granted?**

Justice Theories

Focus on attainment of a **just distribution** – one that is considered fair and equitable – of economic goods and services

John Rawls: all economic goods and services should be distributed equally except when unequal distribution would work to everyone's advantage

Making Ethical Decisions Internationally

Actions managers can take to ensure ethics are considered:

1. Favor hiring and promoting people with well-grounded sense of personal ethics
2. Build organizational culture that places high value on ethical behavior
3. Put decision making processes in place that require people to consider ethical dimensions of business decisions
4. Institute ethical officers in organization
5. Develop moral courage
6. Make corporate social responsibility cornerstone of enterprise policy
7. Pursue sustainable strategies

Making Ethical Decisions Internationally continued

Hiring and Promotion

Businesses should strive to identify and hire people with strong sense of personal ethics

Prospective employees should find out about ethical climate in an organization

Organizational Culture and Leadership

Code of ethics

Articulate values that emphasize ethical behavior, repeatedly emphasize their importance, and then act on them

Provide incentives and rewards to those who engage in ethical behavior

Making Ethical Decisions Internationally *continued*

Decision-Making Processes

If manager answers “yes” to following questions, the decision is ethically acceptable:

- Does my decision fall within the accepted values or standards that typically apply in the organizational environment (as articulated in a code of ethics or some other corporate statement)?
- Am I willing to see the decision communicated to all stakeholders affected by it—for example, by having it reported in newspapers, on television, or via social media?
- Would the people with whom I have a significant personal relationship, such as family members, friends, or even managers in other businesses, approve of the decision?

Decision-Making Processes continued

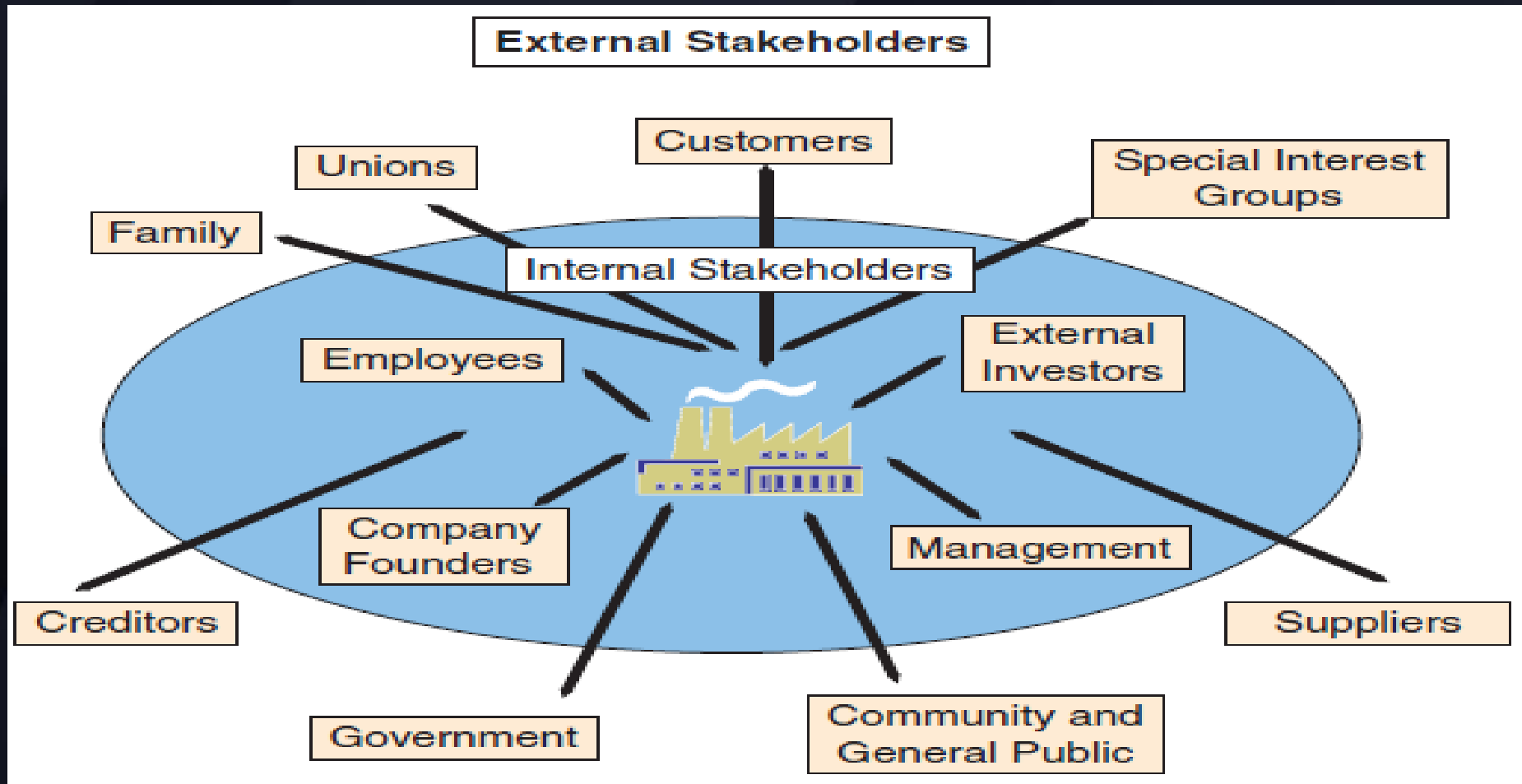
Five-step process helps managers think through ethical issues

1. How would a decision affect **stakeholders**?

Internal stakeholders: people who work for or who own the business such as employees, board of directors, and stockholders

External stakeholders: individuals or groups who have some claim on a firm such as customers, suppliers, and unions

Key Stakeholders



Decision-Making Processes continued

2. Judge ethics of proposed strategic decision

Determine if proposed decision violates fundamental rights of any stakeholders

3. Establish moral intent

4. Engage in ethical behavior

5. Audit decisions

Review to make sure they were consistent with ethical principles

Ethics officers

To encourage ethical behavior in a business, firms now have ethics officers

Act as an internal ombudsperson

Moral courage

Managers must walk away from decisions that are profitable but unethical

Requires moral courage

Social Responsibility

Social responsibility: how an organization responds to the needs of the many elements in society.

Corporate social responsibility (CSR)

- Multinationals need to give something back to the societies that enable them to prosper and grow
- Businesses should consider social consequences of economic actions
- There should be a presumption in favor of decisions that have both good economic and good social consequences
- Noblesse oblige *Noblesse oblige* is a French term that refers to honorable and benevolent behavior considered the responsibility of people of high (noble) birth.

Companies must go beyond “doing well” – simply earning a profit – to “doing good” – living up to their social responsibility.

Surveys show:

55% of small businesses’ mission statements include references to achieving social goals.

90% of small business owners give to charity and
70% donate both money and time to local causes.

Why Be Socially Responsible?

- Research shows:
 - 75% of consumers say social responsibility is important in their purchasing decisions.
 - There is a positive correlation between ethical, socially responsible behavior and profitability.
- But it can be difficult to define just what socially responsible behavior is!

Business's Responsibility to the Environment

Socially responsible business owners
focus on the **three Rs**:

1. **Reduce** the amount of energy and materials used in your company.
2. **Reuse** whatever you can.
3. **Recycle** the materials you must dispose of.

Business's Responsibility to the Employees

Recognize the value of employees:

Listen to them and respect their opinions.

Ask for their input and involve them in the decision-making process.

Provide regular feedback – positive and negative.

Tell them the truth – always.

Let them know exactly what's expected of them.

Reward them for performing their jobs well.

Trust them – create an environment of respect and teamwork.

Managing a Culturally Diverse Workforce

Business owners need to:

- Assess diversity needs.

- Learn to recognize and correct their own biases and stereotypes.

- Avoid making invalid assumptions.

- Push for diversity in their management teams.

- Concentrate on communication.

- Make diversity a core value in the organization.

- Continue to adjust the company to their workers.

An effective, proactive drug program should include:

- A written substance abuse policy.

- Training for supervisors to detect substance-abusing workers.

- An employee education program.

- A drug-testing program, when necessary.

- An **employee assistance program (EAP)**:

 - A company-provided benefit designed to help reduce workplace problems such as alcoholism, drug addiction, a gambling habit, and other conflicts and to deal with them when they arise.

Sexual Harassment

Sexual harassment: any unwelcome sexual advance, request for sexual favors, and other verbal or physical sexual conduct made explicitly or implicitly as a condition of employment.

Small businesses are especially vulnerable because they lack the policies, procedures, and training to prevent it.

Preventing Sexual Harassment

Education:

Training programs can raise awareness of what constitutes harassment.

Policy:

Implement a meaningful and enforceable policy against harassment.

Procedure:

Provide a channel for employees to express their complaints.

- Business owners should:
 - Establish a clear policy for monitoring employees' communications.
 - Create guidelines for the proper use of the company's communication technology and communicate them to everyone.
 - Monitor in moderation.

Business's Responsibility to Customers

- Businesses should build long-term relationships with their customers.
- Abide by the Consumer Bill of Rights.
 - Right to safety.
 - Right to know.
 - Right to be heard.
 - Right to education.
 - Right to choice.

Business's Responsibility to Investors

Businesses have a responsibility to:

- Provide investors with an attractive return on their investment.
- Meet ethical and social goals.
- Report their financial performance in an accurate and timely fashion to their investors.

Business's Responsibility to the Community

Businesses have a responsibility to:

- Provide jobs and create wealth.
- Contribute to the community in other ways.
 - Act as volunteers for community groups.
 - Participate in projects to help the elderly or poor.
 - Adopt a highway to promote a clean community.
 - Volunteer in school programs.

Sustainability

Sustainability

Sustainable strategies: strategies that help MNCs make profits without harming environment and while ensuring company operates in a socially responsible manner with regard to its stakeholders

Good for shareholders, environment, local communities, employees, and customers

Is Sustainability Bad for Profits?

Most customers prefer that the companies they buy products and services from engage in business-focused sustainability practices. Eighty-three percent of the respondents in the Public Opinion Survey on Sustainability said that they think companies should try to accomplish their performance goals while also trying to improve society and the environment. At the same time, multinational firms are overwhelmed about the varied stakeholder needs they face. And, the Global Reporting Initiative, with its some 80 equally important sustainability indicators, is not giving companies a clear set of sustainability proprieties. Meanwhile, sustainability executives in companies have not exactly been elevated to the importance levels of other top managers. **If you had to pay more for a product, like gasoline for your automobile, how much more would you be willing to pay to buy from a highly rated sustainability-oriented company—5 percent, 10 percent, 25 percent, 40 percent?**

Sustainability and Natural Resources

Environmental sustainability

State in which the demands placed upon the environment by people and commerce can be met without reducing the capacity of the environment to provide for future generations

Brundtland Commission, drafted a widely accepted definition of **sustainable development**:

it “meets the needs of **the** present without compromising the ability of future generations to meet their needs.”

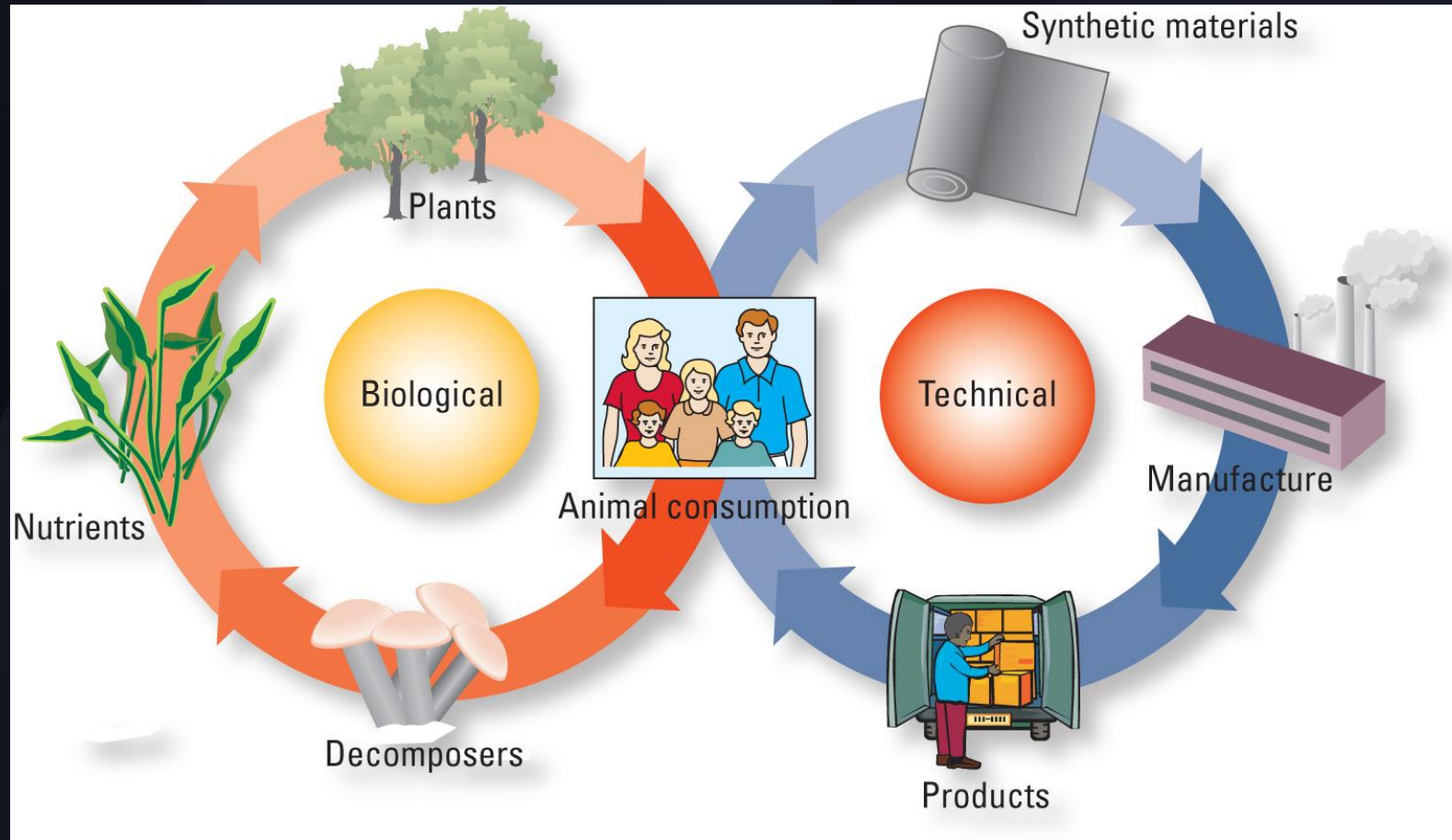
Life cycle assessment (LCA)

An evaluation of the environmental aspects of a product or service throughout its life cycle

Cradle-to-cradle (C2C) design model

suggests that products and services should be designed to completely close the production loop, so that all resources needed to produce them are recycled and reused rather than discarded or left to pollute.

Cradle-to-Cradle (C2C) Design Model



United Nations Global Compact

A voluntary reporting scheme for businesses that covers critical areas affecting the conduct of international business—human rights, labor, the environment, and anticorruption efforts

Tools for Measuring Sustainability

- **Global Reporting Initiative (GRI)**

- Sustainability reporting framework developed among stakeholders

- **Carbon Disclosure Project (CDP)**

- Organization that provides reporting frameworks for greenhouse gas emissions and water use

Tools for Measuring Sustainability

• Carbon footprint

- A measure of the volume of greenhouse gas emissions caused by a product's manufacture and use

• Water footprint

- A measure of the amount of water used in a product's manufacture and use

Limits as Part of the Sustainability Context

- **Limits** address the reality that environmental resources are exhaustible.
- To recognize the limits of the earth's atmosphere to absorb emissions, and to incorporate this recognition into the way the business operates, is an ecologically responsible decision that supports sustainability.



Interdependence as Part of the Sustainability Context

Interdependence describes the complex relationships that sustainable practices create among ecological, social, and economic systems, in which actions in one of these systems may affect the other two, often in ways that are not easily predicted.

- For system interdependence to work, there cannot be vast differences in the distributions of gains.
- Equity requires a business model that allocates value added over a wide array of stakeholders.
- Vast inequities lead to social disruption and violence.
- One approach is to pursue backward integration to gain control over supply chain.

Controversial Issues

- ✧ This debate centers around the unknown time we have left to rely on fossil fuels and how to approach preparation for the transition. Although we do not know if we have reached the midpoint of their extraction, we know that they are nonrenewables and that our present economic model depends on them. The debate centers around how to approach this issue. Meanwhile, reliance on fossil fuels at the global level is increasing.
- ✧ How immediate do you think the fossil fuel crisis may be? How much time do you think we have for our transition to new energy sources?



Stakeholder theory

An understanding of how business operates that takes into account all identifiable interest holders

calls for managers to consider the network of tensions caused by competing internal and external demands that surrounds the business.



The Stakeholder Model for Sustainable Business

- **Triple-bottom-line accounting (3BL)**

- An approach to accounting that measures the firm's social and environmental performance in addition to its economic performance
- Does not allow for comparisons across companies because measurements, especially social and environmental areas are not standardized.

Natural capital

Natural resources such as air, land, and water that provide us with the goods and services on which our survival depends

- Separate people, impede exchange and interaction
- Results in language and culture differences
- Create regional markets, often with altitude adjustments



Topography - Deserts and Tropical Forests

- Separate markets
- Increase cost of transportation
- Create population concentrations

Topography - Bodies of Water

- Attract people
- Facilitate transportation
- Inland waterways provide access to interior markets



Natural resources

Anything supplied by nature on which people depend

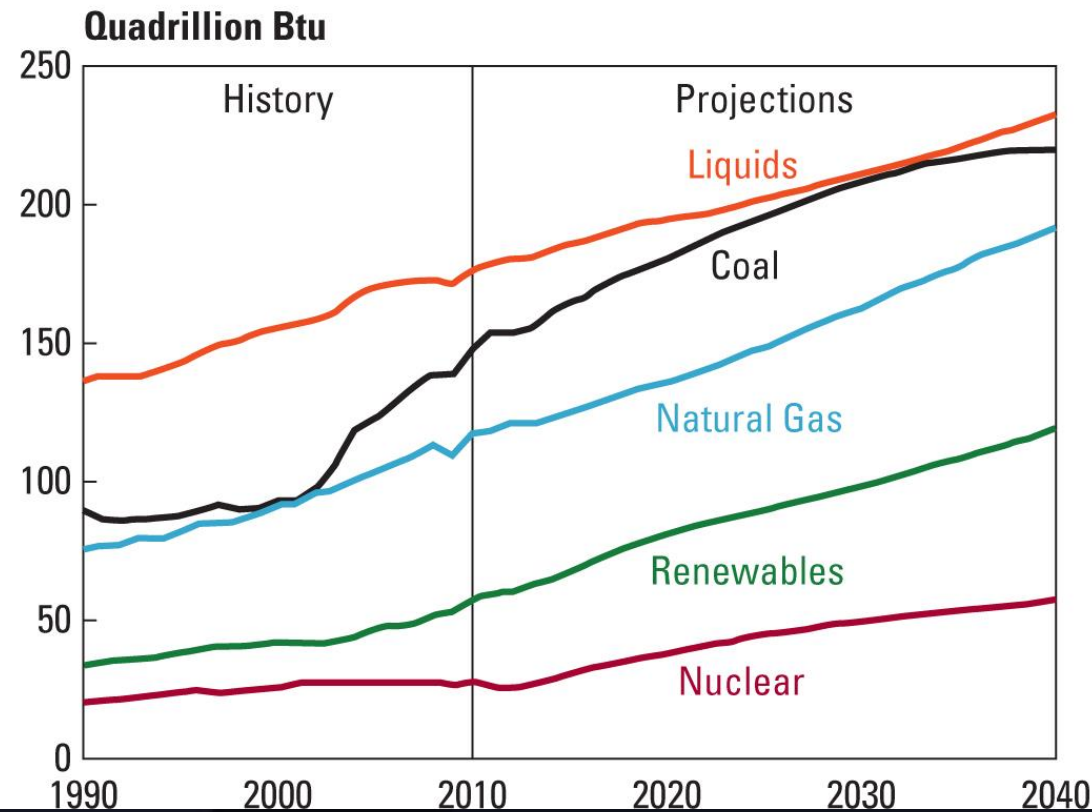
Renewable energy

Energy that comes from sources that are naturally replenished, such as sunlight, wind, and water flow



World Energy Consumption by Fuel Type, 1990–2040

FIGURE 4.8 World Energy Consumption by Fuel Type, 1990–2040 (est.)

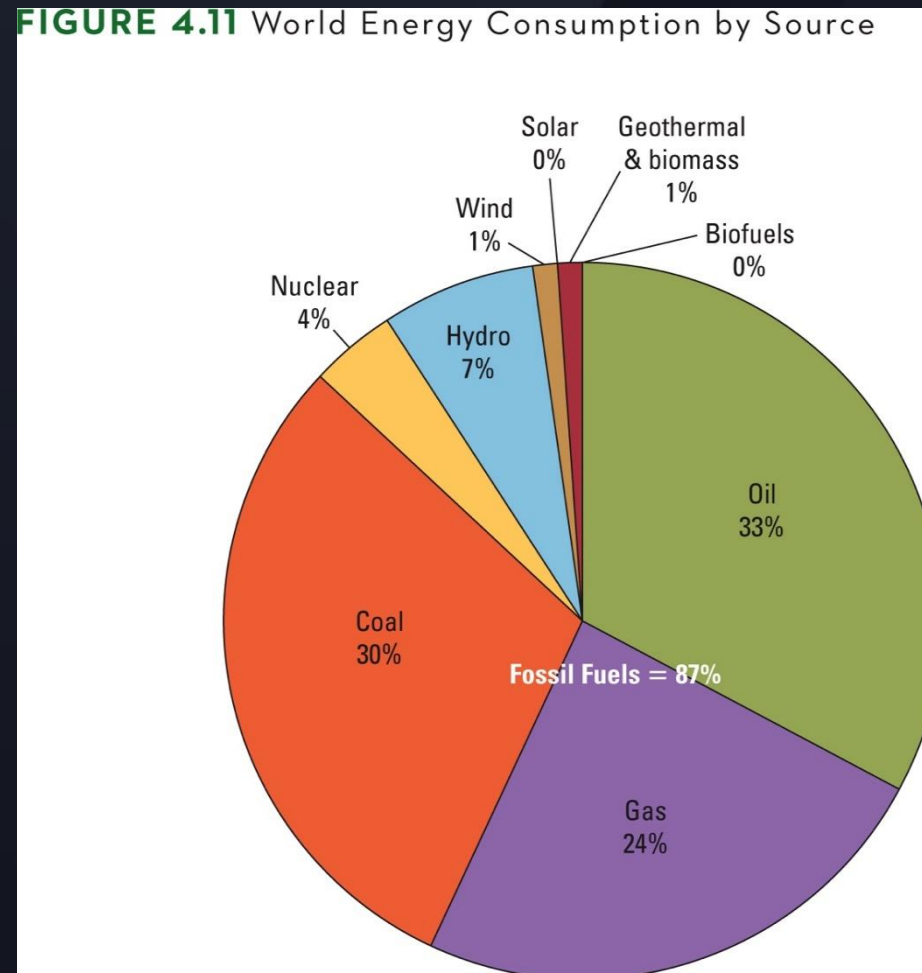


Nonrenewable energy

Energy that comes from sources that cannot be replenished, such as the fossil fuels—petroleum, coal, and natural gas—and nuclear power



World Energy Consumption by Source



Wind power is now a mainstream electricity source

Biomass

Relies on photosynthesis

Ethanol reduces food crop acreage

Solar photovoltaic power (PV)

Based on voltage created when certain materials exposed to light

Fastest growing renewable power technology

Concentrating solar thermal power (CSP)

Uses mirrors or lenses to collect sunlight that heats water

Different technology than PV, growing plants in U.S., Spain

Renewable Energy Sources

Geothermal power

Power from heat stored in the Earth

Ocean Energy

Sun's heat on water and mechanical energy of tides and waves

Least mature of alternative energy sources

Hydropower

Moving water to generate power

Largest alternative power source

Rare earths

17 nonfuel mineral elements used in defense applications and in all areas of modern manufacture.

95% of market is controlled by China.

Summary

In this chapter, we have

- Explored ethical, corporate social responsibility, and sustainability issues faced by international businesses.
- Recognized ethical, corporate social responsibility, and/or sustainability dilemma.
- Identified causes of unethical behavior by managers as they relate to business, corporate social responsibility, or sustainability.
- Described different philosophical approaches to business ethics that apply globally.
- Explained how managers can incorporate ethical considerations into their decision making.

Summary

- Explained what is meant by social responsibility and the importance of being social responsible.
- Introduced different types of social responsibility to(environment, employees, customers, community ,and investors)
- Recognized culture diversity in the workplace
- Described the nature of sustainability



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