ABSTRACT. This paper briefly examines the topic of business ethics and attempts to suggest a code of ethics for multinational firms. While most companies have basic policies on employee integrity, confidentiality and sexual harassment, relatively few have established policies regarding bribery, exploitative child labor, human rights violations and other issues they may encounter in the global marketplace (Drake, 1998). Until recently, very few companies had truly global operations. Consequently little attention was paid to the issue of ethical guidelines in a global context. Recent changes in international markets have led to an explosion of corporations with global operations, and the need for a global code of ethics has grown commensurately. In this paper we explore the issue of global business ethics and attempt to provide a framework for future discussion. We also examine some of the unique difficulties surrounding the development of any set of global business standards. Key among these difficulties is the issue of competing ethical values in home and host countries.

KEY WORDS: competing ethical values, codes of business ethics, cultures, ethics, international business

1. Introduction

While most companies have basic policies on employee integrity, confidentiality and sexual harassment, relatively few have established policies regarding bribery, exploitative child labor, human rights violations and other problems they may encounter in the global marketplace (Drake, 1998). Global business ethics has now become a significant problem for many multinational companies. International ethics is currently a section in the International Studies area, showing the importance of the topic to those participating in the global market. This paper briefly examines the background of international business ethics and tries to suggest a code of ethics for firms that are becoming globalized.

The concept of international business ethics is relatively new, though some work has been done in the area.1 Brenkert (1999) states that while DeGeorge (1993) does not explore other scholars’ work it still makes an important contribution to the field of international business ethics. DeGeorge (1993) argues that recent developments in international business surpass the national structures and processes that have been practiced in the past. Thus, unfair treatment (i.e., exploitation, violation of human rights) of the workforce is taking place. DeGeorge demands that MNC’s should be “acting with integrating.” In the first nine chapters of his book DeGeorge advocates a moral minimum and basic moral norms, guidelines, strategies, and background conditions that MNC’s should adhere to. His final chapter suggests that MNC’s have a responsibility to contribute to charitable activities that improve the quality of life. Asgary (2001) discusses the issue of social dumping and globalization of businesses. He examines issues such as labor standards, human rights, trade agreements etc.

Until recently few companies had established themselves in the global market. There were very
few guidelines as to what was ethically correct behavior. Giving and accepting elaborate gifts was argued to be a part of the host country’s culture. If a subsidiary did not choose (or was not required) to follow the same standards as the parent company, it was easily justified on the grounds that environmental laws were not as strict overseas (Davids, 1999). Companies soon realized that one important feature of the global market is ethical practices. This idea, however, was not as simple as it first appeared. To whose standards should they adjust to, those of the home country or the host nation?

The progressive industrialized countries (e.g., Canada) that have better rules, regulation, and standards (i.e., higher ethics) are seriously considered by businesses for investment. However, countries that lack predictable business rules and standards (e.g., some African countries) drive businesses away (Davids, 1999). This is true for companies because they are hesitant to establish business operations in a country that does not have a code of ethics that is compatible with that of the home country. A host country without a compatible set of ethical standards could therefore see lower potential economic growth (both in terms of lower employment rates) and a decrease in foreign direct investment.

There are several reasons for companies to institute a code of ethics. Bribery is a major factor that must be addressed. The U.S., which maintains that bribes are illegal and unethical in the business world has enacted the Foreign Corrupt Practices Law prohibiting American companies from making improper payments to foreign governments, politicians or political parties for the purpose of obtaining or retaining business. American mores notwithstanding, some international companies still make sizeable questionable payments.

Human rights are another important issue in the international spotlight. Countries have different work standards and laws, creating a moral dilemma for both a parent company and its home country. In many developing countries, labor laws and conditions for employees are not as favorable as those in developed countries, which generally have stricter labor laws dealing with the employment of minors and limit the number of hours that employees are allowed to work. This creates an area of potential human rights violations around the world. However, there is a lack of reliable statistics regarding the use of child labor, both in particular countries and in specific industries. Similar issues involve the employment of unskilled and unprotected people in hazardous occupations where the risk of exposure to hazardous chemicals or unsafe environments is often significant.

The environment is also a concern for companies attempting to create global ethics policies. Protection of water resources and the development of an effective waste management system are of concern to most groups and organizations, not just those in more developed nations. There are three main reasons why increased concern for the environment has become so important in the international business world. First, more attention is given to environmental issues by national and international news media (i.e., companies dumping waste in foreign lands). Second is the externality issue, which recognizes that actions taken in one part of the world will also affect others in the other part of the world. Third is the issue of long-term costs to society for cleaning up the resulting waste (Davids, 1999). Much has been accomplished worldwide for environmental protection and waste management but much more needs to be done.

Dyer (1998) says that organizations have attempted to use conferences, symposia, codes of conduct, and international agreements to create individual codes of ethics. These codes of ethics are usually country specific and do not cater to international policy. As business entities become more globally based, however, it is important for international businesses to have some sort of centralized, globally accepted standards with repercussions that encourage proper business conduct.

II. Prior research

In a 1991 study, approximately 150 Australian and 150 randomly selected Canadian firms were asked the following questions: 1) What are the major ethical problems facing managers involved in international marketing? a) How frequently do
perceived ethical problems occur? b) What are the perceived levels of importance of these problems? 2) Are there country similarities and differences in the total frequency or occurrence and importance of the major ethical problems? (Chan, 1999, p. 7) The results of the Chan study showed that large-scale bribery was most important, cultural differences were second, and involvement in political affairs/pricing practices ranked third in importance. In terms of frequency, gifts/favors/entertainment was ranked first, second was cultural differences, and small-scale bribery was third. The results of the Chan survey were congruent with what was typically expressed by most international businesses and organizations.

One of the prominent ideas related to business ethics is the Caux Principles. “The Caux Principles center on exploring the two main concepts of fairness and respect for others by promoting free trade, environmental and cultural integrity, and the prevention of foreign corrupt practices as defined by U.S. law” (Carlson and Blodgett, 1997, p. 21). The goal of these principles is to set “a world standard against which business behavior can be measured, a yardstick which individual companies can use to write their own codes” (Carlson, 1997, p. 21). The Caux Roundtable defined the following general principles: 1) Economic and Social Impact of Business, 2) Respect for the Rules (laws), 3) Support for Multilateral Trade, 4) Respect for the Environment, 5) Avoidance of Illicit Operations (Carlson and Blodgett, 1997, p. 21).

While the roots of business are primarily economic, even an economic system cannot survive without recognition of some fundamental values. These values are necessary in any code of business ethics. Some of the universal values built into the capitalist economic system include: 1) consumers are provided with quality goods and services, 2) employees are rewarded for their performance, 3) risk-takers are rewarded for their investment with a return on investment (Smeltzer, 1998, p. 59). These three universal values are heavily emphasized in the literature.

An effective type of cultural adaptation is to utilize the theory of similarity-attraction (Pornputakpan, 1999). The basic idea of the similarity-attraction theory is that one needs to adapt to the norms and behavior of a foreign culture as much as possible, because it will increase perceived similarity. The author cites several theories that account for this relationship, and quote Festinger (1954) that in the end, “individuals need to evaluate themselves, their opinions, and abilities in order to make sense of life” (Pornputakpan 1999, p. 318).

Industries are aware that cultural differences must be taken into account. While this idea seems reasonable it may not work for many reasons. It seems that some countries (e.g., Japan, South Korea, United States) have been willing to adopt (up to certain level) the standard of the host countries. Each person or country has very strong beliefs that they are not going to change. However, they may adapt some aspect of another culture to capture economic gain. Pornputakpan (1999) suggests that foreign firms must generally conform to the host culture.

A 1994 study of the Fortune 500 industrials and 500 service corporations focused on formal corporate ethics policies, structures, activities, and personnel. The study examined how these 1,000 companies incorporated ethics into their corporate policies. Almost all (98%) of the firms claimed to address ethics and conduct issues in some kind of formal document. Of these 98%, 67% did so through regular policy manuals, and 78% did so through separate codes of ethics (Weaver et al., 1999, p. 285).

While these results show that most organizations have some sort of ethical standards, the implementation/enforcement mechanism was not well planned. Many of the corporations studied had some sort of ethics hotline that employees could contact with any questions or problems that may arise in their day-to-day work. However, the efficiency of these hotlines was questioned because employees often did not receive immediate feedback or their questions were left unanswered.

The study of the 1000 Fortune companies also revealed that in many organizations individuals did not have proper training for addressing particular ethical issues or problems. These issues were often addressed by a human resource person or even a manager rather than by someone.
specifically trained to deal with ethical issues. This proved to be a problem when the person trying to answer the question did not know the correct answer based on the company's code of ethics. The survey concluded that there is really no clear-cut answer to how an organization should handle ethical issues (Weaver et al., 1999).

Lovett (1999) discusses the importance of having a universal code of business ethics in his paper entitled “Guanxi Versus the Market: Ethics and Efficiency.” The word “guanxi” refers to the networks of informal relationships and exchanges of favors that dominate business activity throughout China and East Asia. The idea of guanxi is based on an ancient system of personal relationships, whereas the western style of management is centered on discrete transactions and formal agreements. Researchers are increasingly recognizing that such relational exchange systems are the way that much of the world does business, and signs of this trend are most apparent today in the growing interest in “relationship marketing and virtual integration” (Lovett, 1999, p. 231). Guanxi also suggests that differences in culture create an argument against establishing an international code of business ethics. Why should one country, in this case China, sacrifice an idea that is ethically acceptable in its culture because people in Italy do not subscribe to it?

Chen (2001) examines the relationship between different cultural backgrounds and ethics under dissimilar circumstances. He compares major North American and Hong Kong companies on “… what management ethical standard out to be…” (p. 391). The result of their survey shows that about 83% of their respondents stated that Hong Kong listed companies have at least “one or more ethical control mechanisms…” (p. 396).

Jackson (1997) examines the issue of instituting work-place ethical codes. He placed importance on management-employee communication, as well as proper training in matters of ethical conduct. When a business expands its operations abroad, it should not base its code of conduct solely in national mores. Developing an international business code provides guidance for employees who need to decide how to behave in day-to-day business activities, and it increases their awareness the worldwide ethical context within which the firm is operating. The firm’s code of ethics should work in concert with national laws and regulations, which should lead to nationalized and private codes becoming mutually supportive (Jackson, 1997).

According to Jackson (1997) another important aspect of ethical relations between international companies is the representation presented to the host country. A business should present a wide variety of programs in the workplace to promote “cosmopolitan ethical awareness” (Jackson, 1997, p. 1231). International ethics training should be a supported program within a corporation, not merely token “ethical awareness” workshops or seminars. The author stressed that a commitment to a long-term cultural education is needed. However, a corporation must be careful regarding how they involve their employees because they do not want to force changes that end up promoting intolerance. Training programs should include education on international human rights and ethics, not just compliance with foreign laws. Jackson (1997) concluded by stating that employees need to know how to function individually in an international setting so that they will not be swayed under pressure.

III. Methodology

Based on our literature survey and discussions in our classes we have designed an International Business Code of Ethics that includes, but is not limited to, the following principles:

– Trust;
– Fairness;
– Do not Cheat;
– Honesty;
– Full disclosure of financial information;
– Be responsible for your dealings;
– Respect national sovereignty;
– Support the economic goals of host country;
– Respect social and cultural values and traditions;
– Respect human rights and fundamental freedoms;
- Provide equal opportunity;
- Uphold integrity of your company;
- Be respectful to every person contacted;
- Uphold environmental laws and regulations;
- Be fair and take action not to discriminate;
- Honor contracts, agreements, and assigned responsibilities.

In order to ensure that this code of ethics is adhered to, several policies and procedures should be put into place. One such policy includes establishing a 24-hour ethics hotline for company employees to call at anytime regarding ethical questions that may arise. As previously stated, several of the Fortune 1000 companies already have this function in place (though underutilization remains a problem). In order for a hotline to be fully effective, it must be staffed around the clock and allow employees throughout the organization to receive guidance and answers at any time. Several Fortune 1000 companies use 24-hour hotlines, but often employees’ questions are not answered in a timely and proper manner by specialists in the field (Weaver et al., 1999). We would also suggest that the hotline number be something that employees can remember (e.g., 1-800-THE-CODE). This number would allow employees to access the generally accepted codes for international business ethics. An employee should also be able to access more specific information based on their particular industry or company by entering a specific 5-digit code.²

Also, each employee should be required to take a paid training course so that they become certified in the international code of ethics (IBCE). Moreover, employees should be rewarded if they are willing to achieve IBCE certification in the host nation. This is because each particular IBCE issue may have different meaning and understanding in a different part of the world. The culture, norms, political system, institutions, and other factors influence the code, and therefore it is defined differently in particular countries (Beyer and Nino, 1999). Thus, taking IBCE course(s) specifically tailored to the host country would equip an employee with the proper tools.

Another way that a company can train its employees in the international business code of ethics is through Internet training. Using Internet training methods allows employees to access training programs at any time and would also permit the employer to keep an updated list of which employees had completed their training. Companies such as Lockheed Martin currently use this training method. Such a policy would allow the organization to ensure that employees receive the correct ethics training and provide them with a continuously updated version of the latest news and ideas in international business ethics.

Internet training also allows an organization to test its employees before they practice in the international business world. This is necessary to ensure employee awareness of, and adherence to, relevant ethics codes. These tests include real-life situations where business ethics codes may be questioned so that the employee can have some experience in dealing with situations that they may encounter in the business world.

Along with training, it may be beneficial for the organization to create an ethics committee. These committees would consist of rotating members from various departments within the organization. The committee would allow for the discussion of ethical topics as well as provide a way for employees to discuss their own thoughts and feelings on the situations at hand. It would serve as a way for all employees to get involved, as membership would be required on a rotating basis for all employees.

Another policy or procedure to ensure the effectiveness of an ethical code is internal audits of foreign companies. Smeltzer and Jennings (1998) argue that local managers are under significant pressure to meet deadlines and therefore may not fully adhere to the code of ethics. Therefore, frequent visits from top management would help ensure that corrupt or unethical practices are not taking place in foreign and international businesses. To make sure that employees and employers adhere to the business code of ethics, it is imperative for all organizations involved in international business to sign a document stating the following: “As a member of ______ Corporation, I will uphold and promote the principles of this code. Treat violations of this code as inconsistent with
membership in ____ Corporation” (ACM Code of Ethics, 1992).

Each organization would establish a set of consequences for employees who violate this contract. For example, some organizations may operate under a “three strikes and you are out” approach where employees are given an opportunity to redeem themselves before they are let go. Another way to uphold this contract is to have employees participate in ethics refresher courses throughout the year as a requirement of employment. This would allow employees to be regularly updated on all ethical policies and procedures.

IV. Analysis and discussion

The code of international business ethics discussed above was derived from relevant literature and from sample business codes available on the Internet. Many of the current company codes of business ethics that we examined held the same criteria for their employees. We assumed that the ideas of trust, fairness, and honesty were self evident, yet still necessary for an international code. The first four points in our code (Trust, Fairness, Honesty, and Do not Cheat) are part of a moral imperative that we believe all organizations should respect. We tried to focus our ethical code on international business dealings. The idea of respecting national sovereignty was necessary and beneficial because it could reduce tension and conflict.

In our literature survey we found that most problems arose because companies apparently assumed that foreigners do not respect their host countries’ goals and culture. Therefore, we included “support the economic goals of the host country” to help address this seeming lack of respect in international business relations. Companies must place greater emphasis on understanding the host country’s cultures and beliefs if they wish to succeed.

There needs to be some sort of general code of fair environmental behavior in our ethical code. What is done overseas and will eventually end up affecting the rest of the world. For example, polluting the air and water of a foreign country ultimately affects the entire world. It is vital to protect the environment, in part by establishing universal rules and regulations for those who wish to practice business overseas.

The rest of the international business code of ethics is fairly straightforward. It is important to respect the host country’s culture and to uphold your personal and corporate integrity in business dealings.

Any international code of business ethics will face numerous hurdles. Many special interests in developed countries may wish to use an international code of business ethics as a vehicle to advance their own agendas rather than as a means of ensuring fair play. For example Western labor unions may wish to use international ecological and labor standards as a vehicle to eliminate unwelcome competition by driving up the cost of doing business in third world countries. Also, some environmental activists may want international codes of ethics to inhibit or nationalize business activity. Such “private agendas” must be curtailed if international ethical standards are to be effective and credible.

There are dangers in the host countries as well. Many local officials may wish to use the threat of ethical complaints as a means to extract “gifts” or reward friends. Even where ethical codes are fairly administered, however, it will be necessary to combat the notion in developing countries that the real purpose of stringent environmental and labor standards is to keep them economically downtrodden. After all, no such standards existed when the developed nations were establishing their industrial base.

Finally, as corporations become more globalized, they begin to lose contact with the culture of their home country. Once this happens it is possible for the firm to develop an internal set of cultural norms that is independent of those of any of the countries in which it operates – in effect a “home company” set of values. When this happens we face not the question of “home versus host” ethics, but rather what are the ethical norms of a corporation with no real “home” country?

The hurdles described above are beyond the scope of this preliminary paper. However, they represent significant problems that will have to
be addressed by those who wish to develop an international business code of ethics.

V. Conclusions

Several articles approach the topic of an international business code of ethics, but the complexity of the issues involved makes it difficult to establish a universal code. Those who wish to establish an international standard of business ethics must address several unresolved issues. A complete study of each of the major countries that are involved in international business must be done to determine their societal goals, social norms, ethical standards, and cultural values. These areas must be compared and contrasted so that no particular region is shut out of the global market. Businesses are expanding globally whether we like it or not. Therefore, we believe that despite the difficulties involved it is essential to develop an international code of business ethics.

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Notes

1 The recent growth in globalization requires more interaction between cultures and demands better understanding of other cultures (Asgary and Walle, 2001).

2 For example, in retail business there is such a thing as loss-prevention-programs where the employees receive the number to call in case of theft or ethical misconduct by other employees.

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