

Chapter 5

Ethics and Social Responsibility in International Business

Learning objectives

At the end of this lesson, you should be able to:

5.1 Describe the nature of ethics

5.2 Discuss ethics in cross-cultural and international contexts

5.3 Identify the key elements in managing ethical behavior across borders

5.4 Discuss social responsibility in cross-cultural and international contexts

Learning objectives

At the end of this lesson, you should be able to:

5.5 Identify and summarize the basic areas of social responsibility.

5.6 Discuss how organizations manage social responsibility across borders.

5.7 Identify and summarize the key regulations governing international ethics and social responsibility.

Background

- Globalization brings progress and at same time present new challenges, need to define
- Appropriate ethical standards
- To operate in a socially responsible manner in countries they do business
- Safe working environment + protection of natural environment + low costs operations - child labour issue

Background

- Explore other issues in international perspectives
- Nature of ethics and social responsibility
- Ethics in cross-cultural and international contexts- How firms manage ethical behaviors
- Major areas of social responsibility - How firms manage Social Responsibility

Ethics & Social Responsibility: Definitions

- **Ethics:** an individual's personal beliefs about whether a decision, behavior, or action is right or wrong
- **Ethical behavior:** behavior that conforms to generally accepted social norms
- **Unethical behavior:** behavior that does not conform to generally accepted social norms

Some ethical questions

What would you do if you find \$20 dollar bill on the floor of an empty classroom?

Is it acceptable to bring home paper clip from office?

What amount is acceptable ?



Ethics : Generalizations

- Individuals have their own personal belief system about what constitutes ethical and unethical behavior
- People from the same cultural contexts are likely to hold similar beliefs as to what constitutes ethical and unethical behavior
- Individuals may be able to rationalize behaviors based on circumstances
- Individuals may deviate from their own belief systems based on circumstances
- Ethical values are strongly affected by national cultures and customs

Ethics in Cross Cultural and International Contexts

A useful way to **characterize ethical behaviors in cross-cultural and international contexts** is in terms of how an **organization treats its employees**, how **employees treat the organization**, and how **both the organization and its employees treat other economic agents**.

Shown in Figure 5.1 (next slide)

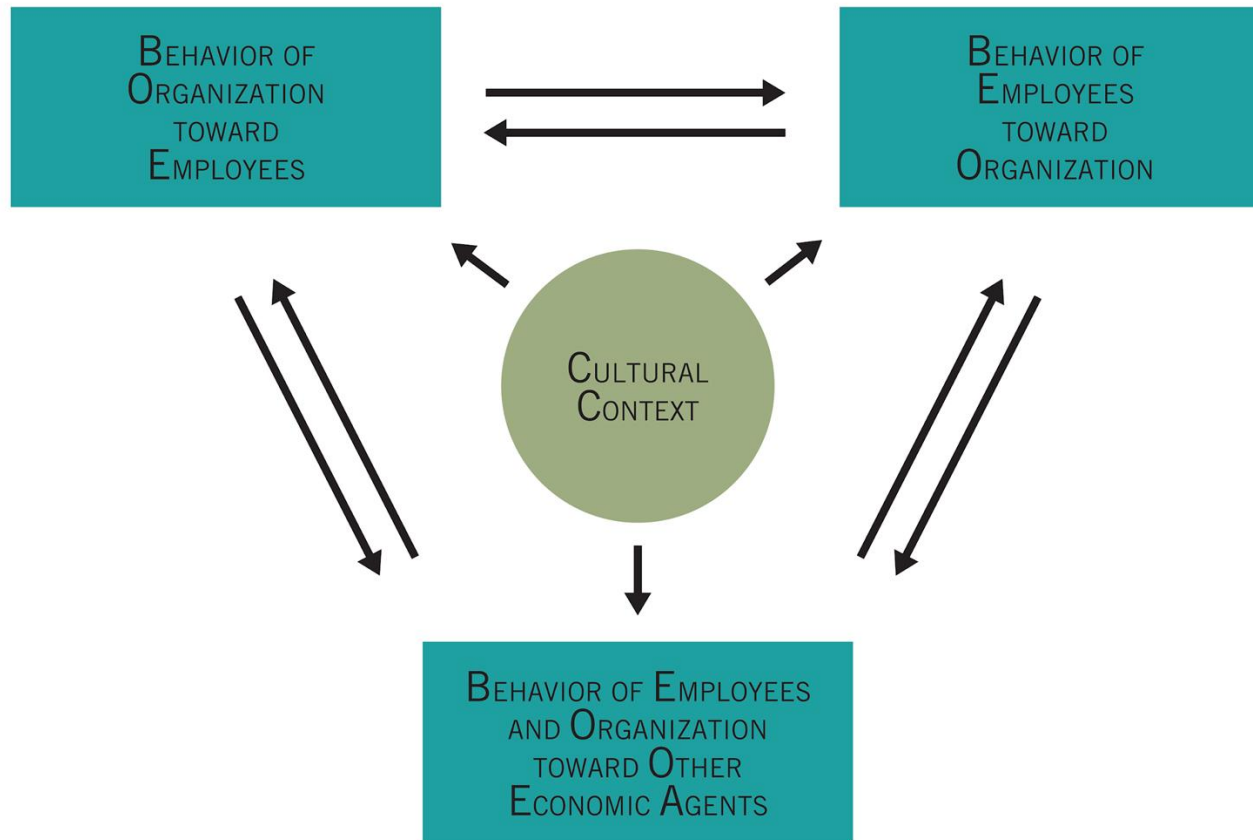


Figure 5.1 Ethics in Cross-Cultural and International Contexts

How an Organization Treats Its Employees

Most susceptible for ethical variation -

- Hiring Practices and Career Development
 - is it based on individual's ability OR preferential treatment : gender, ethnicity, age, non-work related factors?
- Compensation and Benefits -Fair, equitable
- Working conditions - safety and health issues,
- Workers' Rights and Dignity - Sexual harrassment

How Employees Treat the Organization

Gifts ?

- Conflict of Interest - any examples?
- Secrecy and Confidentiality
- Honesty

How employees and the Organization treat other Economic Agents

- Customers
- Competitors
- Stockholders
- Suppliers
- Dealers
- Labor unions

VENTURING ABROAD

SIEMENS PAYS—AND PAYS AND PAYS

The saga of Siemens AG, the €78 billion Munich-based manufacturer of steam turbines, telecommunications equipment, medical scanners, and other sophisticated technology, provides a morality tale for firms pondering whether they should offer under-the-table payments to win lucrative international contracts. In October 2007, a German court fined Siemens €201 million (at the time, \$284 million) for paying bribes. According to German court records, at least 77 separate bribes, totaling €12 million, were made by managers of Siemens' telecommunications equipment subsidiary to cabinet ministers and bureaucrats in Libya, Russia, and Nigeria. The court estimated the bribes generated €200 million in "unlawful economic advantages" for Siemens, which formed the basis for the magnitude of the fine. And previously that year, another German court fined Siemens €38 million for bribes paid to Italian officials in the company's power generation subsidiary. Nor were the German prosecutors finished; in April 2008, they announced they were broadening their inquiries and contemplating criminal proceedings.

But the worst was not over for Siemens. The company was then investigated by the U.S. Justice Department and the Securities and Exchange Commission (SEC) for violation of the Foreign Corrupt Practices Act and securities regulations. The SEC alleged that "Siemens created elaborate payment schemes to conceal the nature of its corrupt payments, and the Company's inadequate controls allowed the illicit conduct to flourish. The misconduct involved employees at all levels of the Company, including former senior management, and reveals a corporate culture that had long been at odds with the FCPA." The SEC uncovered 4,238 payments totaling \$1.4 billion to bribe government officials in such countries as Venezuela, China, Israel, Bangladesh, Nigeria, Argentina, Vietnam, Russia, Mexico, and Iraq. In December 2008, Siemens agreed to pay the U.S. government \$800 million to settle the charges against it: \$350 million to the SEC for the securities charges and \$450 million to the Department of Justice for the criminal charges. Siemens also paid an additional



\$569 million fine to the German government. In addition, the company also agreed to pay the World Bank \$100 million and to forgo bidding on World Bank contracts for two years.

Acknowledging the extent of the problem, Siemens' supervisory board replaced several of the firm's top executives with outsiders. The company's new general counsel, Peter Solmssen—like the new CEO Peter Löscher, he is a former General Electric executive—recognizes the challenges he and the company face. Notes Solmssen, "Corruption at Siemens was 'systemic' in recent years. There was a cultural acceptance that this was the way to do business around the world, and we have to change that." Among Löscher and Solmssen's first acts was an overhaul of the company's code of conduct and its compliance programs. In addition to transforming the firm's corporate culture, they face the task of restoring the firm's external reputation and credibility. And of course, they need to maintain Siemens' competitiveness in the marketplace: No small trick, given the distraction of the company's legal problems and the ensuing drain on managerial attention and company resources. There is little doubt that Siemens will continue to pay for its misdeeds for a long time.

Sources: Based on "Siemens settles with World Bank on bribes," *Wall Street Journal*, July 3, 2009; "SEC charges Siemens AG for engaging in worldwide bribery," U.S. Securities and Exchange Commission, Press Release 2008-294 (December 15, 2008); U.S. District Court for the District of Columbia, *U.S. Securities and Exchange Commission v. Siemens Aktiengesellschaft*, Case: 1:08-cv-02167; "Siemens power unit investigated," *Wall Street Journal*, April 15, 2008 (online); "Siemens amnesty plan assists bribery probe," *Wall Street Journal*, March 5, 2008, p. A12 (includes Solmssen's quote); "Siemens internal review hits hurdles," *Wall Street Journal*, January 23, 2008, p. A18; "Inside bribery probe of Siemens," *Wall Street Journal*, December 28, 2007, p. A4; "Siemens ruling details bribery across the globe," *Wall Street Journal*, November 16, 2007, p. A1; "Siemens fine ends a bribery probe," *Wall Street Journal*, October 5, 2007, p. A2; "Siemens probe spotlights murky role of consultants," *Wall Street Journal*, April 20, 2007, p. A1.

Managing Ethical Behavior Across Borders: Guidelines and Code of Ethics

- Written Guidelines - how to treat suppliers, customers competitors, other stakeholders - Toyota, Siemens, Johnson & Johnson

Written statement on values and ethical standards guiding firms actions

- Codes of Ethics - Phillips, Nissan, Daewoo, Whirlpool

- Backed up by Organizational Practices and Corporate Culture

Managing Ethical Behavior Across Borders: Ethics Training

- Globally consistent
- Tailored to local contexts
- Localized

Managing Ethical Behavior Across Borders: Organizational Practices and the Corporate Culture

- **Organizational practices and the corporate culture** - contribute to the management of ethical behavior.
- If leaders behave ethically, violations of ethical standards are promptly and appropriately addressed, then everyone will understand firm expects to behave in an ethical manner—to make ethical decisions and to do the right things.
- if top leaders appear to exempt themselves from ethical standards or choose to ignore or trivialize unethical behaviors, then opposite message is being sent— it is acceptable to do something that is unethical if you can get away with it

Social Responsibility in Cross-Cultural and International Contexts

- **Corporate social responsibility (CSR):** the set of obligations a corporation undertakes to protect and enhance the society in which it functions
- **The Triple Bottom Line:**
 - The Economic Mission (Profits)
 - The Natural Environment (Planet)
 - General Social Welfare (People)
- Economic, Social, Environment



SUSTAINABLE DEVELOPMENT GOALS



1 NO POVERTY



2 ZERO HUNGER



3 GOOD HEALTH AND WELL-BEING



4 QUALITY EDUCATION



5 GENDER EQUALITY



6 CLEAN WATER AND SANITATION



7 AFFORDABLE AND CLEAN ENERGY



8 DECENT WORK AND ECONOMIC GROWTH



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



10 REDUCED INEQUALITIES



11 SUSTAINABLE CITIES AND COMMUNITIES



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



13 CLIMATE ACTION



14 LIFE BELOW WATER



15 LIFE ON LAND



16 PEACE, JUSTICE AND STRONG INSTITUTIONS



17 PARTNERSHIPS FOR THE GOALS



SUSTAINABLE
DEVELOPMENT
GOALS

Social Responsibility in Cross-Cultural and International Contexts: The Economic Mission

- Shareholder Model
- Stakeholder Model
 - Primary Stakeholders
 - Secondary Stakeholders

Social Responsibility in Cross-Cultural and International Contexts: Sustainability and the Natural Environment

- **Enforcing Environmental Laws**

Protect and improve quality of water, air, and lands

Shell exploration expedition in Amazon Basin - included biologist to oversee environmental protection and anthropologist to help interact with native tribes

Social Responsibility in Cross-Cultural and International Contexts: Sustainability and the Natural Environment

- Corporate Efforts

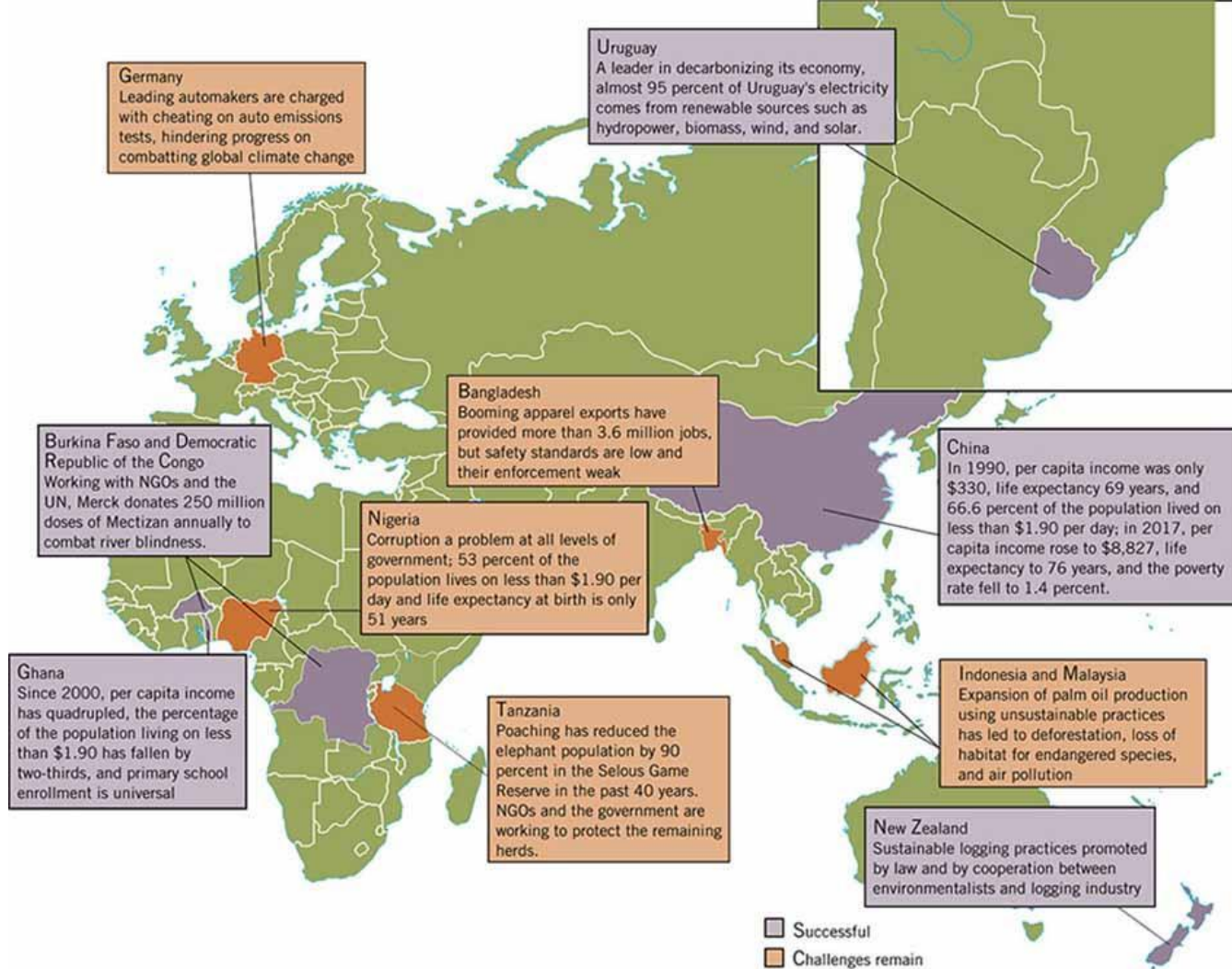
1987 Brundtland Report - emphasized need for sustainable development

Sustainable Business Practice - recycled materials for containers by P&G, recycle of waste, etc., design for remanufacturing,

Social Responsibility in Cross-Cultural and International Contexts: General Social Welfare

- Making Charitable Contributions
- Supporting the Arts and Museums
- Funding Public Health and Education
- Confronting Political and Social Issues

Social Responsibility Issues Across the Globe



Managing Social Responsibilities Across Borders: Approaches to Social Responsibility

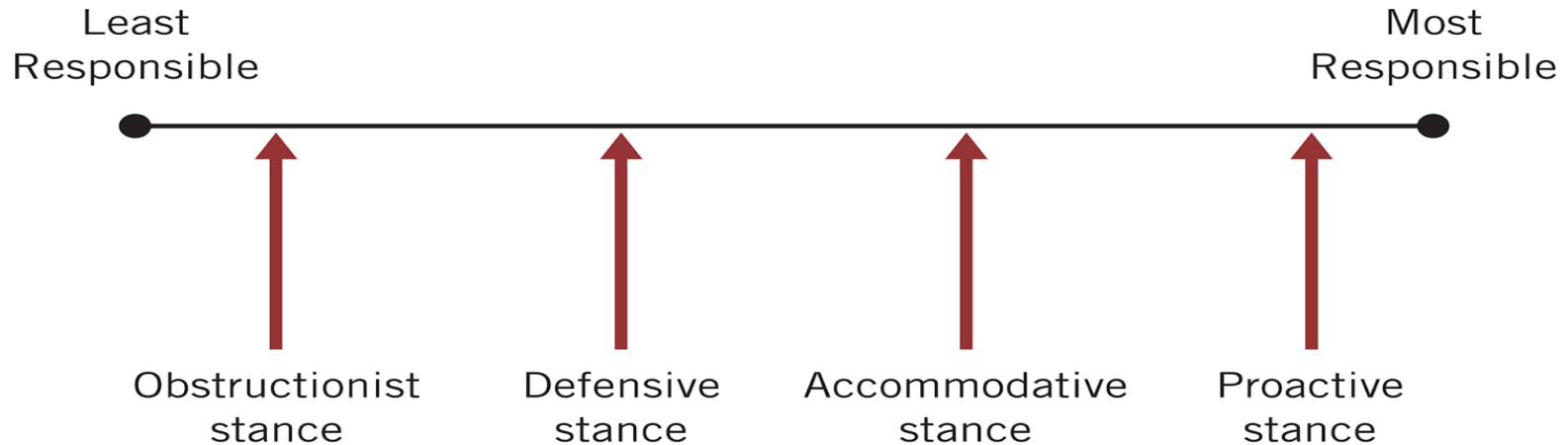


Figure 5.2 Approaches to Social Responsibility

Firms adopt one of four different basic approaches to SR - continuum lowest to highest level of responsibility

Approaches to Social Responsibility

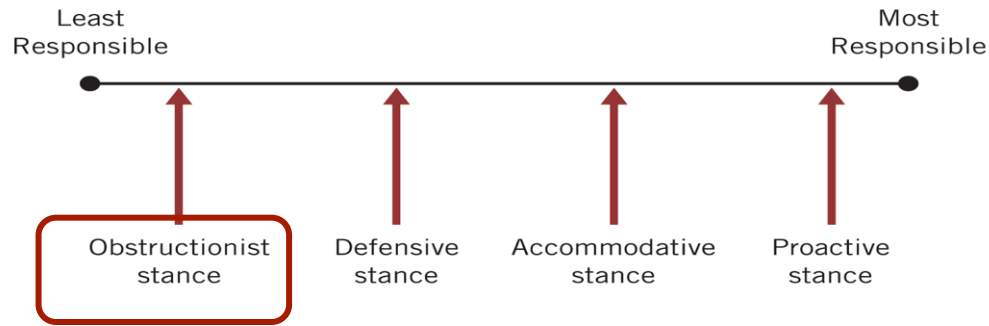


Figure 5.2 Approaches to Social Responsibility

Obstructionist stance - usually do as little as possible to address social or environmental problems. When cross the ethical or legal line from acceptable to unacceptable practices, typical response is **to deny or avoid accepting responsibility** of their actions.

Approaches to Social Responsibility

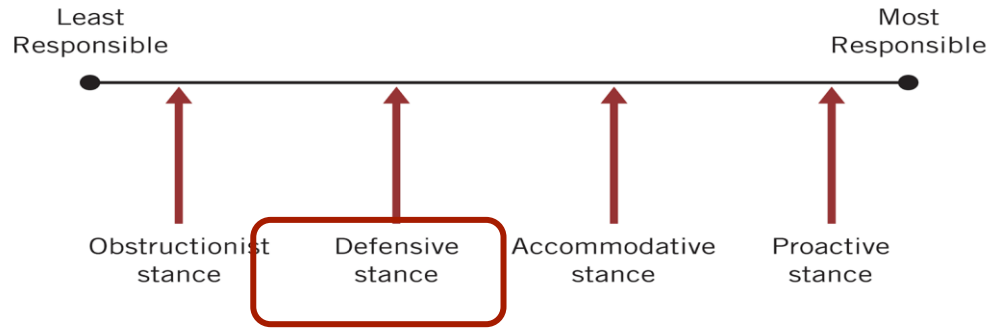


Figure 5.2 Approaches to Social Responsibility

Defensive stance - organization will do everything that is required of it legally but nothing more, managers job is to generate profits. Firms that take this position will **generally admit to mistakes** when they are identified and then **take appropriate corrective actions**.

Approaches to Social Responsibility

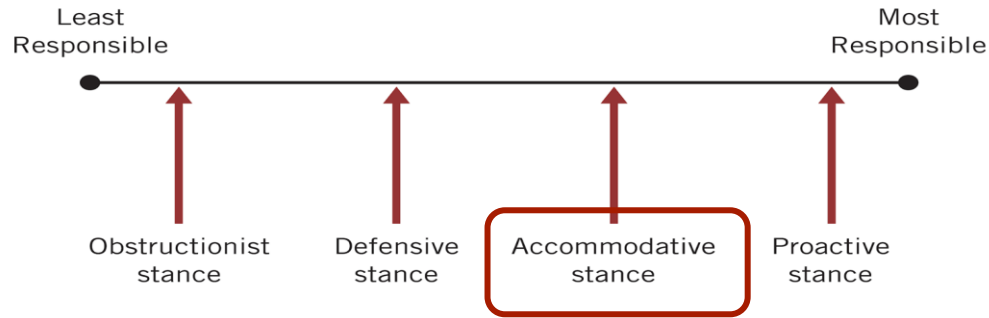


Figure 5.2 Approaches to Social Responsibility

Accommodative stance - firm meets its legal and ethical requirements but may also **go beyond** these requirements

Approaches to Social Responsibility

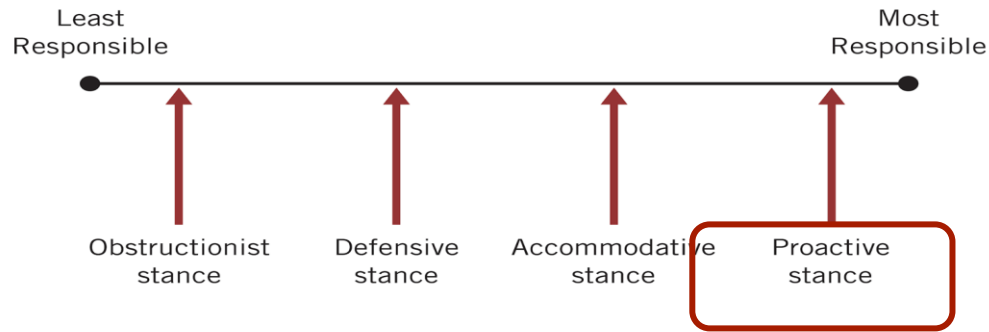


Figure 5.2 Approaches to Social Responsibility

Highest degree of social responsibility that a firm can exhibit - **proactive stance**

- take to heart the arguments in favor of social responsibility.
- View themselves as **citizens in a society and proactively** seek opportunities to contribute.

Managing Social Responsibilities Across Borders: Managing Compliance

- Formal Dimensions

- **Legal Compliance**

- Ethical Compliance

- Philanthropic Compliance

- **Legal compliance** is the extent to which the organization conforms to regional, national, and international law

Managing Social Responsibilities Across Borders: Managing Compliance

- **Formal Dimensions**

- Legal Compliance
- **Ethical Compliance**
- Philanthropic Compliance

- **Ethical compliance** is the extent to which the members of the organization follow basic ethical (and legal) standards of behavior.
- Increased efforts in this area—providing training in ethics and developing guidelines and codes of conduct

Managing Social Responsibilities Across Borders: Managing Compliance

- **Formal Dimensions**

- Legal Compliance
- Ethical Compliance
- **Philanthropic Compliance**

- **Philanthropic giving** - awarding funds or gifts to charities or other social programs, many corporations have had to limit their charitable gifts over the past several years, to trim their own budgets.

Managing Social Responsibilities Across Borders: Informal Dimensions

- **Informal Dimensions**

- Leadership practices
- Organization Culture
- Response to Whistle-Blowers

- **Whistle-blowing** is the disclosure by an employee of illegal or unethical conduct on the part of others within the organization. How an organization responds to this practice often indicates its stance toward social responsibility

Managing Social Responsibilities Across Borders: Evaluating Social Responsibility

- Ensure efforts are producing desired benefits
 - Apply the concept of control to social responsibility
 - Evaluate response to instances of questionable legal or ethical conduct
-
- Conduct **corporate social audits** - a formal and thorough analysis of the effectiveness of the firm's social performance

Difficulties of Managing CSR Across Borders

- A model developed by two Dutch CSR experts, Rob van Tulder and Alex van der Zwart suggests there are three (3) main actors in the policy formulation process

Actors in the policy formulation process

1. The State - passes and enforces laws
2. The Market - utilizes inputs and allocates outputs to members of the society;
3. Civil Society - includes churches, charitable organizations, labor unions, NGOs (nongovernmental organizations)

Difficulties of Managing CSR Across Borders

- Van Tulder and van der Zwart's developed stereotypical behaviors in 3 regions of the world
 - **The Anglo-Saxon Approach**
 - The Asian Approach
 - The Continental European Approach

Anglo-Saxon countries view the state, the market, and civil society as separate, competitive, and antagonistic.

Difficulties of Managing CSR Across Borders

- Van Tulder and van der Zwart's developed stereotypical behaviors in 3 regions of the world
 - The Anglo-Saxon Approach
 - **The Asian Approach**
 - The Continental European Approach

The relationship between these three actors is different in Asia. Many **Asian countries**—Japan, Korea, China, and Indonesia rely on close cooperation between the private sector and the government.

Difficulties of Managing CSR Across Borders

- Van Tulder and van der Zwart's developed stereotypical behaviors in 3 regions of the world
 - The Anglo-Saxon Approach
 - The Asian Approach
 - **The Continental European Approach**

European Union—particularly in continental European countries such as Austria, Germany, France, and the Netherlands—the three actors have much more cooperative ways of working with one another.

Regulating International Ethics and Social Responsibility

- The Foreign Corrupt Practices Act
- The Bribery Act
- The Alien Tort Claims Act
- The Anti-Bribery Convention of the Organization for Economic Cooperation and Development
- The International Labor Organization