Ethics and International Business

Learning Objectives

- Ethics in practice and theory
- Stakeholder perspective and CSR
- Ethical challenges facing international business

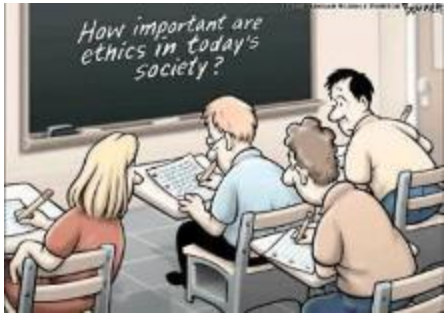
MNEs’ ethical challenges

Nike sweatshops

Apple’s supply chain

What Is Ethics?

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



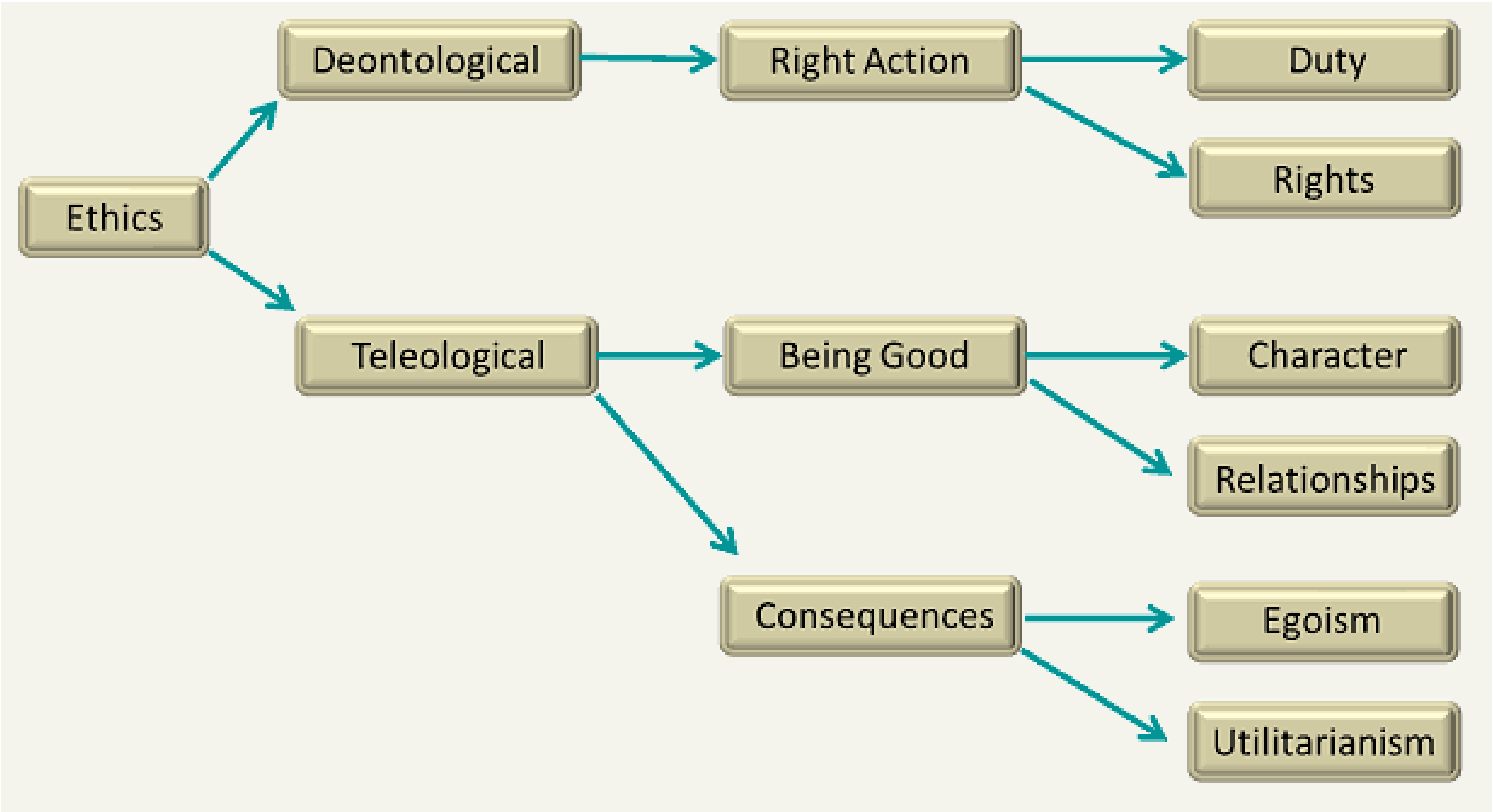
- Business ethics - accepted principles of right or wrong governing the conduct of business people
- Ethical strategy - a strategy, or course of action, that does not violate these accepted principles

The Golden Rule

- https://en.wikipedia.org/wiki/Golden_Rule

The **Golden Rule** or **law of reciprocity** is the principle of treating others as one would wish to be treated oneself. It is a maxim of altruism seen in many human religions and human cultures.

Ethical theories



https://www.soas.ac.uk/cedep-demos/000_P563_EED_K3736-Demo/unit1/page_15.htm

An illustration

- Five patients in urgent need for organ transplant. If received, will fully recover. If not received, will die.

- A sixth patient suffered brain damage from a car accident. If treated immediately, can live but paralysed and with severe cognitive limitation for the rest of his life. If not treated, will die. This patient is an organ donor, and his organs can be harvested to save the lives of the other five patients.

- You are the doctor making a decision on the spot.

- Will you treat the sixth patient while leave the other five patients to certain death?

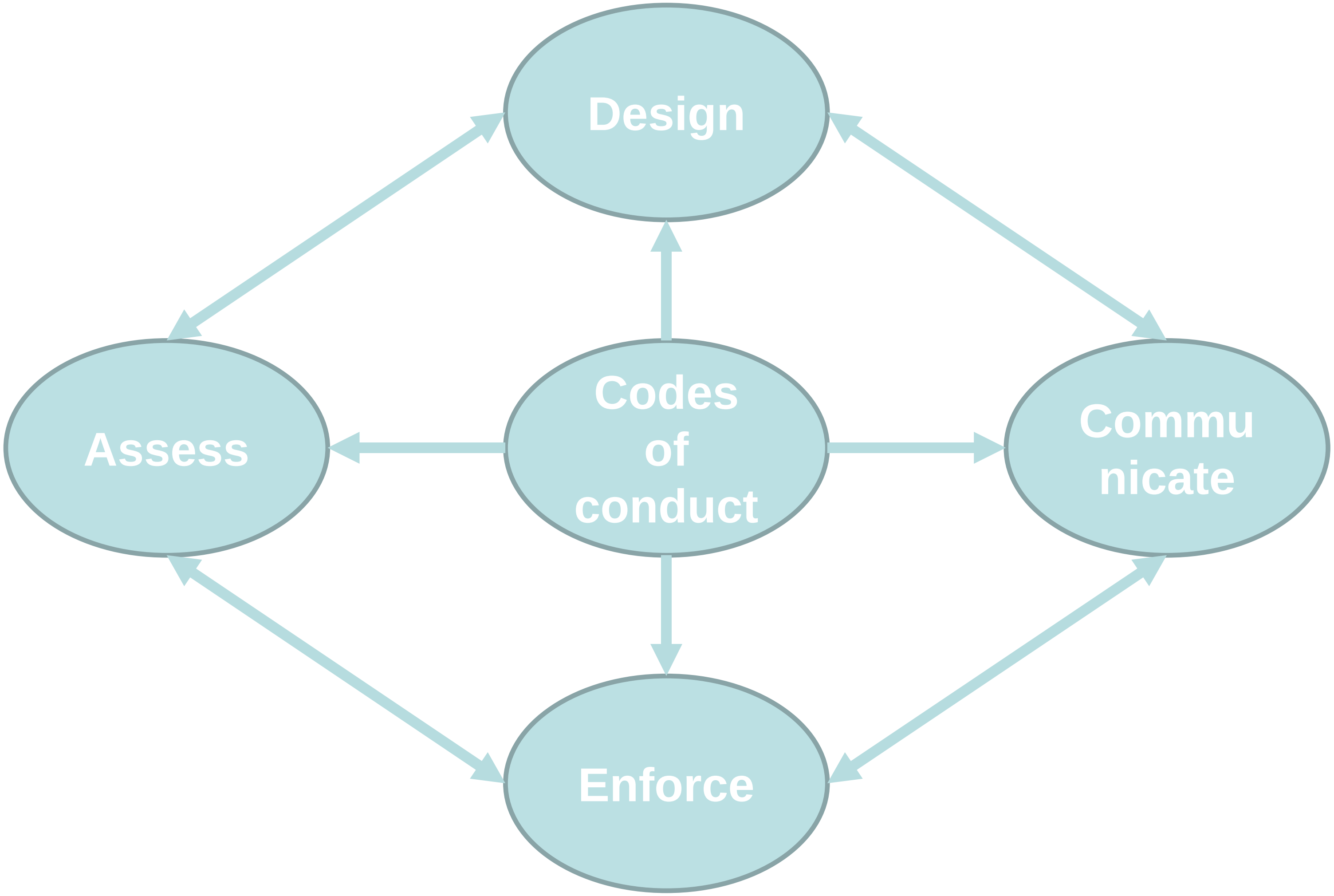
- Or, will you not treat the sixth patient and let him die, but use his organ to save the other five patients?

Stakeholders

- Internal
  - Shareholders (ROI)
  - Employees (compensation)
- External
  - Suppliers (demand stability)
  - Consumers (quality/price)
  - Society at large (social contribution)
  - Governments (tax, legal compliance)
  - Environment (sustainability)

Stakeholders

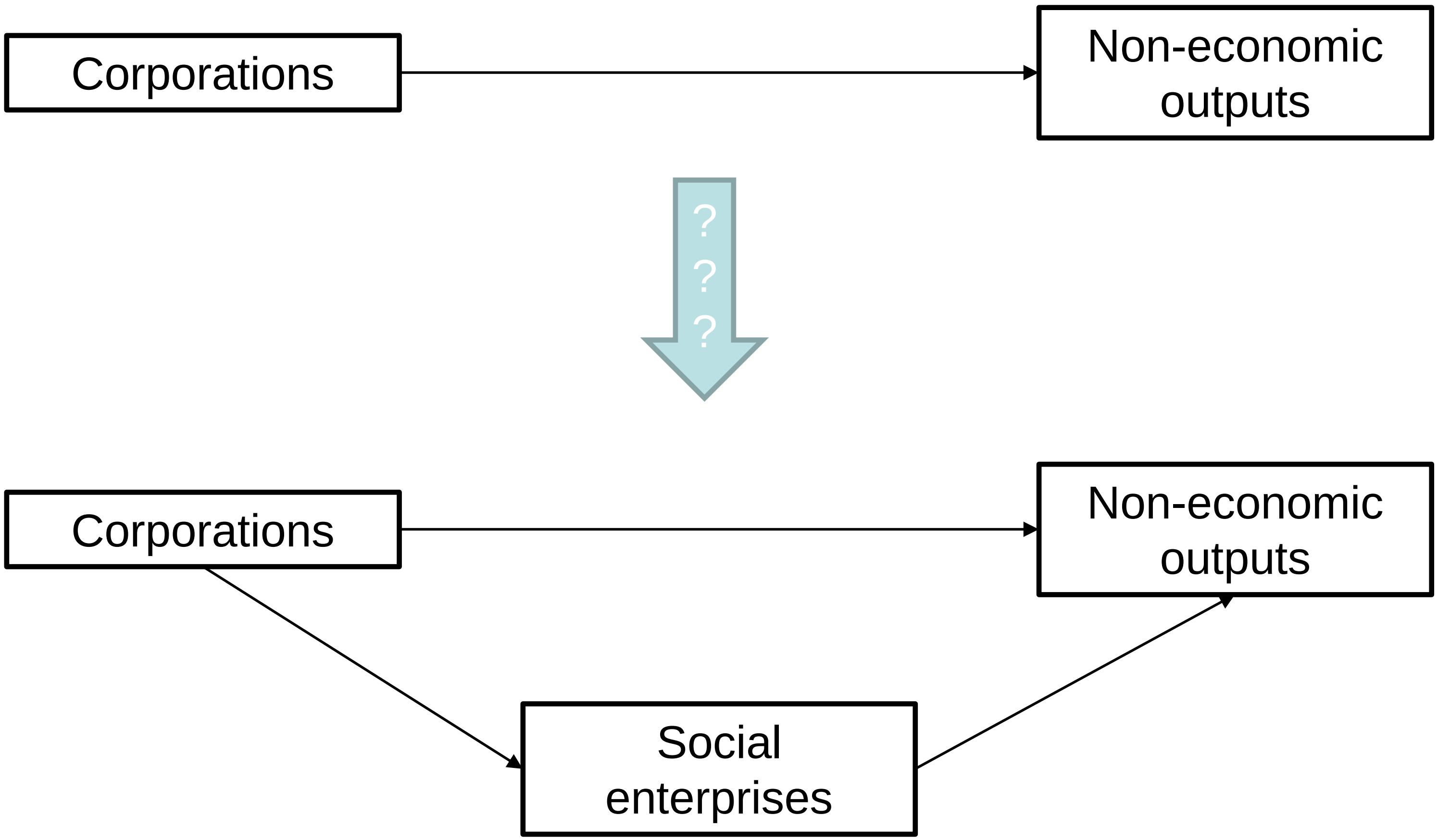
Utilitarian prescription of MNE codes of conduct



A Stakeholder Perspective of the Firm

- The Triple Bottom Line – financial viability, social acceptability, and environmental sustainability
- The Triple Bottom Line places new demands on managers:
  - More to do
  - Manage diverse interests
  - More to report

But, what about specialization?



Why Firms Undertake CSR Initiatives

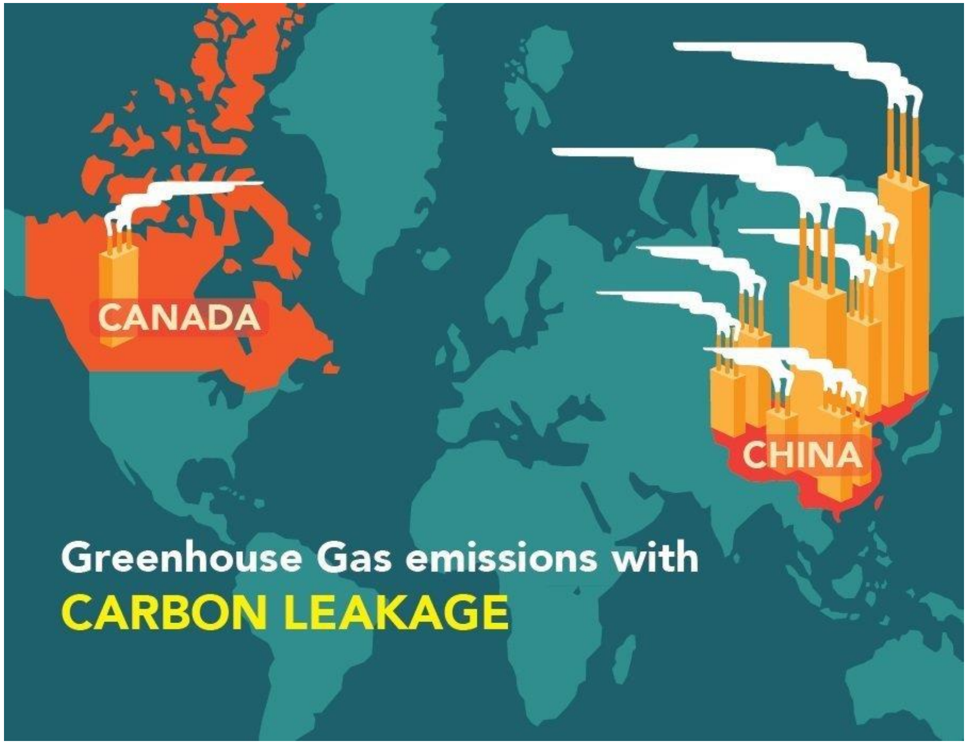
- Ethical motivations
  - Trickle down
  - Bottom up
- Institutional factors
  - Formal requirements from governments, NGOs, industry bodies…
  - Social legitimacy (license to operate)
  - Reputation risk management (moral licensing)
- Strategic motivations
  - “Business case” – creating and capturing new demands
  - Defensive strategy

Critiques of the CSR Movement

- Threats to profitability
- Unrealistic expectations
- Global ‘Salvationism’
- ‘Greenwash’ and ‘Bluewash’
- Burden of monitoring and auditing
- Need for a development-oriented approach

Ethical Issues in International Business

- Employee practices
- Human rights
- Environmental regulations
- Corruption



Institutional Voids

Ethics and Bribery

- Bribery: offering personally benefits in exchange for preferential treatment from government officials (or anyone in a powerful position), outside due procedure.
  - Mostly illegal
  - Sometimes socially accepted as “grease payment”

- Problems with bribery:
  - Erodes government authority
  - Rule of law ➔ rule of man
  - Increases cost of doing business

Corruption

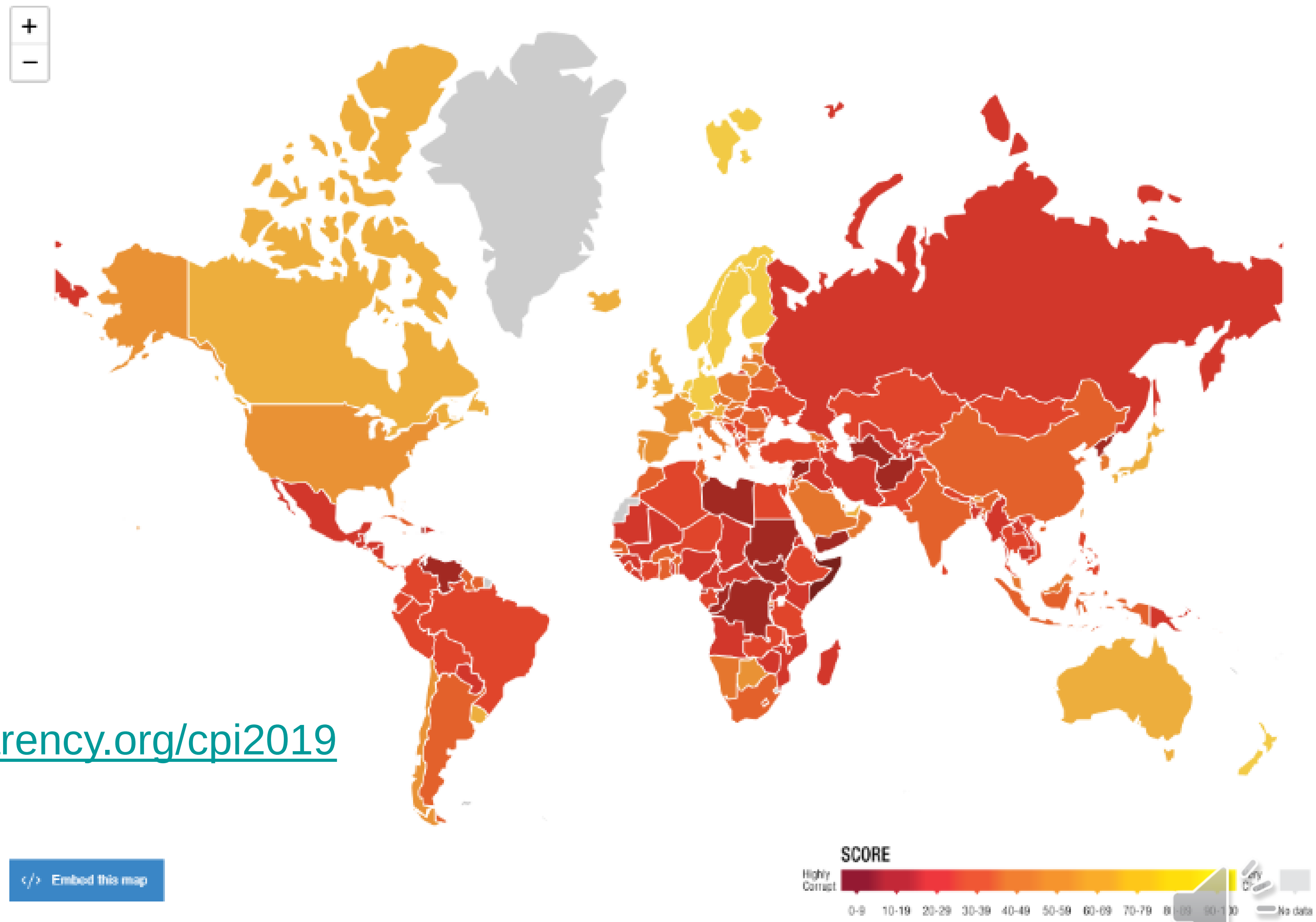
- Measure of corruption: Transparency International: http://www.transparency.org/

- Demand and supply (2 for the tango)

- TI indices biased towards perception by business people of level and frequency of payments to public officers (or politicians) – underestimation of other forms of corruption

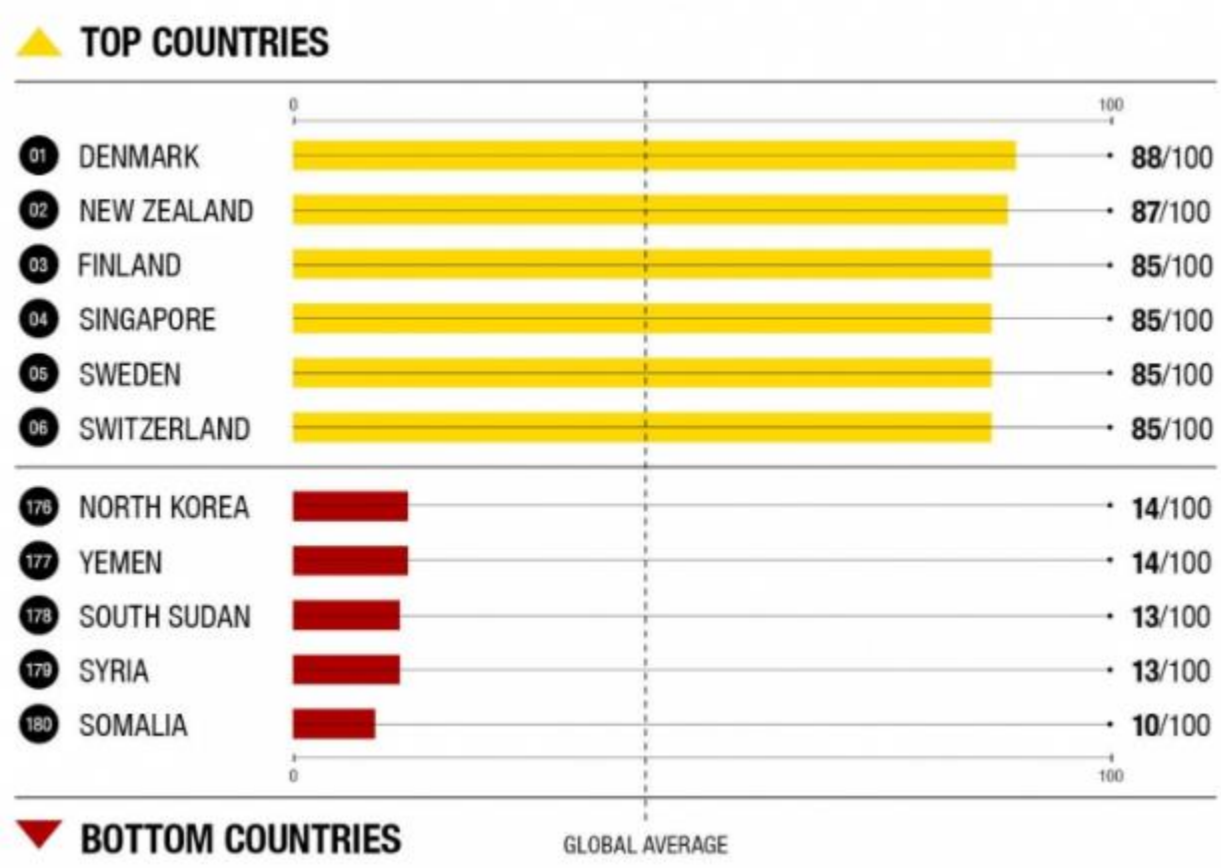
Demand Side

CORRUPTION PERCEPTIONS INDEX 2019



https://www.transparency.org/cpi2019

Demand Side



https://www.transparency.org/cpi2019

Country	CPI 2019	CPI 2012	Score change
Canada	77	84	-7
Australia	77	85	-8
Austria	77	69	8
Estonia	74	64	10
Czech Republic	56	49	7
Saint Lucia	55	71	-16
Italy	53	42	11
Greece	48	36	12
Senegal	45	36	9
Belarus	45	31	14
Argentina	45	35	10
Hungary	44	55	-11
India	41	36	5
Guyana	40	28	12
Turkey	39	49	-10
Ethiopia	37	33	4
Bosnia and Herzegovina	36	42	-6
Cote d'Ivoire	35	29	6
Nepal	34	27	7
Malawi	31	37	-6
Kyrgyzstan	30	24	6
Myanmar	29	15	14
Mexico	29	34	-5
Liberia	28	41	-13
Guatemala	26	33	-7
Uzbekistan	25	17	8
Madagascar	24	32	-8
Nicaragua	22	29	-7
Congo	19	26	-7
Korea, North	17	8	9
Afghanistan	16	8	8
Yemen	15	23	-8
Syria	13	26	-13

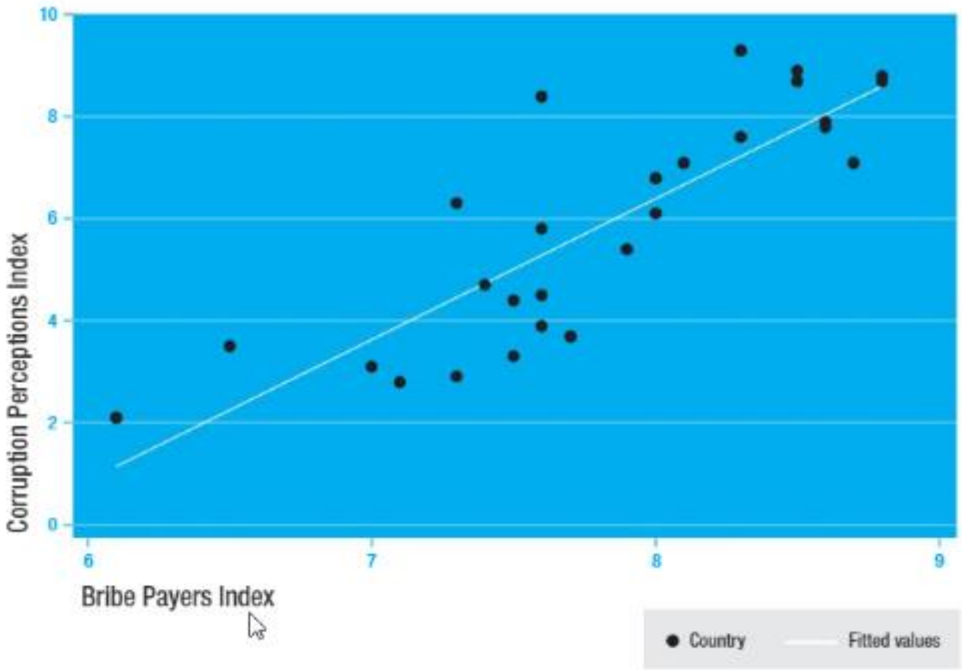
Supply Side

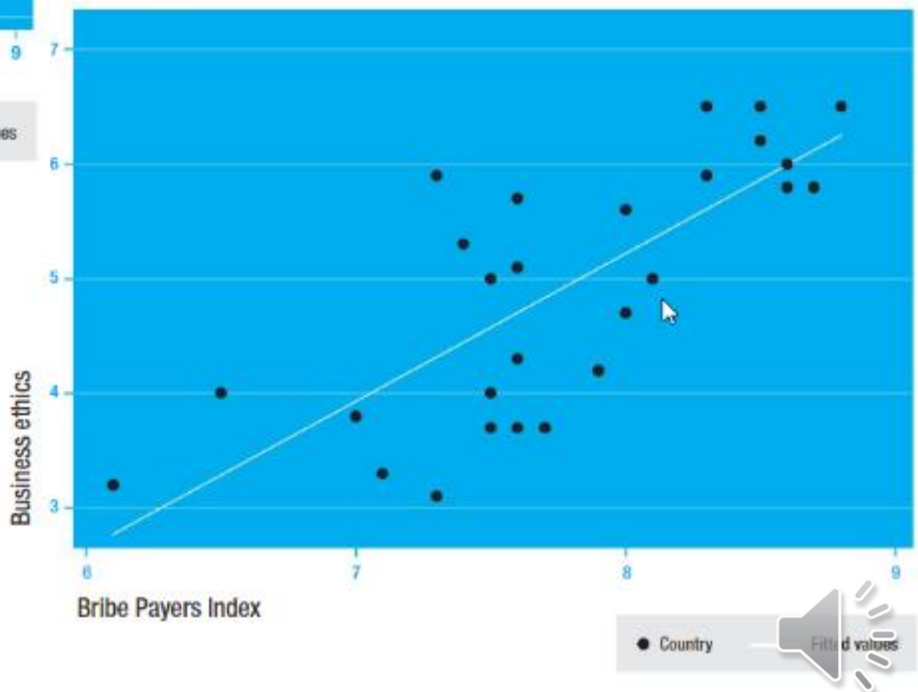
RANK	COUNTRY/ TERRITORY	SCORE	NUMBER OF OBSERVATIONS	STANDARD DEVIATION	90% CONFIDENCE INTERVAL	
					LOWER BOUND	UPPER BOUND
1	Netherlands	8.8	273	2.0	8.6	9.0
1	Switzerland	8.8	244	2.2	8.5	9.0
3	Belgium	8.7	221	2.0	8.5	9.0
4	Germany	8.6	576	2.2	8.5	8.8
4	Japan	8.6	319	2.4	8.4	8.9
6	Australia	8.5	168	2.2	8.2	8.8
6	Canada	8.5	209	2.3	8.2	8.8
8	Singapore	8.3	256	2.3	8.1	8.6
8	United Kingdom	8.3	414	2.5	8.1	8.5
10	United States	8.1	651	2.7	7.9	8.3
11	France	8.0	435	2.6	7.8	8.2
11	Spain	8.0	326	2.6	7.7	8.2
13	South Korea	7.9	152	2.8	7.5	8.2
14	Brazil	7.7	163	3.0	7.3	8.1
15	Hong Kong	7.6	208	2.9	7.3	7.9
15	Italy	7.6	397	2.8	7.4	7.8
15	Malaysia	7.6	148	2.9	7.2	8.0
15	South Africa	7.6	191	2.8	7.2	7.9
19	Taiwan	7.5	193	3.0	7.2	7.9
19	India	7.5	168	3.0	7.1	7.9
19	Turkey	7.5	139	2.7	7.2	7.9
22	Saudi Arabia	7.4	138	3.0	7.0	7.8
23	Argentina	7.3	115	3.0	6.8	7.7
23	United Arab Emirates	7.3	156	2.9	6.9	7.7
25	Indonesia	7.1	153	3.4	6.6	7.5
26	Mexico	7.0	121	3.2	6.6	7.5
27	China	6.5	608	3.5	6.3	6.7
28	Russia	6.1	172	3.6	5.7	6.6
	Average	7.8				

Advanced market economies

Emerging market economies

Correlations (causality?)





Implications for IB Managers

- ## Ethical international business
  - Transparency: clarify your:
    - Ethical principle
    - Ethical practices
    - Ethical performance
  - Consistency: match your home and foreign practices
  - Leadership: exercise your economic power for stakeholder benefits through:
    - Influencing corrupted governments
    - Incentivizing supply chain partners
    - Supporting social enterprises