

## 14.6: Reading- Global Business Ethics

### Global Business Ethics

The field of ethics is a branch of philosophy that explores the nature of virtue and morality, addressing questions about “right” and “wrong” in secular (as opposed to religious) terms; essentially, ethics tries to set standards for how human beings ought to act. The study of ethics comes from a variety of sources—religion, philosophy, the laws of nature, political and social theory, and science—and its ideas have an impact on many fields besides business—medicine, government, and science, to name a few.

The text below is organized in the way that people tend to think about ethics: first they consider where ethical principles come from; then they consider how people ought to apply those principles to specific tasks or issues. Though global business ethics is the focus of the discussion, you won’t find a tangible list of dos and don’ts here. Instead, the material is meant to help you understand some of the critical issues that global managers must deal with on an operational and strategic basis.

### Where Do Our Values Come From?

Just as people look to history to understand political, technical, and social changes, so, too, do they look to history to understand changes in thinking and philosophy. Believe it or not, there is a history of thought and belief. What may or may not have been acceptable just a hundred years ago may be very different today—from how people present themselves and how they act and interact to customs, values, and beliefs.

Ethics can be defined as a system of moral standards or values. Cultural beliefs and programming influence our values. A sense of ethics is determined by a number of social, cultural, and religious factors; this sense influences us beginning early in childhood. People are taught how to behave by their families, exposure to education and thinking, and the society in which they live. Ethical behavior also refers to behavior that is generally accepted within a specific culture. Some behaviors are universally accepted—for example, people shouldn’t physically hurt other people. Other actions are less clear, such as discrimination based on age, race, gender, or ethnicity.

Culture impacts how local values influence global business ethics. There are differences in how much importance cultures place on specific ethical behaviors. For example, bribery remains widespread in many countries, and while people may not approve of it, they accept it as a necessity of daily life. Each professional is influenced by the values, social programming, and experiences encountered from childhood on. These collective factors affect how a person perceives an issue and the related correct or incorrect behaviors. Even within a specific culture, individuals have different ideas of what constitutes ethical or unethical behavior. Judgments may differ greatly depending on an individual’s social or economic standing, education, and experiences with other cultures and beliefs. Just as in the example of bribery, it should be noted that there is a difference between ethical behavior and normal practice. It may be acceptable to discriminate in certain cultures, even if the people in that society know that it is not right or fair. In global business ethics, people try to understand what the ethical action is and what the normal practice might be. If these are not consistent, the focus is placed on how to encourage ethical actions.

While it’s clear that ethics is not religion, values based on religious teachings have influenced our understanding of ethical behavior. Given the influence of Western thought and philosophy over the world in the last few centuries, many would say that global business has been heavily influenced by the ideas and values of the Reformation and Enlightenment, which emphasize equality and individual rights. As a result, it has become accepted that all people in any country and of any background are equal and should have equal opportunity. Companies incorporate this principle in their employment, management, and operational guidelines. However, enforcing it in global operations can be both tricky and inconsistent.

It’s important to understand the impact and influence of these two critical historical periods on our modern sense of global business ethics. The prevailing corporate values—including those of institutional and individual equality; the right of every employee to work hard and reap the rewards (both financial and non-financial); corporate social responsibility; and the application of science and reason to all management and operational processes—have their roots in the thoughts and values of those historical periods.

### Impact of Ethics on Global Business

At first, it may seem relatively easy to identify unethical behavior. When the topic of business ethics is raised, most people immediately focus on corruption and bribery. While this is a critical result of unethical behavior, the concept of business ethics and global business ethics is much broader. It impacts human resources, social responsibility, and the environment. The areas of business impacted by global perceptions of ethical, moral, and socially responsible behavior include the following:

- Ethics and management
- Ethics and corruption
- Corporate social responsibility

## Ethics and Management Practices

Ethics affects various aspects of management and operations, including human resources, marketing, research and development, and even the corporate mission.

The role of ethics in management practices, particularly those practices involving human resources and employment, differs from culture to culture. Local culture affects the way people view the employee-employer relationship. In many cultures, there are no clear social rules preventing discrimination against people based on age, race, gender, sexual preference, handicap, and so on. Even when there are formal rules or laws against discrimination, they may not be enforced, as normal practice may allow people and companies to act in accordance with local cultural and social practices.

Culture can influence the way people view one another in the workplace, and local views—of, say, women—can be at odds with a company's ethics. So how do companies handle local customs and values for the treatment of women in the workplace? If you're a senior officer of an American company, do you send a woman to Saudi Arabia or Afghanistan to negotiate with government officials or manage the local office? Does it matter what your industry is or whether your firm is the seller or buyer? *In theory*, most global firms have clear guidelines articulating anti-discrimination policies. *In reality*, global businesses routinely self-censor. Companies often determine whether a person—based on their gender, ethnicity, or race—can be effective in a specific culture based on the prevailing values of that culture. The largest and most respected global companies, typically the *Fortune* Global 500, can often make management and employment decisions regardless of local practices. Most people in each country will want to deal with these large and well-respected companies. The person representing the larger company brings the clout of their company to any business interaction. In contrast, lesser-known, midsize, and smaller companies may find that *who* their representative is will be more important. Often lacking business recognition in the marketplace, these smaller and midsize companies have to rely on their corporate representatives to create the professional image and bond with their in-country counterparts.

Cultural norms may make life difficult for the company as well as the employee. In some cultures, companies are seen as “guardians” or paternal figures. Any efforts to lay off or fire employees may be perceived as culturally unethical. In Japan, where lifelong loyalty to the company was expected in return for lifelong employment, the decade-long recession beginning in the 1990s triggered a change in attitude. Japanese companies finally began to alter this ethical perception and lay off workers without being perceived as unethical.

Global corporations are increasingly trying to market their products based not only on the desirability of the goods but also on their social and environmental merits. Companies whose practices are considered unethical may find their global performance impacted when people boycott their products. Most corporations understand this risk. However, ethical questions have grown increasingly complicated, and the “correct” or ethical choice has, in some cases, become difficult to define.

For example, the pharmaceutical industry is involved in a number of issues that have medical ethicists squirming. First, there's the well-publicized issue of cloning. No matter *what* choice the companies make about cloning, they are sure to offend a great many consumers. At the same time, pharmaceutical companies must decide whether to forfeit profits and give away free drugs or cheaper medicines to impoverished African nations. Pharmaceutical companies that *do* donate medicines often promote this practice in their corporate marketing campaigns in hopes that consumers see the companies in a favorable light.

Tobacco companies are similarly embroiled in a long-term ethical debate. Health advocates around the world agree that smoking is bad for a person's long-term health. Yet in many countries, smoking is not only acceptable but can even confer social status. The United States has banned tobacco companies from adopting marketing practices that target young consumers by exploiting tobacco's social caché. However, many other countries don't have such regulations. Should tobacco companies be held responsible for knowingly marketing harmful products to younger audiences in other countries?

## Corporate Social Responsibility

Corporate social responsibility (CSR) is defined in Wikipedia as “the corporate conscience, citizenship, social performance, or sustainable responsible business, and is a form of corporate self-regulation integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism whereby business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms.”

CSR emerged more than three decades ago, and it has gained increasing strength over time as companies seek to generate goodwill with their employees, customers, and stakeholders. “Corporate social responsibility encompasses not only what companies do with their profits, but also how they make them. It goes beyond philanthropy and compliance and addresses how companies manage their economic, social, and environmental impacts, as well as their relationships in all key spheres of influence: the workplace, the marketplace, the supply chain, the community, and the public policy realm.”<sup>[1]</sup>

Companies may support nonprofit causes and organizations, global initiatives, and prevailing themes. Promoting environmentally friendly and green initiatives is an example of a current prevailing theme.

Coca-Cola is an example of global corporation with a long-term commitment to CSR. In many developing countries, Coca-Cola promotes local economic development through a combination of philanthropy and social and economic development. Whether by using environmentally friendly containers or supporting local education initiatives through its foundation, Coca-Cola is only one of many global companies that seek to increase their commitment to local markets while enhancing their brand, corporate image, and reputation by engaging in socially responsible business practices.

Companies use a wide range of strategies to communicate their socially responsible strategies and programs. Under the auspices of the United Nations, the Global Compact “is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anticorruption.”

## Enforcement of Ethical Guidelines and Standards

The concept of culture impacting the perception of ethics is one that many businesspeople debate. While culture does impact business ethics, international companies operate in multiple countries and need a standard set of global operating guidelines. Professionals engage in unethical behavior primarily as a result of their own personal ethical values, the corporate culture within a company, or from unrealistic performance expectations

In the interest of expediency, many governments—the U.S. government included—may not strictly enforce the rules governing corporate ethics. The practice of gift giving is one aspect of business that many governments don’t examine too closely. Many companies have routinely used gifts to win favor from their customers, without engaging in direct bribery. American companies frequently invite prospective buyers to visit their U.S. facilities or attend company conferences in exotic locales with all expenses paid. These trips often have perks included. Should such spending be considered sales and marketing expenses, as they are often booked, or are these companies engaging in questionable behavior? It’s much harder to answer this question when you consider that most of the company’s global competitors are likely to engage in similarly aggressive marketing and sales behavior.

Governments often do not enforce laws until it’s politically expedient to do so. Take child labor, for example. Technically, companies operating in India or Pakistan are not permitted to use child labor in factories, mines, and other areas of hazardous employment. However, child labor is widespread in these countries due to deep-rooted social and economic challenges. Local governments are often unable and unwilling to enforce national rules and regulations. Companies and consumers who purchase goods made by children are often unaware that these practices remain unchecked.

## The Evolution of Ethics

Ethics evolves over time. It is difficult for both companies and professionals to operate within one set of accepted standards or guidelines only to see them gradually evolve or change. For example, bribery has been an accepted business practice for centuries in Japan and Korea. When these nations adjusted their practices in order to enter the global system, the questionable practices became illegal. Hence a Korean businessman who engaged in bribery ten or twenty years ago may not do so today without finding himself on the other side of the law. Even in the United States, discrimination and business-regulation laws have changed tremendously over the last several decades. And who can know what the future holds? Some of the business practices that are commonly accepted today may be frowned on tomorrow.

It’s clear that changing values, as influenced by global media, and changing perceptions and cultures will impact global ethics. The most challenging aspect is that global business does not have a single definition of “fair” or “ethical.” While culture influences the definitions of those ideas, many companies are forced to navigate this sensitive area very carefully, as it impacts both their bottom line and their reputations.

## KEY TAKEAWAYS

- Culture impacts how local values influence the concept of global business ethics. Each professional is influenced by the values, social programming, and experiences he or she has absorbed since childhood. These collective factors impact how a person perceives an issue and the related correct or incorrect behavior. For some cultures, the evolution of international business and culture sometimes creates a conflict, such as what is seen in gift-giving practices or views on women in the workplace.
- Ethics impacts global business in the areas of management, corruption, and corporate social responsibility.

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1. Source: “[Defining Corporate Social Responsibility](#),” *Corporate Social Responsibility Initiative*, Harvard Kennedy School, last modified 2008, accessed March 26, 2011. ↵

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