

Chapter 5: Ethics, Corporate Social Responsibility, and Sustainability



Agenda

- The ethical issues faced by international businesses.
- What is an ethical dilemma.
- Identify the causes of unethical behavior by managers.
- Explore how managers can incorporate ethical considerations into their decision making.

Introduction

Ethics - accepted principles of right or wrong that govern the conduct of a person, the members of a profession, or 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
- Any examples?

Ethics and International Business

The most common ethical issues in business involve:

- ✓ Employment practices
- ✓ Human rights
- ✓ Environmental pollution
- ✓ Corruption

Ethics and International Business Contd.

Employment Practices

- ✓ What practices should be used when work conditions are inferior in a **host nation**?

Human Rights

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

Ethics and International Business Contd.

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 (USA)
 - Convention on Combating Bribery of Foreign Public Officials in International Business Transactions

Ethical Dilemmas

- Managers often face situations where the appropriate course of action is not clear
- **Ethical dilemmas** - situations in which none of the available alternatives seems ethically acceptable
 - ✓ Exist because real world decisions are complex, difficult to frame, and involve various consequences that are difficult to quantify

Child Labor



Child labor is still common in many poor nations.

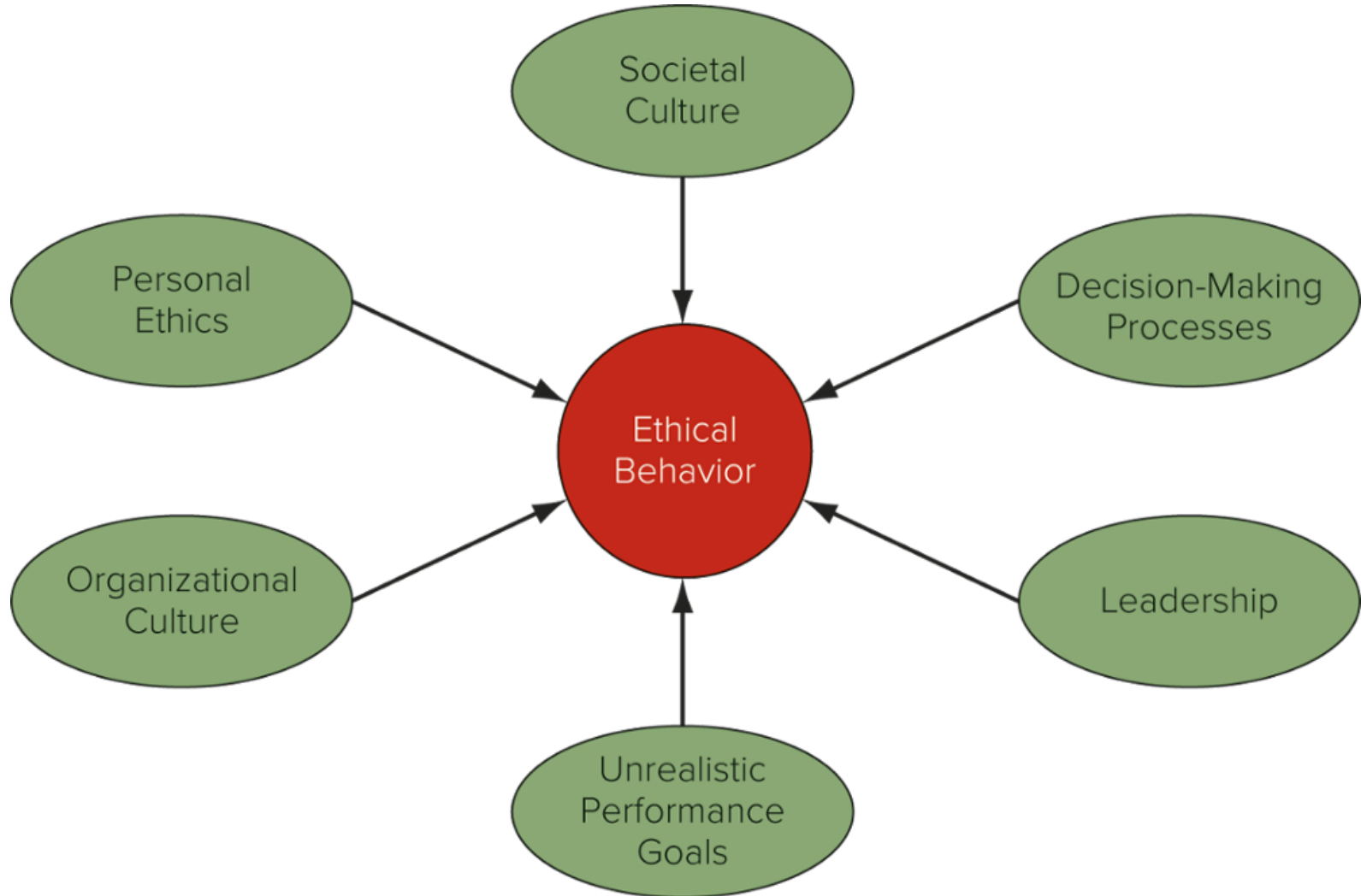
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The Roots of Unethical Behavior

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



The Roots of Unethical Behavior Contd.

Personal Ethics

- ✓ Business ethics reflect personal ethics
- ✓ Expatriates may face pressure to violate their personal ethics
 - They are away from their ordinary social context and supporting culture
 - They are psychologically and geographically distant from the parent company

Decision-Making Processes

- ✓ Business people may behave unethically because they fail to ask the relevant questions
- ✓ Decisions made based on profit motive

The Roots of Unethical Behavior Contd.

Organizational Culture

- ✓ Unethical behavior may exist in firms with an **organizational culture** that does not emphasize business ethics
- ✓ Values and norms shape the 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

The Roots of Unethical Behavior contd.

Leadership

- ✓ Employees often take cues from business leaders
- ✓ Actions speak louder than words

Societal Culture

- ✓ Ethics policies differ by country
- ✓ MNEs located in countries where individualism and uncertainty avoidance are strong 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

Managerial Implications

MAKING ETHICAL DECISIONS INTERNATIONALLY

Actions managers can take to ensure ethics are considered

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

Managerial Implications contd.

Hiring and Promotion

- ✓ Businesses should strive to identify and hire people with a strong sense of personal ethics
- ✓ Prospective employees should find out as much as they can about the ethical climate in an organization

Organizational Culture and Leadership

- ✓ Articulate values that emphasize ethical behavior, repeatedly emphasize their importance, provide incentives and rewards
 - Code of ethics

Managerial Implications contd.

Decision-Making Processes

- ✓ If a manager can answer “yes” to the following questions, the decision is ethically acceptable
 - Does my decision fall within the accepted values of standards that typically apply in the organizational environment?
 - Am I willing to see the decision communicated to all stakeholders affected by it?
 - Would the people with whom I have significant personal relationships approve of the decision?

Managerial Implications contd.

Decision-Making Processes continued

- ✓ A five-step process can also help managers think through ethical issues
- ✓ How would a decision affect **stakeholders**?
 - **Internal stakeholders** - people who work for or who own the business such as employees, the board of directors, and stockholders
 - **External stakeholders** - the individuals or groups who have some claim on a firm such as customers, suppliers, lenders, communities, unions, etc.

Managerial Implications contd.

Decision-Making Processes continued

- Determine if a proposed decision violates the fundamental rights of any stakeholders
- Establish **moral intent**
- Engage in ethical behavior
- Audit decisions - reviewing them to make sure that they were consistent with ethical principles

Managerial Implications contd.

Ethics Officers

- ✓ To encourage ethical behavior in a business, a number of firms now have ethics officers
- ✓ Ethics officers ensure
 - Employees are trained to be ethically aware
 - Ethical considerations enter decision-making
 - The company's code of ethics is followed

Moral courage

- ✓ Managers must be able to walk away from decisions that are profitable but unethical

Managerial Implications contd.

Corporate social responsibility

- ✓ There should be a presumption in favor of decisions that have both good economic and good social consequences

Focus on Managerial Implications contd.

Sustainability

- ✓ **Sustainable strategies** – strategies that not only help the MNC make good profits, but that also do so without harming the environment while simultaneously ensuring that the company operates in a socially responsible manner with regard to its stakeholders
- ✓ Sustainable strategies can be good for shareholders, the environment, local communities, employees, and customers

Whelan & Fink: The Comprehensive Case for Business Sustainability (HBR, 2016)

- Highlights the need for sustainability-based management practices in organizations
- Key Idea: A sustainability-oriented approach to business has a positive impact on business performance
- What is sustainability-based approach to business:
 - ✓ 1) do not harm people or the planet and at best create value for stakeholders, and
 - ✓ 2) focus on improving environmental, social, and governance (ESG) performance in the areas in which the company has a material environmental or social impact (such as in their operations, value chain, or customers).

Whelan & Fink contd.

- Some advantages of sustainability practices:
 - ✓ Help drive competitive advantage through stakeholder engagement
 - ✓ Improve risk management
 - ✓ Foster innovation
 - ✓ Improve financial performance
 - ✓ Build customer loyalty
 - ✓ Attract and engage employees