

**Business ethics are
an integral part of
international business
strategies**



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This topic review investigates the business ethics and their uneven implementation in international business. Business ethics are an important part of any business strategy of a company. Ethics have been discussed from centuries. Companies represent the people, where they spent most of the time. Some of their actions make many multinational organizations more influential in the world trade. Hence some of decisions taken by organizations, whether they are good or bad affect the company's image in political, social, legal societies. This review has discussion on the behavior of companies. Discussion has examples from different societies and countries.

INTRODUCTION:

The topic for this research essay is “ business ethics are an integral part of international business strategies but implementation is often uneven.

Discuss using examples from one sector”. This topic is broader in its true meanings so for the purpose of discussion, boundaries have to be drawn for better understanding of the topic. International business basically originated from international trade. Trade among nations has prehistoric evidences.

Ancient African tribes took dates and clothing for spices and olive oil. In those times trade was among neighboring countries, with the passage of time trade expanded to far away nations. During past centuries Roam, Italy and china were the major trading centers. International business succeeded to the present time when concept of global business appeared. Different societies and countries have different ethics and values. These differences in ethics could be due to religion and traditions. These ethics also have their influence over the conduct of business. These differences in ethics and values raise problems in the conduct of business internationally. To get rid of

these problem companies and industries need universal code of business ethics. The importance of universal code of business ethics became more evident in 20th century due to increase in international investments, franchising, licensing and emergence of multinational corporations. Companies and industries make agreement on transnational standards or universal ethical standards for business purpose, but this does not mean that those standards are implemented as desired. There is a gap between desirable and desired implementation of ethical norms. Desirable means that what is right and good, where as desired means what people actually want to get. Due to this gap, the implementation of business ethics is often considered to be uneven. This uneven implementation is discussed in this research essay, using examples from private sector. How and why organizations have uneven implementation of business ethics. What are the results of this uneven implementation?

HYPOTHESES:

Following questions were created to specify the research area of the essay:

What is business ethics?

What is the need of business ethics?

How organizations make uneven implementation of ethics in international business?

Why the implementation of business ethics is uneven in international business, discussed in examples?

What are the results of uneven implementation of ethics in international business, discussed with examples?

THEORETICAL BACKGROUND:

ETHICS:

“ Ethics are defined as the moral standards of a person or in a collective perspective it examines the moral standards of a society. The study of ethics also asks the questions that how these standards apply to lives, are these standards are reasonable or unreasonable, if they are reasonable then whether they support of good reasons or poor reasons” (Velasquez, M. G , 2006, p. 10).

BUSINESS ETHICS:

“ Business ethics consists of the principles and standards which guide lines in the world of business. Stakeholders of the business like investors, customers, employees, the legal system , interest groups and community decides that whether a specific behavior is right or wrong, ethical or unethical in a business environment. Although these groups may or may not be right in their decision but it true that their decision influence the society’s behavior of acceptance or rejection of a business and its activities”(Ferrell, O. C et al , 2000, p. 6).

INTERNATIONAL BUSINESS:

“ Any business which is involved in trade or investment across the national borders is known as international business. In today’s world it is not necessarily to be involved in trade of physical products, companies also

trade intellectual assets like technology, know how, capital and services across the national border” (Cavusgil, S. T et al, 2008, p. 4).

MISPERCEPTIONS ABOUT BUSINESS ETHICS:

“ Following are major misperceptions regarding Business ethic,

Business ethics are related to religion and not the responsibility of management. But it's not true because business ethics does not try to change the basic values or souls of people. It only concern with the behavior of people at business place.

Most of business managements think that their employees are ethical in their daily life so their actions in business environment will also be ethical. Hence organization has no need to pay attention to business ethics. But the situation becomes much more difficult when business faces complex ethical issues like when a business decision have a significant effect over the stakeholders of the business.

Business ethics have major concern with philosophers, academics and theologians. Business organizations have no direct concern with it in day to day activities. Reason behind this misperception is little involvement of business leaders or managers in ethical discussions or literature. So many believe that ethics are only for the discussion of philosophers and academics.

Business ethics is the lecture given to bad people by good people. But it's the reality that good people can also take bad actions, especially when they are working under stress or confused. So managing business ethics is not a

preaching but helping others to take ethical actions even under stress or confusing situation.

Ethics cannot be managed in a business. Ethics are managed in a business but often indirectly. The organizational behavior or the behavior of the founder / leader has great moral influence on the behavior of employee. Laws regulations and strategic priorities like market share, cutting cost, and profit maximization have great influence over the business ethics.

Business ethics and social responsibility is the same thing. But in general social responsibility is one aspect of business ethics. Business ethics involves an application of ethics to the corporate community, a way to determine responsibility in business dealings, the identification of important business and social issues, and an assessment of ethics in business. Where the social responsibility deals firstly with the identification of important business and social issues, secondly with critique of business.

Organization is not in trouble with the law, so its actions are ethical. One can be unethical even he operates within the law. For example hiding the information from higher management, making constant complaint about others. Mostly the unnoticed unethical behavior leads to law breaking”.

(Mcnamara, 2010)

NEED OF BUSINESS ETHICS:

“ Business ethics gives the directions for making a choice among alternatives decisions and business actions. Mostly it is considered that business ethics have to be ideal. But it is reality that ideals have little relationship with daily life decisions. Ethics offer the way to select among

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different judgments and actions focusing over the values those actions or judgment will impose latter on in the specific environment of host country”.

(Kline, J. M, 2010)

UNETHICAL BEHAVIOR BY ORGANIZAIONS:

A businessman’s ultimate objective is to make profit. As Friedman, M (1973) states in an article “ the social responsibility of business is to increase its profits” (p. 2).

Anything that a businessman can do in the best interest of society is to be a good businessman. It means that they should try to maximize the profit which is the ultimate target of any business. Here is the point when businessmen think that instead of wasting time and resources with ethics they should focus on finance, marketing and business operations. “ As long as a business is operating within the rules, the only social responsibility of business is to increase its profit with the use of business resources. Concisely it can be said that remain in open and free competition without being involved in fraud or deception” (Friedman, M, 1973, p. 2).

Multinational corporations operate in countries where bribery, sexual harassment, racial discrimination, and lack of concern for the environment are neither illegal nor unethical or unusual. The company must decide whether to adhere to constant ethical principles or to adjust to the local rules to maximize profits. As the costs of corporate and white-collar crime can be high, both for society and individual businesses, many business and trade associations have established ethical codes for companies, managers, and employees.

REASONS BEHIND THE DEVELOPMENT OF UNETHICAL BUSINESS STRATEGY:

“ While developing the strategy for international business, organizations fail to focus over the following point. These the basic reasons for the development of unethical business strategy,

Organizations fail make consensus on the objectives for doing business on global scale.

Organizations do not involve the person into the strategy development process, who has knowledge of ethics in host country.

Unable to realize the importance of ethics during strategy development as a competitive advantage.

Organizations lay the base of their policies only on legal requirement and do not consider the ethical values.

Organizations do not recruit a person whose sole responsibility is to focus on ethics at international locations.

Organizations appoint their employees or experts to fill ethics positions from organizations headquarter who have no experience of host country ethics.

Focusing on the few cultural differences rather than acknowledging the many cultural similarities.” (The international business ethics institute, 2005)

EXAMPLE:**NESTLE CORPORATION:**

“ During the promotion of infant formula in third world countries especially in Africa, the Nestle corporation hired the women and without giving them necessary training, they dressed them up as nurses. Those nurses recommend the formula over breast feeding to the mothers. They convinced that using the formula is sophisticated and looks like western, while breast feeding is old fashioned and third world practice. When mothers get convinced to use infant formula, free samples of Nestle infant formula were given to them. Those free samples lasted long enough to dry up the mother’s breast milk due to the lack of use. Now at that stage mothers were forced to purchase the infant formula. The company continued this strategy regardless of worldwide protest. Protesters claimed that chance of getting sick is higher in children who were using infant formula as compared to breastfeeding in third world countries. The company changed its strategy only after years of massive boycotts of Nestle products by consumer”. (Hooker, John, 2003, p. 4).

DISCUSSION:

From the business point of view the company’s inflexibility was perfectly justified. Because “ the major social responsibility of any business is to generate profit by using company resources and operating within legal boundaries”. (Friedman, M, 1973, p. 2) The company directors had no right to withdraw a profitable and legal product, although innocent babies were suffering due to it, until boycotts changed the public opinion and company started to suffer financially. Although the infant formula itself was not the

cause of deaths but the unethical strategy used to promote marketing in third world countries was major cause of those sufferings. “ Following are four problems that can arise when poor mothers in developing countries switch to infant formula,

Infant formula needs to be mixed with water, which is mostly contaminated in poor countries. By using this contaminated water leads to diseases in infants. Due to higher illiteracy rate in those countries, majority of mother did not know how to wash the bottle and prepare it for feeding. Nestle write direction for use only in English. So the mothers how know to read in their native language, cannot understand the directions.

Even the mothers, who understand the directions, do not have the means to perform it. Due to the lack of fuel.

Most of the poor mothers cannot afford the infant formula. So they use infant formula in less quantity as compared said quantity in order to make it last longer. But baby will suffer by this practice because he not getting the required amount of nutrition.

Infant formula cannot be the true substitute of breastfeeding. Breast feeding has many natural benefits like, transfer of antibodies from mother to baby, essential amount of nutrition required for brain and nerve development and frequent breastfeeding can also delay the return of fertility in mothers. This can help the mothers of poor countries to space their births.

Although Nestle knows that these problems were arising by use of its unethical marketing strategy, but it continued the promotion, until public boycotted its products". (Wikimedia Foundation Inc, 2011)

CONCLUSION:

Business actions of Nestle in this particular case fall in that category which includes actions that may be legal but can also be said " bad". Most of the business issues related to ethics fall in this category. Companies claim that if they do business legally then their actions are ethical. They do not accept the reality that ethics are something more than to obey law. Nestle is among the leading providers of products and services that make life easier for millions of people worldwide. This can only be accomplished through the managers who do the good work. But as said earlier managers must pay attention to whether they are really doing good business.

EXAMPLE:

BHOPAL DISASTER:

On the night of 2nd December 1984, a pesticide company near the Bhopal (India) released the 40 tones of poisonous gas in to air. 50. 9 percent shares of plant were owned by Union carbide, an American owned company. As the white clouds of poisonous gas settled over the sleeping citizen, it burned their eyes and lungs. Many died a little after inhaling the gas, local authorities says that 3000 people died on that night. But these are gross underestimates. According to Aminesty international total deaths were at least 7000. But campaigners say that total deaths in last 20 years are 20000 due to Bhopal disaster and half a million are still suffer with chronic illness.

After the disaster Union carbide made an out of court settlement with Indian government and paid \$470m in 1989. The families of victims received \$550 per fatality as compensation. (Ramesh, 2004)

DISCUSSION:

A number of factors led to the leakage of gas. The commonality among all of them is that they were all related to cost cutting. Plant was under loss and was running only at one third of its capacity. Before the disaster night, safety auditors pointed out safety concerns. But no action was taken by management. Ultimately on the disaster night, all six safety measures responsible to prevent leakage were either stopped, malfunctioning or were not sufficient, all this was due to the cost cutting behavior of company.

This was one perspective of incident. After the accident a major issue was whether the case should be settled in American court as wished by Indian government or in an Indian court as wished by company. The reason behind that was that if case had been in American court, then compensation made to victim families might be many more times than actually it was made at that time. After five years fight Union carbide made an out of court settlement with government of India for \$470m.

A case is still present against the chief executive of Union carbide. He was released on bail in 1984 and never came back to India. Union carbide left the city in 1999, but tons of chemicals were left behind. These chemicals contaminated the underground water in surrounding areas and are a major cause of diseases in the poor of Bhopal. (Fisher, C and Lovell, A, 2009, p. 479-481)

CONCLUSION:

This case shows that some time multinational companies take advantage from the legal systems of different countries. Because they have the choice over which jurisdiction they want to submit the case. Union carbide took the advantage of Indian jurisdiction and closed the case from its sheets by making a low price deal. If company had to face the similar case in its home country, the payment may be many times higher than they did. However examples of such cases are mostly from developing countries. Those developing countries are more interested in foreign direct investment. So the exploitation or taking advantage of developing countries weak institutional jurisdiction can ethically objectionable.

EXAMPLE:

THE CHINESE TAINTED MILK SCANDAL:

“ China dairy industry is a major exporter of dairy products. But with the disclosure of tainted milk case in 2007, many countries like Hong Kong, Taiwan, Singapore, South Korea, Indonesia and Australia banned the Chinas dairy products. Many other companies who were using Chinas dairy ingredients in their product also recalled products.

Sanlu Group is a Chinese dairy product company; in August 2008 it was found that they are using melamine in their dairy products to increase the protein like look. Melamine was added in such a large amount that it caused kidney failure in children. Later it was found in government investigation that 21 other dairy companies were also using melamine in their products. All the contaminated products were recalled and said to be disposed off. Sanlu

Group stopped production after the confirmation of contamination. Chinas ministry of health informed the other countries about the presence of melamine in dairy products. Chinas dairy industry suffered badly after this incident".(IBS center for management research, 2011).

DISCUSSION:

Sanlu Group customer service department received complaints from consumer in December 2007 about babies getting sick after the use of baby formula. But customer service department of company did not report these complaints to executives until May 2008. Later in Jun 2008 Company received complaints regarding kidney stones development in babies being fed the Sanlu baby formula. Again the customer service department did not took notice until the scandal became public in August 2008. After investigation 21 other dairy companies and many government officials found guilty. Companies did all this to meet the high demand of dairy products. In China the demand per capita of dairy product risen from 2kg in 1980 to 22kg in 2004. Companies tried to exploit this high demand of dairy products and to get financial benefits.

CONCLUSION:

From above case it is clear that business ethics are how unevenly applied in real life. Chinas Tainted milk case has put more emphasizes on the implication of business ethics and norms. This case severely affected the repute of china's companies. Companies also faced criticism over their late response, as they were aware of contamination but still waited for the investigation report before apologizing.

It is also clear from this case that being ethical in daily does not confirms does not a guaranty that one will also be ethical in business environment. Employees of Sanlu group's customer service department were maybe having good ethics in daily life but they didn't perform ethically in business by hiding the information for top executives.