Ethical Issues in Business

Case analysis: airbus se vs sri lanka airlines

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# Introduction

The purpose of this research paper is to identify and discuss an overarching decision that has left Airbus SE the European aircraft producer in a corporate scandal of alleged bribery and corruption. In the month of June 2013, the global giant Airbus and Sri Lankan Airlines reached a purchase order agreement for Airbus six A 330 aircraft, four A 350-900 aircraft and a leasing agreement for additional four aircraft have come under much scrutiny at the early start of the year 2020. The aircraft producer of passenger aircraft due to suspicions of documentation, the company has undergone investigation for discrepancies of payment of funds to consultants which regulators believed are associated with bribery. [[1]](#footnote-1) The year-long investigation has led to an agreement of settlement upwards of 3 billion euros to multiple foreign agencies from the United States, British and French authorities[[2]](#footnote-2) for the misappropriation of funds used for bribery and corruption. The corruption probe following Airbus affects several countries in Asia and Africa Pacific; Malaysia, Taiwan, Indonesia, Ghana and Sri Lanka[[3]](#footnote-3). According to the French national prosecutor Jean-Francois Bohnert, Airbus SE construed a long-running scheme of corruptive practices to enhance its business interest. Not only were intentions to persuade business deals this long going scheme potentially increased company profits by 1.05 billion euros or US$1.2 billion[[4]](#footnote-4). For the limitations of this research paper, the case of Airbus SE and Sri Lanka Airlines will be further elaborated for point of reference.

# A Description of the Ethical Dilemma

The ethical conflict of Airbus SE and Sri Lanka Airlines (SLA) evidence suggests Airbus has underhandedly exchanged US$16.84 million to ensure the purchase of their aircraft to Sri Lanka Airlines(SLA) (Colombo News 1st, 2020). The action of the parties involved was Airbus SE and an intermediary entity, as per the “*Statement of Offence*”, acknowledged offense as failure of a commercial organization to prevent bribery[[5]](#footnote-5). The “*Particulars of Offence”* outlined Airbus SE failed to prevent persons associated with its company from bribing others concerned with the purchase of aircraft for SLA from Airbus SE[[6]](#footnote-6). The alleged act was intended to gain or retain business or advantage in the conduct of business for Airbus SE.

Corruption is a breach of democracy for national law, security of public and private institutions, public trust and undermines the regulatory framework of market transparency and fair competition[[7]](#footnote-7). Moreover, the impact to developing countries can be greatly disadvantaged for national economic growth and development from global competitors if confidence and trust are compromised[[8]](#footnote-8).

# Literature Analysis of Corruption and Bribery

To provide an understanding of the ethical dilemma in a larger context for the European airplane producer and SLA a literature review of ethics and corporate governance are considered. The discussion of the report explores three conditions to build a theoretic framework. In the first evaluation, we seek to understand if a broad context of corruption is agreed across most countries around the globe. Second evaluation explores research findings of organizational culture as a source to corruption. It is not surprising many large corporations are often in the headlines for corporate corruption, with such instances almost synonymous to the business world. Lastly, it is questionable rather these actions are simply considered as, ‘tough decisions when the stakes are high’.

Ethics remains a topic of many areas of grey where exists topics where a consensus remains debatable and reaching a common ground of ‘yes’ or ‘no’ remain undecisive answers. The difficulty further intensifies when countries are compared by their value systems, cultural acceptances and legislative practices. There exist situations where ethical standards and norms conflict at an international, regional and sub-regional level and even private to private. The significant challenge here is ethics is “highly personal” and “culturally specific” (BSR, 2017).

Nevertheless, there is a consensus shared by world leaders for anti-corruption and anti-bribery of public officials. Literature and scholarly journals addressing bribery and corruption concludes countries across the globe outlaw’s anti-bribery of its public officials (Unzicker 2000). Bribery is a destructive institution allowing organized crime to flourish (Theilig 2015).

Theory also indicates corruption goes hand in hand with organizational culture. Organizational culture is a term to refer to employees’ actions in and out of the organization that are accepted as well as not tolerated (Business Ehtics Briefing, 2018). Research indicates, actions and behaviors of corruption take place in organizations that incentivizes these behaviors and facilitates acts of corruption to take place (Jha & Panda, 2017). Kish-Gephart et.al (2010), meta-analysis study concludes, organizational culture explains a wide range of unethical practices and decisions employees make. In the case of Airbus SE construed year-long practices of strategic corporate planning as early as year 2008. The discrepancies of misappropriation of funds were further concealed through falsifying information by way of fraudulent contracts, fake invoices and false activity reports (Hollinger & Shubber, 2020) and misled UKEF of the identity of its intermediary hired to facilitate the negotiations process with SLA (In the Crown Court at SouthWark, 2020).

The era of globalization, markets such as the USA and Europe are becoming densely saturated with competition forcing organizations to seek alternative markets for new market growth opportunities in emerging developing countries. However, international markets are seemingly challenging for global players. Airbus SE, Volkswagen, Google and McDonalds are few global giants which have succumb to the challenges of these markets and have compromised their ethical principles as a means to gain market entrance and wealth maximization. More often, more organizations have accounted to relying on methods that contradict their core principles (BSR, 2017) attributed to the difficult bureaucracy and regulatory framework of a country.

A look at the statistical findings indicates there are policy exceptions that are exercised by organizations. In a research conducted by Business Ethics Briefing (2018) staggering figures of up to 40% of organizations have confirmed to adapting their corporate policies to permits gift-giving, while another 30% allow employees to interact with government officials and another 20% authorize payments to influence business deals (Business Ethics Briefing , 2018). Airbus systematically created a System of Bribery in countries that were categorized as difficult for aircraft sales. As a result, a host of shell companies and intermediaries were influenced to finalize a sales deal in the corporation’s favor (Spiegel 2020).

# Issues identified

The costs of corruption attribute to several key issues for Airbus vs SLA. Resource misallocation. According to the author (Sullivan, 2009), a focus towards corruption redirects the allocation of resources for productive use into financing bribes of public officials. This festers an erosive nature of the competitiveness of the market. It is not surprising officials will make biased investment decisions[[9]](#footnote-9) and undermine critical factors such as quality and performance standards and narrow negotiations of price.

Unethical negotiations lead to the loss of possible opportunities. A win-win solution is neither achieved nor has either side benefited from the ordeal (Crane, Glozder, & Spence, 2016). Instead, unethical negotiations can lead to reputational damage for an entity or individual. This can also impact future business deals. Moreover, a loss of business partnerships or relationships, public trust, and corporate integrity as well as serious financial implications resulting in reductions in share prices fall and legal fines.

# Recommendations from a managerial perspective

A forward-thinking approach for Airbus must constitute a reform of leadership decision-making that focused on the short-term profitable gains and failed to grasp opportunities for strategic long-term relationships. Adapting compensation schemes that award leadership decisions of CEOs that promote long-term growth and organizational sustainability (Grove, 2017). This includes even the recognition of walking away from lucrative business deals that compromises their ethical values.

Which follows the second recommendation to reward whistleblowers and establish channels for employees to report suspected or criminal activities conducted (Business Ethics Briefing , 2018). In addition, organizational ethical enforcement must be a robust effort to monitor transactions in real-time and initiate surprise audits. The new age of technology such as blockchain has much potential for optimizing trust in business transactions and as this technology becomes more readily available its usage as a viable tool for ethical business conduct.

Where human error and negligence are prone to allow or take part in corruptive events educating in core principles and values of the organization will curtail unwanted behaviors. Education and training in ethical practices, follow-up team-building of corporate trust activities and events and openness of the current corruption event as a learning objective Airbus have no intentions to repeat. Awareness of corporate ethical principles is not limited to employees but also to its shareholders. Shareholders should be encouraged to support long term goals and sustainable strategies for competitive advantage.

Specially with the case in question, reduction of the use of intermediaries may make all the difference. Important checks of qualifications and background on all representatives involved in international negotiations and contractual agreements must be administered. Embracing diversity of culture and ideas may relieve limitations of communication with an international country. Diversity has the potential to broaden the horizon of stakeholder’s interest and public trust in corporate strategies.

A final recommendation considers the evaluation of CEO traits to the alignment of corporate strategy to identify if CEO lacks more values.” Lack of moral values in the person of the CEO an imbalance corporate strategy might be an influential factor and fostering executive’s commitment in illegal acts”[[10]](#footnote-10). Evaluation of individual traits will be extended to all employees. Employees should internalize the Airbus image and ethical principles in and out of the firm with others.

In summary, public or private investments must consider the public interest and taxpayers. To illustrate, who pays the cost of corruption of Airbus and SLA is its primary stakeholder, the customers and citizens of Sri Lanka. It is recognized that corporate social responsibility and ethics on a worldwide spectrum exists a broad consensus that bribery and corruption lower productivity, decreases efficiency, increases inequality and lowers GDP. Unethical negotiations will lead to the loss of all possible opportunities. A win-win solution is neither achieved it only becomes a destructive institution allowing organized crime to flourish. As organizations combat financial challenges by seeking alternative marketplaces for new growth opportunities in emerging developing countries higher potential for bribery and corruption becomes the way for doing business. Organization adapt their corporate policies to permits gift-giving, and even authorize payments to government officials to influence business deals for more favorable outcomes. These practices are considered the norm and indicate that corruption goes hand in hand with organizational culture.

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1. (Jamieson, 2020) [↑](#footnote-ref-1)
2. (Jamieson, 2020) [↑](#footnote-ref-2)
3. (In the Crown Court at SouthWark, 2020) [↑](#footnote-ref-3)
4. (Bloomberg, Reuters, AP, 2020) [↑](#footnote-ref-4)
5. (The Crown Court At Southwark) [↑](#footnote-ref-5)
6. (The Crown Court At Southwark) [↑](#footnote-ref-6)
7. (Sullivan, 2009) [↑](#footnote-ref-7)
8. (Sullivan, 2009) [↑](#footnote-ref-8)
9. (Sullivan, 2009) [↑](#footnote-ref-9)
10. (Zona, Minoja, & Coda, 2013) pp.280 [↑](#footnote-ref-10)