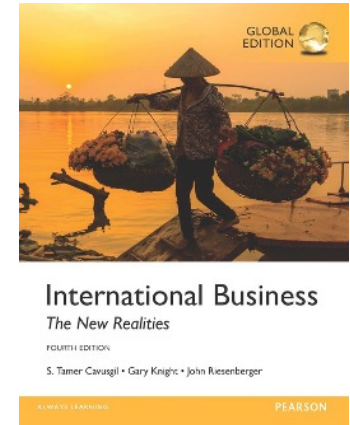


Chapter

4



Ethics, Corporate Social Responsibility, Sustainability, and Governance in International Business

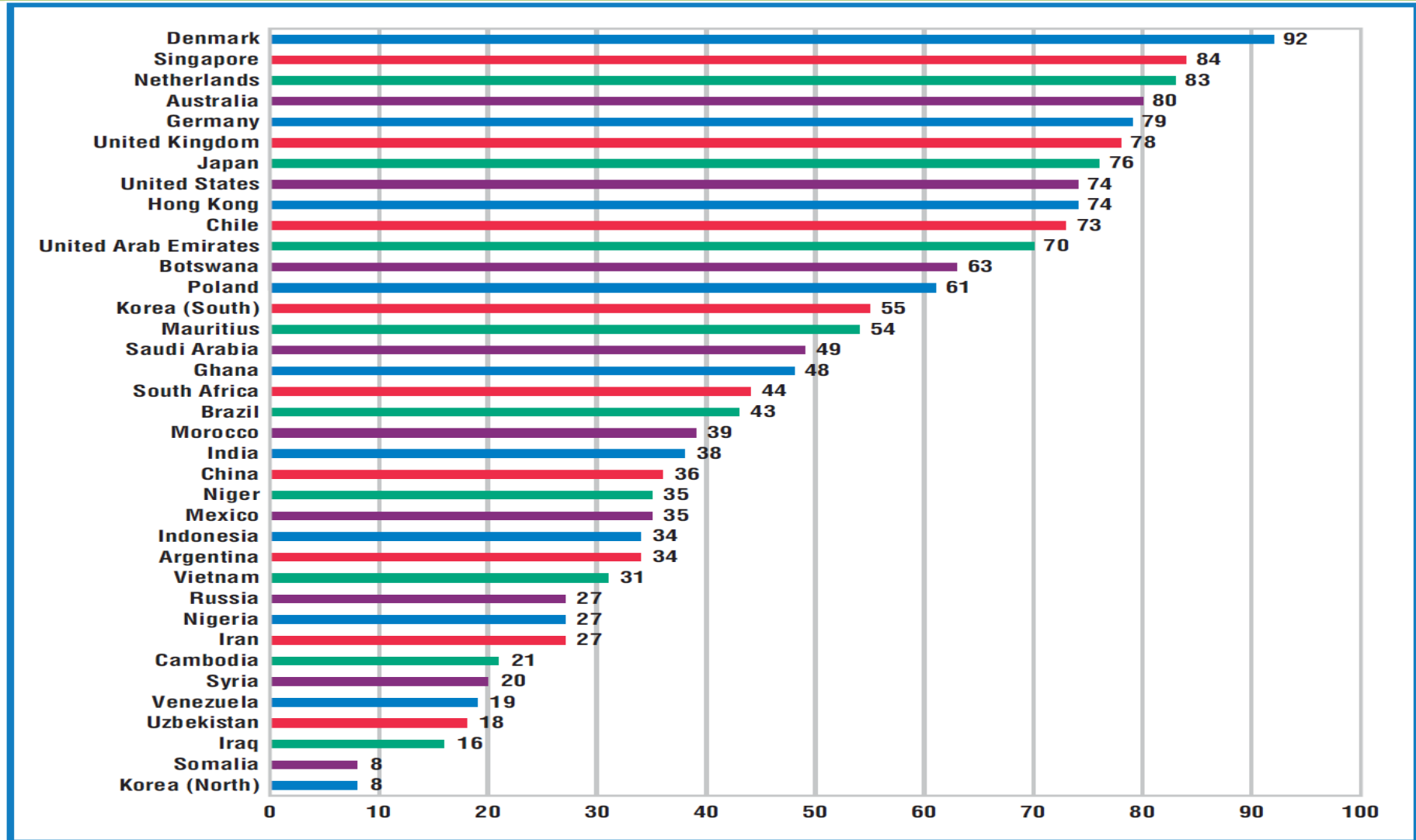
**Presented by
Prof. Dr. Zafar U. Ahmed**

Inappropriate Corporate Conduct Abroad

Examples: Firms may:

- Falsify or misrepresent contracts or official documents.
- Pay or accept bribes, kickbacks, or inappropriate gifts.
- Tolerate sweatshop conditions or abuse employees.
- Do false advertising or other deceptive marketing.
- Engage in deceptive or discriminatory pricing.
- Deceive or abuse intermediaries in the channel.
- Undertake activities that harm the natural environment.

Corruption Perceptions Index



Note: Countries with the highest scores have the lowest levels of corruption.

Sources: Adapted from *Corruption Perceptions Index 2014*. Transparency International: The Global Coalition Against Corruption (2015), www.transparency.org. Copyright © 2017 Pearson Education, Ltd.

Improper Ethical Behavior May Result When:

- Top management sets goals and incentives aimed at promoting good outcomes (e.g., profits) that instead encourage bad behaviors.
- Employees overlook unethical behavior in others because of peer pressure or self-interest.
- Managers tolerate lower ethical standards in value-chain activities performed by suppliers or third-party firms.
- Unethical practices are allowed to accumulate in the firm slowly over time.
- Bad means are justified by good ends.

The Value of Ethical Behavior

- Ethical behavior is simply the right thing to do.
- Often prescribed within laws and regulations.
- Demanded by customers, governments, and the news media. Unethical firms risk attracting unwanted attention.
- Ethical behavior is good business, leading to enhanced corporate image and selling prospects. The firm with a strong reputation is advantaged in hiring and motivating employees, partnering, and dealing with foreign governments.

Variation in Ethical Standards

- Ethical standards vary from country to country.
- **Relativism** is the belief that ethical truths are not absolute but differ from group-to-group; according to this perspective, a good rule is, “When in Rome, do as the Romans do.”
- **Normativism** is a belief that ethical behavioral standards are universal, and firms and individuals should seek to uphold them consistently around the world.



Variation in Ethical Standards (cont'd)

- In China, counterfeiters may publish translated versions of imported books without compensating the original publisher or authors.
- In parts of Africa, accepting expensive gifts from suppliers is acceptable.
- In the United States, CEO compensation is often 100 times greater than that of low-ranking subordinates.
- Finland and Sweden ban advertising aimed at children, but the practice is accepted in other parts of Europe.

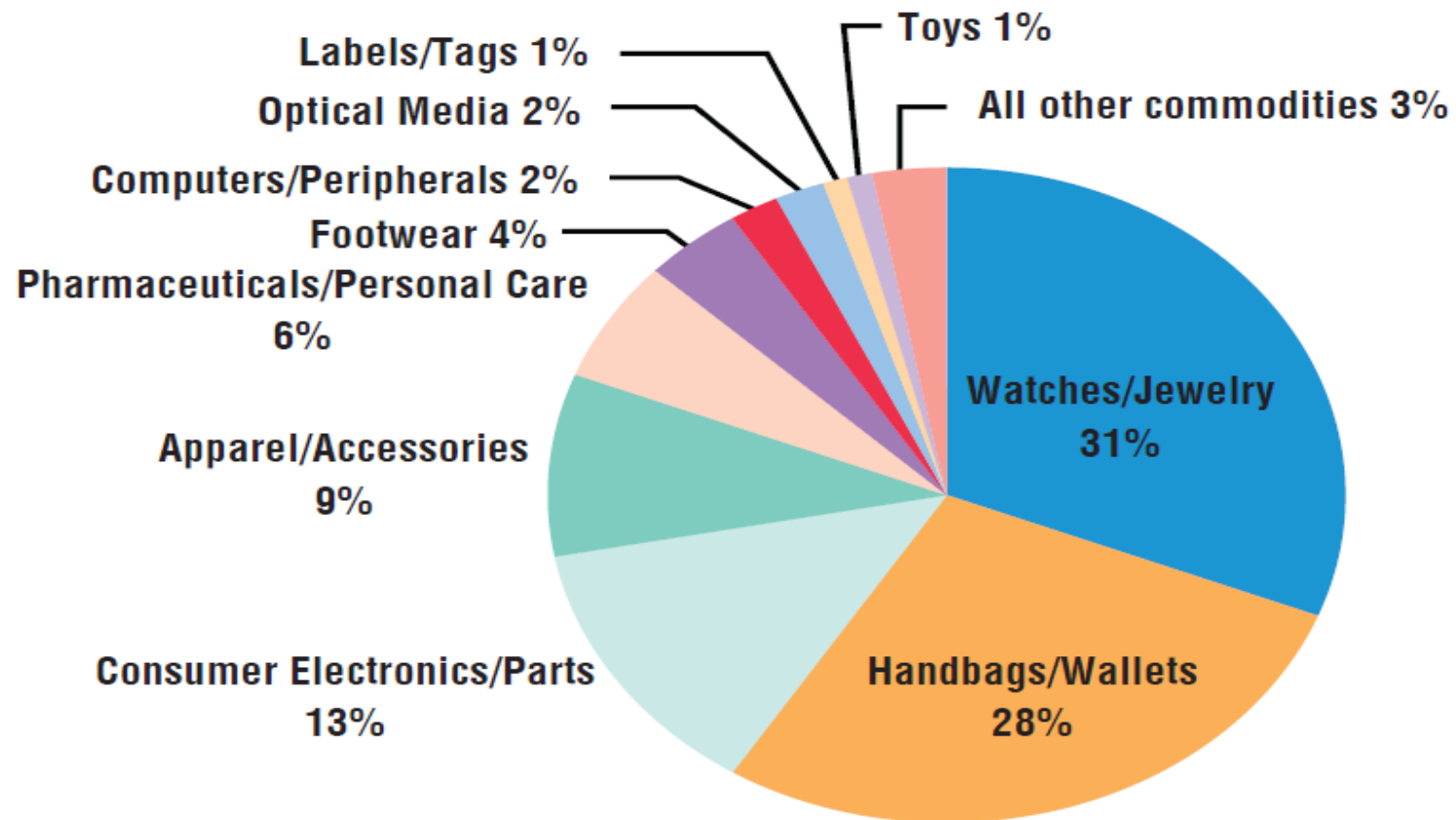
An Ethical Dilemma

- Imagine you are a manager and visit a factory owned by an affiliate in Colombia, and discover the use of child labor in the plant.
- You are told that without the children's income, their families might go hungry. If the children are dismissed from the plant, they will likely turn to other income sources, including prostitution or street crime.
- What should you do? Make a fuss about the immorality of child labor, or look the other way?

Intellectual Property

- **Intellectual property** refers to ideas or works created by individuals or firms and includes a variety of proprietary, intangible assets: discoveries and inventions; artistic, musical, and literary works; and words, phrases, symbols, and designs.
- **Intellectual property rights** are the legal claim through which proprietary assets are protected from unauthorized use by other parties, via *trademarks*, *copyrights*, and *patents*.

Top Counterfeit Commodities Seized, United States Borders, 2014



Source: "Intellectual Property Rights Seizure Statistics Fiscal Year 2014," Washington, DC: Homeland Security, U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement (2015), at www.cbp.gov/sites/default/files/documents/2014%20IPR%20Stats.pdf.

Piracy and Counterfeiting Affect:

- *International trade* – exports of legitimate products must compete with trade in counterfeit goods.
- *Direct investment* – firms avoid countries known for widespread intellectual property violations.
- *Company performance* – sales, profits, and strategies are harmed.
- *Innovation* – companies avoid doing research and development where piracy is common.
- *Tax revenues* – pirates usually don't pay taxes.

Piracy and Counterfeiting Affect: (cont'd)

- *Criminal activity* – often linked to organized crime.
- *The natural environment* – intellectual property violators disregard environmental standards
- *National prosperity and wellbeing* – ultimately, job prospects, prosperity, and moral standards in affected nations are harmed.

Corporate Social Responsibility

- **Corporate social responsibility (CSR):** Operating a business to meet or exceed the ethical, legal, commercial, and public expectations of customers, shareholders, employees, and communities.
- Helps recruit and keep good employees.
- Can help differentiate the firm and enhance its brands.
- Cuts costs, as when the firm reduces packaging, recycles, cuts energy usage, and minimizes waste in operations.
- Helps the firm avoid increased taxation, regulation, or other legal actions by local government authorities.

Sustainability

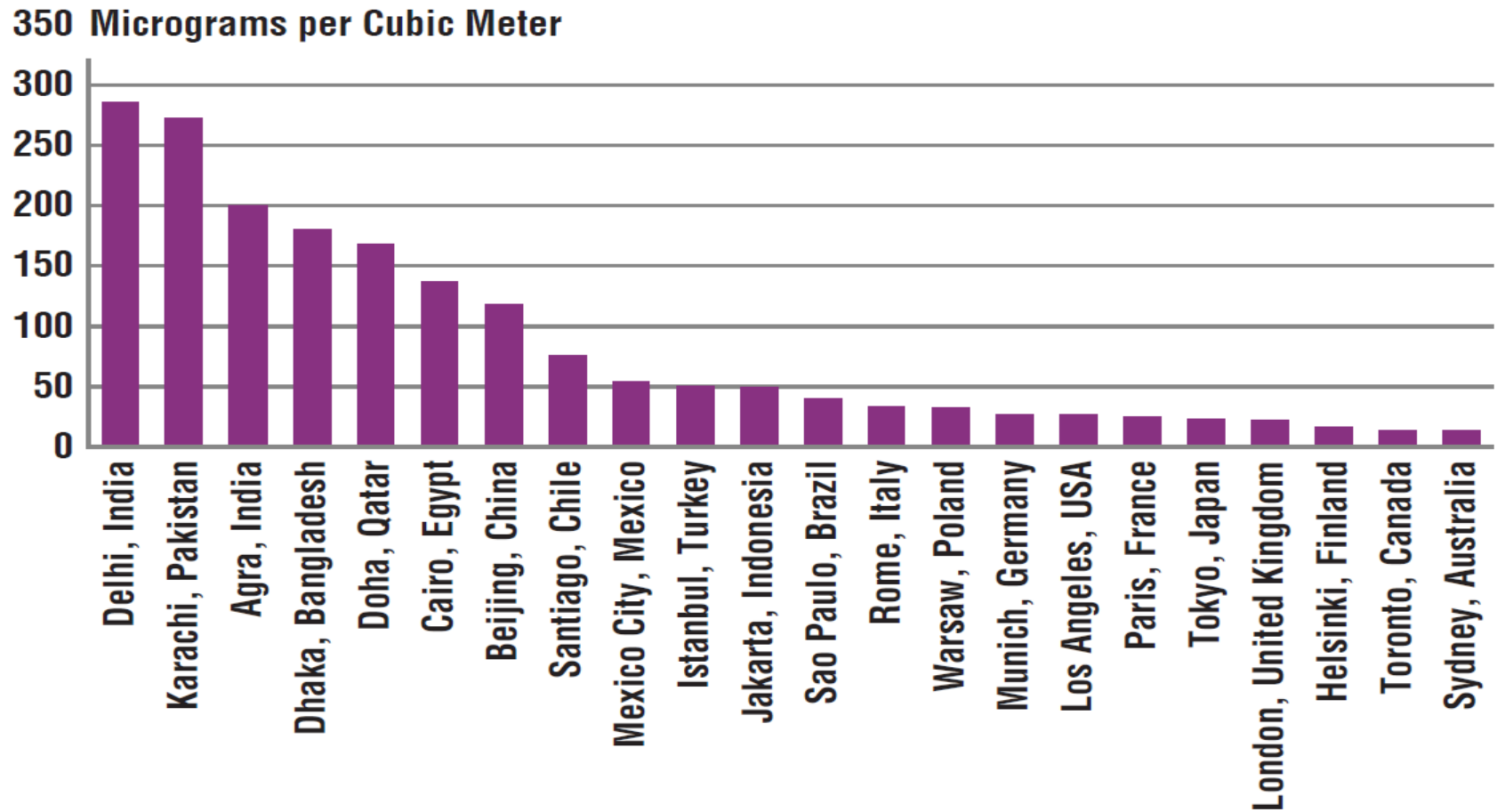
Meeting humanity's needs without harming future generations. The sustainable firm pursues three types of interests:

1. *Economic interests* refer to the firm's economic impact on the localities where it does business, such as regarding job creation, wages, and public works.
2. *Social interests* refer to how the firm performs relative to social justice, such as avoiding the use of child labor, sweatshops, as well as providing employee benefits.
3. *Environmental interests* refer to the extent of the firm's impact and harm to the natural environment.

Examples of Sustainable Practices

- *Beneficial agricultural* practices that do no harm.
- *Water conservation*. Clean water is scarce worldwide.
- *Air quality protection*.
- *Reduced energy and fuel consumption*.
- *Increased use of solar and wind energy*.
- *Improved work processes* that improve sustainability reduce costs and support the natural environment.

Air Pollution in Selected Cities



Source: World Bank, *World Bank Development Indicators 2014*, Washington DC: World Bank; World Bank, *Clean Air and Healthy Lungs: Enhancing the World Bank's Approach to Air Quality Management* (Washington DC: World Bank, February 2015).

Corporate Governance

- The system of procedures and processes by which corporations are managed, directed, and controlled.
- Provides the means through which firms undertake ethical behaviors, CSR, and sustainability.
- Implementing appropriate conduct is challenging for MNEs, especially when operating in many countries.
- A complicating factor is the use of third-party suppliers and contractors, some of whom may behave badly.
- More firms incorporate ethics and CSR into their mission, planning, strategy and everyday operations.

Embracing CSR and Sustainability

- Develop closer relations with foreign stakeholders to understand their needs and jointly develop solutions.
- Build capabilities to enhance the firm's contribution to the local community and global environment.
- Ensure diverse voices by creating organizations that employ managers and workers from around the world.
- Develop global CSR standards and objectives, and that are communicated and implemented across the firm worldwide.
- Train managers in global CSR principles and integrate these into managerial responsibilities.

A Global Consensus

- Various resources are available to assist managers, including:
 - United Nations “Global Compact” and “Declaration against Corruption and Bribery in International Commercial Transactions”.
 - The Global Reporting Initiative.
 - International Chamber of Commerce “Rules of Conduct to Combat Extortion and Bribery”.
 - The Organisation for Economic Co-operation and Development (OECD) antibribery agreement.

Benefits of Corporate Governance

- Increased employee commitment.
- Increased customer loyalty and sales.
- Improved reputation and brand image.
- Reduced likelihood of government intervention.
- Reduced business costs.
- Improved financial performance.