Sustainability Initiatives at Natura, the Bodyshop, and Aesop

opening case

Corporate Knights, a research firm from Toronto, Canada, puts together the Global 100, a ranking of the world's most sustainable companies, based on annual data analytics. Using data available publicly, Corporate Knights rates large firms on 17 key measures, evaluating their management of resources, finances, and employees (e.g., energy, carbon footprint, water use, waste productivity, clean air). They consider about 4,000 companies worldwide with market values of at least $2 billion.

For several years, Natura & Co SA from Brazil has been among the world's leaders, ranking number 14 in the latest ranking. It is also the world's largest cosmetics company. Natura (naturaeco.com), headquartered in São Paulo, Brazil, was founded in 1969. It has more than 18,000 employees and revenue of about $4.4 billion (R$15 billion Brazilian Real). Natura has three prominent subsidiaries that strive to be as sustainable in their operations as possible. They include Natura Cosmetics, which has become synonymous with Natura & Co SA in general, and its more standalone brands of The Body Shop and Aesop.

Natura Cosmetics develops, produces, distributes, and sells cosmetics, fragrances, and hygiene products. Natura's products include creams, deodorants, lipsticks, lotions, makeup accessories, perfumes, shampoos, shaving creams, soaps, and sunscreens, among others. Its portfolio is made up of brand names such as Amo, Ekos, Tododia, Aguas, Chronos, Erva Doce, Homem, Horus, Seve, and Luna. Natura employs more than 7,000 people in seven countries: Brazil, Argentina, Chile, Mexico, Peru, Colombia, and France.

Sustainable development has been Natura's guiding principle since it was founded in 1969. A passion for Customer Relationship Management (CRM) led the company to adopt direct sales as its main commercial strategy. To support its direct sales model, more than 1,421,000 consultants around the world (most in Brazil) promote the company's values and products to consumers. Innovation is at the heart of Natura's sustainable development policy. For example, last year the company spent about $75 million on product development, launching 164 products and achieving an innovation index of 64.8 percent (percentage of revenue from products launched in the last two years).

The Body Shop International Limited, trading as The Body Shop, is a well-known, formerly British cosmetics, skin care, and perfume company that was founded in 1976 by Anita and Gordon Roddick. It currently has more than 1,000 products, which it sells in some 3,100 owned and franchised stores internationally in 66 countries. The company is still based in East Croydon and Littlehampton, West Sussex, United Kingdom, but was bought from French cosmetics company L'Oréal (which owned The Body Shop from 2006 to 2017) in June 2017 for $1.2 billion (£880 million).

Famously, The Body Shop has been a leader in banning animal testing of cosmetics products worldwide. The Body Shop has been against animal testing since the 1980s but is also tirelessly working to ban animal

continued

testing in general in the cosmetics industry. This position also feeds into its sustainability initiatives. Anita Roddick said that "My hope for the future of The Body Shop is primarily vested in those people who will be the custodians of our culture and values." This custodianship includes the pledge of being the world's most ethical, sustainable company. For example, in 2016, to mark its 40th anniversary, The Body Shop unveiled a global CSR strategy—Enrich Not Exploit™—that will underpin all aspects of its operations. The pioneering commitment reaffirmed the global cosmetics brand's positioning as a leader in ethical and sustainable business practices.

Aesop was founded by hairdresser Dennis Paphitis in 1987 in Melbourne, Australia. Suzanne Santos, as Aesop's first employee, was also instrumental in the foundation and growth of the company. Aesop is viewed as an Australian skin care brand, owned fully by Natura since 2016 (although Natura had part ownership since 2012). The brand has been identified as a unique way of doing marketing in today's social media world. In a somewhat unorthodox way, this includes not using traditional advertisements or discount sales to promote its products. Instead, Aesop gets its promotional communication mostly by word-of-mouth for the design of its products, stores, and events, which are a singular mix of indulgent product experiences, thoughtful language, and modern minimalist design (compare with the Swedish furniture giant that often receives similar reviews of minimalist but superb design in the furniture business).

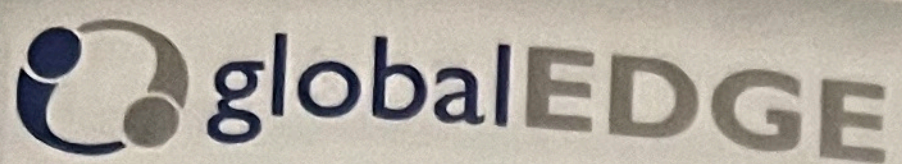
With its core subsidiaries (Natura Cosmetics, The Body Shop, and Aesop), Natura & Co SA has redefined success in business on a global scale. In 2014, it became the first publicly traded company to become a "Certified B Corporation." A Certified B Corporation is a company that focuses on two specific sustainability issues. First, it has reached a threshold standard for its impact on society and the environment. Second, the company must have committed to consider the impact of its business decisions on its wider stakeholders, not just its shareholders. Currently, only 2,200 B Corps exist worldwide, and their core sustainability focus is on the interdependence between society, environment, and economy. Importantly, Natura's actions show that it is possible to make a positive difference for the environment while also ensuring the financial viability of the company by profit making. This mindset also drove Natura's purchase of The Body Shop in 2017, the first billion-dollar B Corp acquisition by another B Corp. ●

Sources: "Building for the Future," The Body Shop *Annual Report* 2014/2015; Deanna Utroske, "The Body Shop Launches New Campaign for UN Animal Testing Ban," *Cosmetics Design*, March 22, 2018; Andres Schipani, "Body Shop Owner Natura Targets Global Growth," *Financial Times*, February 4, 2018; Corporate Knights, "2018 Global 100 Results," www.corporateknights.com/reports/2018-global-100; "The Body Shop Marks 40th Year with Pledge to Be World's Most Ethical, Sustainable Global Company," *Sustainable Brands*, February 12, 2016; Charmain Love, Katie Hill, and Marcel Fukayama, "Building Bridges: Natura, Aesop and The Body Shop Join Their Businesses as Forces for Good," *B the Change*, September 13, 2017.

Introduction

Ethics, corporate social responsibility, and sustainability are intertwined issues facing companies, industries, countries, and regional societies worldwide. These "social" issues arise frequently in international business, often because business practices and regulations differ from nation to nation. With regard to lead pollution, for example, what is allowed in Mexico is outlawed in the United States. The tricky part is also that what is ethical, socially responsible, or sustainable often is not a legal obligation that companies and countries face.

Instead, "doing good" is often a self-correcting measure that companies or industries place on themselves and countries adopt as a business model (it may be a legal issue within one country but seldom carries universally to all other countries in the world). Ultimately, differences in "sustainable" practices can create dilemmas for businesses. Understanding the nature of these dilemmas and deciding the course of action to pursue when confronted with them is a central theme in this chapter. We blend a lot of business ethics with corporate social responsibility and sustainability issues to capture a global understanding of the issues around the world.



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This are not easy issues to capture, understand, or even buy into at all times. For example, we know that some toy manufacturers have been violating safety regulations for decades, and many companies will likewise continue to do so in the future across all product and industry categories. For the toy industry specifically, time will tell, assuming we can track the ingredients in the materials being used to make toys. What we do know is that about a third of the toys that are exported out of China are currently tainted with heavy metals above the norm. Unfortunately, it is not illegal to use lead, for example, in plastics at this time. It is an ethical issue and perhaps also a sustainability issue—and usually a voluntary one—that some companies tackle and others choose to sidestep. The obvious reason some companies take shortcuts is simple math or capitalism—the large size of market opportunities in the toy industry. A basic question then is: Can it be considered unethical to manufacture toys that include heavy metals that are bad for children to ingest and come in contact with when using the toys in their proper way? What about corporate social responsibility among a country's companies or the companies' sustainable business practices?

As the opening case illustrates, some companies tackle these issues head-on within their global strategy of doing business. Specifically, with its core subsidiaries (Natura Cosmetics, The Body Shop, and Aesop), Natura & Co SA has redefined success in business on a global scale, with the idea that sustainability should be integrated throughout everything the company does. Being a "Certified B Corporation," the first publicly traded company to become certified, Natura has to have (1) reached a threshold standard for its impact on society and the environment and (2) committed to consider the impact of its business decisions on its wider stakeholders, not just its shareholders. As we stated, it is important to note that Natura's "positive business" actions show that it is possible to make a difference for the environment while also ensuring that the company is profitable. This mindset drove Natura's purchase of The Body Shop in 2017, the first billion-dollar B Corp acquisition by another B Corp, with The Body Shop being a longstanding advocate of no animal testing in product development.

The core starting point for this chapter is ethics. Ethics serves as the foundation for what people do or do not do, and ultimately ethical behavior of employees results in corporate social responsibility and sustainability practices engaged in by the company. Companies' involvement in corporate social responsibility practices and sustainability initiatives can be traced to the ethical foundation of its employees and other stakeholders, such as customers, shareholders, suppliers, regulators, and communities.[1] *Ethics* refers to 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** are the accepted principles of right and wrong governing the conduct of businesspeople, and an **ethical strategy** is a strategy, or course of action, that does not violate these accepted principles.

business ethics
The accepted principles of right and wrong governing the conduct of businesspeople.

ethical strategy
A course of action that does not violate a company's business ethics.

Broadly, as a start, we look at how ethical issues should be incorporated into decision making in an international business. We also review the reasons for poor ethical decision making and discuss different philosophical approaches to business ethics. Then, using the ethical decision-making process as our platform, we present a series of illustrations via two Management Focus

boxes related to VW and Stora Enso. The chapter closes by reviewing the different processes that managers can adopt to make sure that ethical considerations are incorporated into decision making in international business and how these decisions filter into corporate social responsibility and sustainability efforts.

LO 5-1

Understand the ethical, corporate social responsibility, and sustainability issues faced by international businesses.

Ethics and International Business

Many of the ethical issues in international business are rooted in differences in political systems, laws, economic development, and culture across countries. What is considered normal practice in one nation may be considered unethical in another. Also, what is illegal in one country may even be normal ethical business practice in another.

These unique complexities make it incredibly difficult to come up with global standards in ethics, corporate social responsibility, and sustainability. Managers in a multinational corporation need to be particularly sensitive to these differences when they do business throughout the world. Many businesspeople try to advocate or even enforce their home country view on companies in other countries without much thinking about the implications for the relationship. In the international business setting, the most common ethical issues involve employment practices, human rights, environmental regulations, corruption, and the moral obligation of multinational corporations.

EMPLOYMENT PRACTICES When work conditions in another country (host nation) are inferior to those in a multinational corporation's home nation, which standards should be applied? Those of the home nation, those of the host nation, or something in between? While few would suggest that pay and work conditions should be the same across nations, how different can they be before we find it to be unacceptable? For example, while 12-hour workdays, extremely low pay, and a failure to protect workers against toxic chemicals may be common in some less developed and so-called emerging nations, does this mean that it is okay for a multinational company to tolerate such working conditions in its subsidiaries or to condone it by using local subcontractors in those countries? Without taking into account the potential financial implications, it would be easy to simply say that every company should be as ethical, socially responsible, and sustainable as its home-country environment dictates. But it's not really that simple.

Some time ago, Nike found itself in the center of a storm of protests when news reports revealed that working conditions at many of its subcontractors were poor. A *48 Hours* report on CBS painted a picture of young women who worked with toxic materials six days a week in poor conditions for only 20 cents an hour at a Vietnamese subcontractor. The report also stated that a living wage in Vietnam was at least $3 a day, an income that could not be achieved at the subcontractor without working substantial overtime. Nike and its subcontractors were not breaking any laws, but questions were raised about the ethics of using "sweatshop labor" to make what were essentially fashion accessories. It may have been legal, but was it ethical to use subcontractors who, by developed-nation standards, clearly exploited their workforce? Nike's critics thought not, and the company found itself the focus of a wave of demonstrations and consumer boycotts. These exposés surrounding Nike's use of subcontractors forced the company to reexamine its policies. Realizing that even though it was breaking no law, its subcontracting policies were perceived as unethical, Nike's management established a code of conduct for its subcontractors and instituted annual monitoring by independent auditors of all subcontractors.[2]

As the Nike case demonstrates, a strong argument can be made that it is not appropriate for a multinational firm to tolerate poor working conditions in its foreign operations or those of subcontractors. However, this still leaves unanswered the question of which standards should be applied. We shall return to and consider this issue in more detail later in the chapter. For now, note that establishing minimal acceptable standards that safeguard the basic rights and dignity of employees, auditing foreign subsidiaries and subcontractors on a regular basis to make sure those standards are met, and taking corrective action if they are not up to standards are a good way to guard against ethical abuses. For another example of problems with working practices among suppliers, read the accompanying Management Focus, which looks at Volkswagen and the company's staggering public debacle regarding software used by VW to unethically lower the output data for air polluting emissions.

management FOCUS

"Emissionsgate" at Volkswagen

Volkswagen, often abbreviated as VW, is a German automaker that was founded by the German Labor Front. The company is headquartered in Wolfsburg. It is the flagship marquee of the Volkswagen Group and, for the first time ever, became the top automaker in the world in 2017 and has maintained that number one position. Volkswagen said it delivered 10.8 million vehicles worldwide, while the nearest competitors Renault Nissan Mitsubishi (10.3 million) and Toyota (10.3 million) had very similar global sales, some 500,000 units below VW (with General Motors following just behind due to strong sales in China).

To go along with its car numbers, VW had sales of about $129 billion (€106 billion) and an employee workforce of some 630,000 people. These staggering numbers and the new ranking as the top automobile manufacturer in the world came at the same time VW was facing perhaps its biggest challenge in its 80-year history (the company was founded in 1937).

Sometimes referred to as "emissionsgate" or "dieselgate," the Volkswagen emissions scandal began in September 2015 when the U.S. Environmental Protection Agency (EPA) issued a notice of violation of the Clean Air Act to the German automaker. EPA is an agency of the U.S. federal government that was created to protect human health and the environment by writing and enforcing regulations based on laws passed by the U.S. Congress. The EPA has been around since 1970, although the Trump administration has proposed a series of more than 40 cuts to the EPA (slashing the EPA workforce by more than 3,000 people and $2 billion in funding).

The 2011 Volkswagen Jetta on display January 27, 2011 at the 2011 Washington Auto Show at the Washington Convention Center in Washington, DC.

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In a rather astonishing finding, the EPA determined that Volkswagen had intentionally programmed engines to activate emissions controls only during lab testing. The unethical programming by VW caused the vehicles' nitrogen oxide output—which is the most relevant factor for air pollution standards—to register at lower levels to meet strict U.S. standards during the crucial laboratory regulatory testing. In reality, the vehicles emitted up to 40 times more NO_x on the streets. Volkswagen used this unethical and very sophisticated computer programming in about 11 million cars worldwide, out of which 500,000 vehicles were in use in the United States (for model years 2009–2015).

VW went to great lengths to make this work. The software in the cars sensed when the car was being tested in a regulatory lab, and then the software automatically activated equipment in the vehicle that reduced emissions. Think about that in terms of the decision making that had to go into making this unethical choice! Additionally, the software turned the car's equipment down during regular driving on the streets or highways, resulting in increasing emissions way above legal limits. The only reasoning for doing this is to save fuel or to improve the car's torque and acceleration. Thus, not only were the emissions off, and unethically adjusted, the car's performance statistics were also affected in a positive way—which, obviously, can be seen as another unethical decision or by-product of the emissions software.

The software was modified to adjust components such as catalytic converters or valves that were used to recycle a portion of the exhaust gases. These are the components that are meant to reduce emissions of nitrogen oxide, an air pollutant that can cause emphysema, bronchitis, and several other respiratory diseases. The severity of this air pollution resulted in a $4.3 billion settlement with U.S. regulators. VW also agreed to sweeping reforms, new audits, and oversight by an independent monitor for three years. Internally, VW disciplined dozens of engineers, which is interesting because it at least implies that the top-level managers were not aware of the software installation and unethical use.

Sources: Nathan Bomey, "Volkswagen Passes Toyota as World's Largest Automaker Despite Scandal," *USA Today*, January 30, 2017; Bertel Schmitt, "It's Official: Volkswagen Is World's Largest Automaker in 2016. Or Maybe Toyota," *Forbes*, January 30, 2017; Rob Davis, "Here Are 42 of President Donald Trump's Planned EPA Budget Cuts," *The Oregonian*, March 2, 2017; "VW Expects to Sanction More Employees in Emissions Scandal: Chairman," *CNBC*, March 7, 2017.

HUMAN RIGHTS Basic human rights still are not respected in a large number of nations, and several historical and current examples exist to illustrate this point. Rights taken for granted in developed nations, such as freedom of association, freedom of speech, freedom of assembly, freedom of movement, and freedom from political repression, for example, are not universally accepted worldwide (see Chapter 2 for details). One of the most obvious historical examples was South Africa during the days of white rule and apartheid, which did not end until 1994. This may seem like a long time ago, but the effects of the old system still linger to this day. Also, in many countries today we see an increase in authoritarian populists who are attacking human rights principles and fueling distrust of democratic institutions.

South Africa represents an example that most people can relate to, most likely remember, and is relatively easy to understand (compared with authoritarian populists politicians infringing on

human rights, which is often more difficult to understand and see in practice). The apartheid system denied basic political rights to the majority nonwhite population of South Africa, mandated segregation between whites and nonwhites, reserved certain occupations exclusively for whites, and prohibited blacks from being placed in positions where they would manage whites. Despite the odious nature of this system, businesses from developed nations operated in South Africa for decades before changes started happening. In the decade prior to apartheid's abolishment, however, many questioned the ethics of doing so. They argued that inward investment by foreign multinationals supported the repressive apartheid regime, at least indirectly, by boosting the South African economy. Thankfully, several businesses started to change their policies in the 1990s and 2000s.[3] Gearing up for the 2020s and beyond, the assumption is that most businesses will follow the idea of, for example, the United Nation's Sustainable Development Goals 2030 (established in September 2015). In doing so, more and more companies are now using ethical behavior as a core philosophy when competing for work.

General Motors, which had significant activities in South Africa, was at the forefront of this trend. GM adopted what came to be called the *Sullivan principles*, named after Leon Sullivan, an African American Baptist minister and a member of GM's board of directors. Sullivan argued that it was ethically justified for GM to operate in South Africa so long as two conditions were fulfilled. First, the company should not obey the apartheid laws in its own South African operations (a form of passive resistance). Second, the company should do everything within its power to promote the abolition of apartheid laws. As a practical matter, Sullivan's principles ultimately became widely adopted by U.S. firms operating in South Africa. The beginning of the end of apartheid, we think, was when these foreign companies, like GM, violated the South African apartheid laws and the government of South Africa did not take any action against the companies. Clearly, South Africa did not want to antagonize important foreign investors, which then led to more and more foreign companies operating in the country choosing to disobey the apartheid laws.

After 10 years, Leon Sullivan concluded that simply following the two principles was not sufficient to break down the apartheid regime and that American companies, even those adhering to his principles, could not ethically justify their continued presence in South Africa. Over the next few years, numerous companies divested their South African operations, including Exxon, General Motors, IBM, and Xerox. At the same time, many state pension funds signaled they would no longer hold stock in companies that did business in South Africa, which helped persuade several companies to divest their South African operations. These divestments, coupled with the imposition of economic sanctions from the United States and other governments, contributed to the abandonment of white minority rule and apartheid in South Africa and the introduction of democratic elections in 1994. This is when Nelson Mandela was elected president of South Africa, after having served 27 years in prison for conspiracy and sabotage to overthrow the white government of South Africa (Mandela won the Nobel Peace Prize in 1993 and passed away in 2013). Ultimately, adopting an ethical stance by these large multinational corporations was argued to have helped improve human rights in South Africa.[4]

Although change has come in South Africa, many repressive regimes still exist in the world. In fact, according to the Freedom House, only about 45 percent of the world's population of 7.6 billion people are living in free democratic countries (30 percent are partly free and 25 percent are not free). People in countries that are not considered free by the Freedom House typically face severe consequences if they try to exercise their most basic rights, such as expressing their views, assembling peacefully, and organizing independently of the countries in which they live.

This lack of universal freedom in many countries begs the question: Is it ethical for multinational corporations to do business in these repressive countries? As an answer, it is often argued that inward investment by a multinational can be a force for economic, political, and social progress that ultimately improves the rights of people in repressive regimes. This position was first discussed in Chapter 2, when we noted that economic progress in a nation could create pressure for democratization. In general, this belief suggests that it is ethical for a multinational to do business in nations that lack the democratic structures and human rights records of developed nations. Investment in China, for example, is frequently justified on the grounds that although China's human rights record is often questioned by human rights groups and although the country is not a democracy, continuing inward investment will help boost economic growth and raise

living standards. These developments will ultimately create pressures from the Chinese people for more participatory government, political pluralism, and freedom of expression and speech.

There is a limit to this argument. As in the case of South Africa, some regimes are so repressive that investment cannot be justified on ethical grounds. Another example would be Myanmar (formerly known as Burma). Ruled by a military dictatorship since 1962, Myanmar has one of the worst human rights records in the world. Beginning in the mid-1990s, many companies exited Myanmar, judging the human rights violations to be so extreme that doing business there could not be justified on ethical grounds. However, a cynic might note that Myanmar has a small economy and that divestment carries no great economic penalty for firms, unlike, for example, divestment from China. Interestingly, after decades of pressure from the international community, the military government of Myanmar finally acquiesced and allowed limited democratic elections to be held, resulting in the country being rated as "partly free" today according to the Freedom House.

ENVIRONMENTAL POLLUTION

Ethical, social responsibility, and sustainability issues can arise when environmental regulations in host nations are inferior to those in the home nation. Ethics drive what people decide to do, and corporate social responsibility and sustainability drive what companies ultimately decide to do. Many developed nations have substantial regulations governing the emission of pollutants, the dumping of toxic chemicals, the use of toxic materials in the workplace, and so on. Those regulations are often lacking in developing nations, and, according to critics, the result can be higher levels of pollution from the operations of multinationals than would be allowed at home.

People wearing breathing masks walk at Tian'anmen Square China's capital city, Beijing.

©Kevin Frayer/Getty Images

From a practical and moneymaking standpoint, we can ask: Should a multinational corporation feel free to pollute in a developing nation? The answer seems simplistic: to do so hardly seems ethical. Is there a danger that amoral management might move production to a developing nation precisely because costly pollution controls are not required and the company is, therefore, free to despoil the environment and perhaps endanger local people in its quest to lower production costs and gain a competitive advantage? What is the right and moral thing to do in such circumstances: pollute to gain an economic advantage or make sure that foreign subsidiaries adhere to common standards regarding pollution controls?

These questions take on added importance because some parts of the environment are a public good that no one owns but anyone can despoil. Even so, many companies answer illogically and say that some degree of pollution is acceptable. If the issue becomes degree of pollution instead of preventing as much pollution as possible, then the strategic decision has been turned around—everyone will start arguing about the degree that is acceptable instead of what to do to prevent pollution in the first place. The problematic part of this argument and equation for measuring pollution is that no one owns the atmosphere or the oceans, but polluting both, no matter where the pollution originates, harms all.[5] In such cases, a phenomenon known as the *tragedy of the commons* becomes applicable. The tragedy of the commons occurs when a resource held in common by all but owned by no one is overused by individuals, resulting in its degradation. The phenomenon was first named by Garrett Hardin when describing a particular problem in sixteenth-century England. Large open areas, called commons, were free for all to use as pasture. The poor put out livestock on these commons and supplemented their meager incomes. It was advantageous for each to put out more and more livestock, but the social consequence was far more livestock than the commons could handle. The result was overgrazing, degradation of the commons, and the loss of this much-needed supplement.[6]

Corporations can contribute to the *global tragedy of the commons* by moving production to locations where they are free to pump pollutants into the atmosphere or dump them in oceans or rivers, thereby harming these valuable global commons. While such action may be legal, is it ethical? Again, such actions seem to violate basic societal notions of ethics and corporate social responsibility. This issue is taking on greater importance as concerns about

human-induced global warming move to center stage. Most climate scientists argue that human industrial and commercial activity is increasing the amount of carbon dioxide in the atmosphere; carbon dioxide is a greenhouse gas, which reflects heat back to the earth's surface, warming the globe; and as a result, the average temperature of the earth is increasing. The accumulated scientific evidence from numerous databases supports this argument.[7] Consequently, societies around the world are starting to restrict the amount of carbon dioxide that can be emitted into the atmosphere as a by-product of industrial and commercial activity. However, regulations differ from nation to nation. Given this, is it ethical for a company to try to escape tight emission limits by moving production to a country with lax regulations, when doing so will contribute to global warming? Again, many would argue that doing so violates basic ethical principles.

CORRUPTION As noted in Chapter 2, corruption has been a problem in almost every society in history, and it continues to be one today.[8] There always have been and always will be corrupt government officials. International businesses can gain and have gained economic advantages by making payments to those officials. A classic example concerns a well-publicized incident involving Carl Kotchian, then president of Lockheed. He made a $12.6 million payment to Japanese agents and government officials to secure a large order for Lockheed's TriStar jet from Nippon Air. When the payments were discovered, U.S. officials charged Lockheed with falsification of its records and tax violations. Although such payments were supposed to be an accepted business practice in Japan (they might be viewed as an exceptionally lavish form of gift giving), the revelations created a scandal there too. The government ministers in question were criminally charged, one committed suicide, the government fell in disgrace, and the Japanese people were outraged. Apparently, such a payment was not an accepted way of doing business in Japan! The payment was nothing more than a bribe, paid to corrupt officials, to secure a large order that might otherwise have gone to another manufacturer, such as Boeing. Kotchian clearly engaged in unethical behavior—and to argue that the payment was an "acceptable form of doing business in Japan" was self-serving and incorrect.

Foreign Corrupt Practices Act (FCPA)
U.S. law regulating behavior regarding the conduct of international business in the taking of bribes and other unethical actions.

The Lockheed case was the impetus for the **Foreign Corrupt Practices Act (FCPA)** in the United States, discussed in Chapter 2. The act outlawed paying of bribes to foreign government officials to gain business, and this was the case even if other countries' companies could do it. Some U.S. businesses immediately objected that the act would put U.S. firms at a competitive disadvantage (there is no evidence that has occurred).[9] The act was subsequently amended to allow for "facilitating payments." Sometimes known as *speed money* or *grease payments*, facilitating payments are *not* payments to secure contracts that would not otherwise be secured, nor are they payments to obtain exclusive preferential treatment. Rather they are payments to ensure receiving the standard treatment that a business ought to receive from a foreign government but might not due to the obstruction of a foreign official.

Convention on Combating Bribery of Foreign Public Officials in International Business Transactions
An OECD convention that establishes legally binding standards to criminalize bribery of foreign public officials in international business transactions and provides for a host of related measures that make this effective.

The trade and finance ministers from the member states of the Organization for Economic Co-operation and Development (OECD) later on followed the U.S. lead and adopted the **Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.**[10] The convention, which went into force in 1999, obliges member states and other signatories to make the bribery of foreign public officials a criminal offense. The convention excludes facilitating payments made to expedite routine government action.

While facilitating payments, or *speed money*, are excluded from both the Foreign Corrupt Practices Act and the OECD convention on bribery, the ethical implications of making such payments are unclear. From a practical standpoint, giving bribes might be the price that must be paid to do a greater good (assuming the investment creates jobs and assuming the practice is not illegal). Several economists advocate this reasoning, suggesting that in the context of pervasive and cumbersome regulations in developing countries, corruption may improve efficiency and help growth! These economists theorize that in a country where preexisting political structures distort or limit the workings of the market mechanism, corruption in the form of black-marketeering, smuggling, and side payments to government bureaucrats to "speed up" approval for business investments may enhance welfare.[11] Arguments such as this persuaded the U.S. Congress to exempt facilitating payments from the FCPA.

In contrast, other economists have argued that corruption reduces the returns on business investment and leads to low economic growth.[12] In a country where corruption is common, unproductive bureaucrats who demand side payments for granting the enterprise permission to operate may siphon off the profits from a business activity. This reduces businesses' incentive to invest and may retard a country's economic growth rate. One study of the connection between corruption and economic growth in 70 countries found that corruption had a significant negative impact on a country's growth rate.[13] Another study found that firms that paid more in bribes are likely to spend more, not less, management time with bureaucrats negotiating regulations and that this tended to raise the costs of the firm.[14]

Consequently, many multinationals have adopted a zero-tolerance policy. For example, the large oil multinational BP has a zero-tolerance approach toward facilitating payments. Other corporations have a more nuanced approach. Dow Corning used to formally state a few years ago in its Code of Conduct that "in countries where local business practice dictates such [facilitating] payments and there is no alternative, facilitating payments are to be for the minimum amount necessary and must be accurately documented and recorded."[15] This statement recognized that business practices and customs differ from country to country. At the same time, Dow Corning allowed for facilitating payments when "there is no alternative," although they were also stated to be strongly discouraged. More recently, the latest version of Dow Corning's Code of Conduct has removed the section on "international business guidelines" altogether, so our assumption has to be that the company is taking a stronger zero-tolerance approach.

Should the United States Have Jurisdiction over Foreign Firms?

The U.S. Foreign Corrupt Practices Act (FCPA) is not just imposed on U.S. companies that operate globally. It also has jurisdiction over foreign companies operating in the U.S. and what they do internationally. Settling a FCPA investigation, Siemens—Europe's largest engineering company and the largest electronics company in the world—was fined $800 million by the U.S. Department of Justice and the U.S. Securities and Exchange Commission. Together with various penalties imposed in Germany, Siemens' home country, the penalties total $1.6 billion. The settlement involved at least 4,200 allegedly corrupt payments totaling some $1.4 billion over six years to foreign officials in numerous countries. Meetings, negotiations, and bank account transfers were taking place in the United States between Siemens and officials from other countries. Is it appropriate that the U.S. government can use the FCPA to investigate and fine foreign companies doing business in other countries?

Sources: U.S. Department of Justice, www.justice.gov; "Siemens: A Giant Awakens," *The Economist*, September 10, 2010; J. Ewing, "Siemens Settlement: Relief, But Is It Over?" *BusinessWeek*, December 15, 2008.

At the same time, as with many companies, Dow Corning may have realized that the nuances between a bribe and a facilitating payment are unclear. Many U.S. companies have sustained FCPA violations due to facilitating payments that were made but did not fall within the general rules allowing such payments. For example, global freight forwarder Con-way paid a $300,000 penalty for making hundreds of what could be considered small payments to various customs officials in the Philippines. In total, Con-way distributed some $244,000 to these officials who were induced to violate customs regulations, settle disputes, and not enforce fines for administrative violations.[16]

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Ethical Dilemmas

LO 5-2 Recognize an ethical, corporate social responsibility, and/or sustainability dilemma.

The ethical obligations of a multinational corporation toward employment conditions, human rights, corruption, and environmental pollution are not always clear-cut. However, what is becoming clear-cut is that managers and their companies are feeling more of the marketplace pressures from customers and other stakeholders to be transparent in their ethical decision making. At the same time, there is no universal worldwide agreement about what constitutes accepted ethical principles. From an international business perspective, some argue that what is ethical depends on one's cultural perspective.[17] In the United States, it is considered acceptable to execute murderers, but in many cultures, this type of punishment is not acceptable—execution is viewed as an affront to human dignity, and the death penalty is outlawed. Many Americans find this attitude strange, but, for example, many Europeans find the American approach barbaric. For a more business-oriented example, consider the practice of "gift giving" between the parties to a business negotiation. While this is considered right and proper behavior in many Asian cultures, some Westerners view the practice as a form of bribery and therefore unethical, particularly if the gifts are substantial.

A young girl making cigarettes in Bagan, Myanmar.
©Angela N Perryman/Shutterstock

International managers often confront very real ethical dilemmas where the appropriate course of action is not clear. For example, imagine that a visiting American executive finds that a foreign subsidiary in a poor nation has hired a 12-year-old girl to work on a factory floor. Appalled to find that the subsidiary is using child labor in direct violation of the company's own ethical code, the American instructs the local manager to replace the child with an adult. The local manager dutifully complies. The girl, an orphan, who is the only breadwinner for herself and her six-year-old brother, is unable to find another job, so in desperation she turns to prostitution. Two years later, she dies of AIDS. Had the visiting American understood the gravity of the girl's situation, would he still have requested her replacement? Would it have been better to stick with the status quo and allow the girl to continue working? Probably not, because that would have violated the reasonable prohibition against child labor found in the company's own ethical code. What then would have been the right thing to do? What was the obligation of the executive given this ethical dilemma?

ethical dilemma
A situation in which there is no ethically acceptable solution.

There are no easy answers to these questions. That is the nature of **ethical dilemmas**—situations in which none of the available alternatives seems ethically acceptable.[18] In this case, employing child labor was not acceptable, but given that she was employed, neither was denying the child her only source of income. What this American executive needs, what all managers need, is a moral compass, or perhaps an ethical algorithm, to guide them through such an ethical dilemma to find an acceptable solution. Later, we will outline what such a moral compass, or ethical algorithm, might look like. For now, it is enough to note that ethical dilemmas exist because many real-world decisions are complex; difficult to frame; and involve first-, second-, and third-order consequences that are hard to quantify. Doing the right thing, or even knowing what the right thing might be, is often far from easy.[19]

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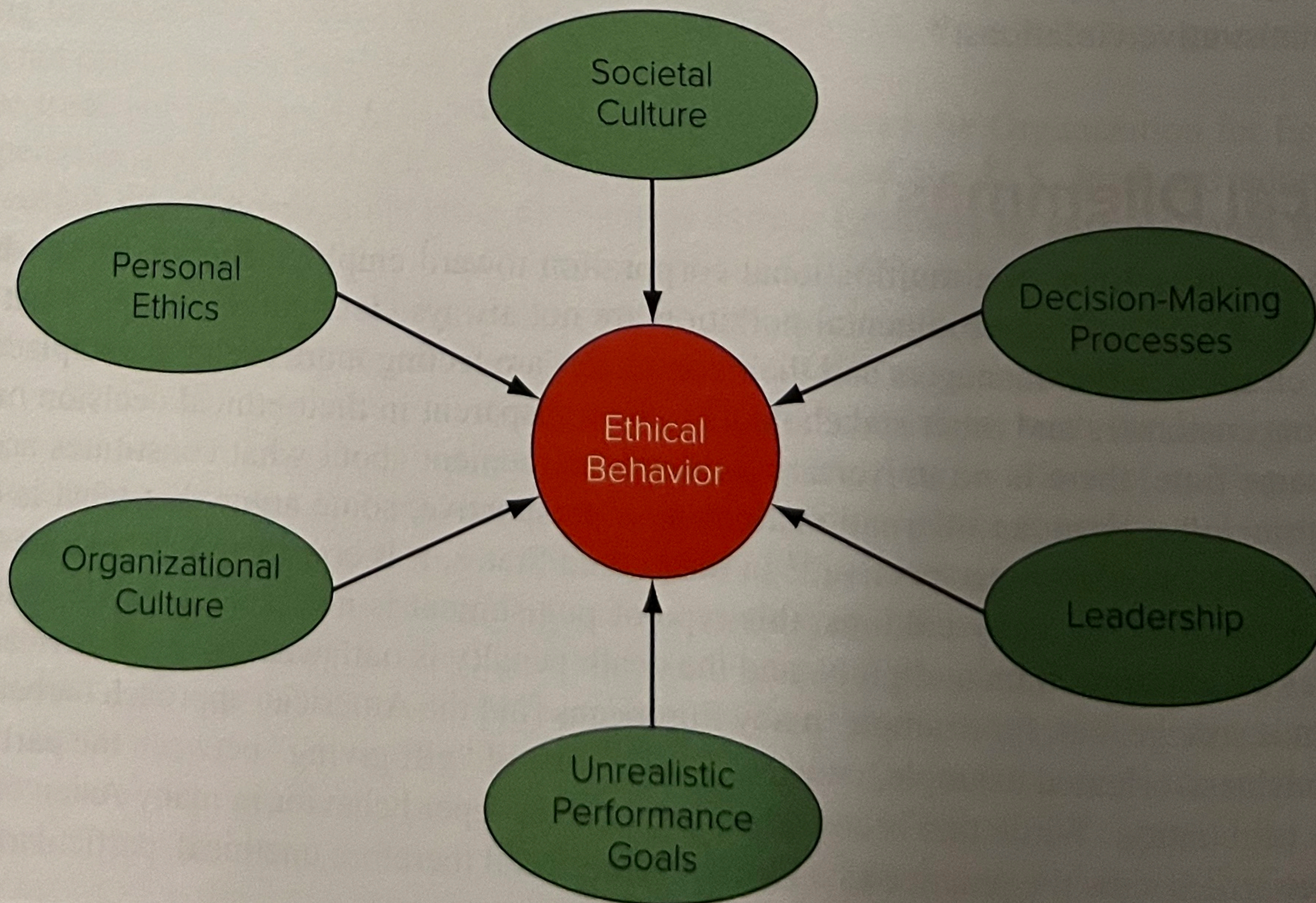
LO 5-3
Identify the causes of unethical behavior by managers as they relate to business, corporate social responsibility, or sustainability.

Roots of Unethical Behavior

Examples are plentiful of international managers behaving in a manner that might be judged unethical in an international business setting. Why do managers behave in an unethical manner? There is no simple answer to this question because the causes are complex, but some generalizations can be made and these issues are rooted in six determinants of ethical behavior: personal ethics, decision-making processes, organizational culture, unrealistic performance goals, leadership, and societal culture (see Figure 5.1).[20]

5.1 FIGURE
Determinants of ethical behavior.



PERSONAL ETHICS Societal business ethics are not divorced from *personal ethics*, which are the generally accepted principles of right and wrong governing the conduct of individuals. Personal ethics have an effect on business ethics, which ultimately, as we will see in the Focus on Managerial Implications section of this chapter, have an effect on a company's socially responsibility practices and sustainability activities. As individuals, we are typically taught that it is wrong to lie and cheat—it is unethical—and that it is right to behave with integrity and honor and to stand up for what we believe to be right and true. This is generally true across societies. The personal ethical code that guides our behavior comes from a number of sources, including our parents, our schools, our religion, and the media. Our personal ethical code exerts a profound influence on the way we behave as businesspeople. An individual with a strong sense of personal ethics is less likely to behave in an unethical manner in a business setting. It follows that the first step to establishing a strong sense of business ethics is for a society to emphasize strong personal ethics.

Home-country managers working abroad in multinational firms (expatriate managers) may experience more than the usual degree of pressure to violate their personal ethics. They are away from their ordinary social context and supporting culture, and they are psychologically and geographically distant from the parent company. They may be based in a culture that does not place the same value on ethical norms important in the manager's home country, and they may be surrounded by local employees who have less rigorous ethical standards. The parent company may pressure expatriate managers to meet unrealistic goals that can only be fulfilled by cutting corners or acting unethically. For example, to meet centrally mandated performance goals, expatriate managers might give bribes to win contracts or might implement working conditions and environmental controls that are below minimal acceptable standards. Local managers might encourage the expatriate to adopt such behavior. Due to its geographic distance, the parent company may be unable to see how expatriate managers are meeting goals or may choose not to see how they are doing so, allowing such behavior to flourish and persist.

DECISION-MAKING PROCESSES Several studies of unethical behavior in a business setting have concluded that businesspeople sometimes do not realize they are behaving unethically, primarily because they simply fail to ask, "Is this decision or action ethical?"[21] Instead, they apply a straightforward business calculus to what they perceive to be a business decision, forgetting that the decision may also have an important ethical dimension. The fault lies in processes that do not incorporate ethical considerations into business decision making. This may have been the case at Nike when managers originally made subcontracting decisions. Those decisions were probably made based on good economic logic. Subcontractors were probably chosen based on business variables such as cost, delivery, and product quality, but the key managers simply failed to ask, "How does this subcontractor treat its workforce?" If they thought about the question at all, they probably reasoned that it was the subcontractor's concern, not theirs.

To improve ethical decision making in a multinational firm, the best starting point is to better understand how individuals make decisions that can be considered ethical or unethical in an organizational environment.[22] Two assumptions must be taken into account. First, too often it is assumed that individuals in the workplace make ethical decisions in the same way as they would if they were home. Second, too often it is assumed that people from different cultures make ethical decisions following a similar process (see Chapter 4 for more on cultural differences). Both of these assumptions are problematic. First, within an organization, there are very few individuals who have the freedom (e.g., power) to decide ethical issues independent of pressures that may exist in an organizational setting (e.g., should we make a facilitating payment or resort to bribery?). Second, while the process for making an ethical decision may largely be the same in many countries, the relative emphasis on certain issues is unlikely to be the same. Some cultures may stress organizational factors (Japan), while others stress individual personal factors (United States), yet some may base a decision purely on opportunity (Myanmar) and others base it on the importance to their superiors (India).

ORGANIZATIONAL CULTURE The culture in some businesses does not encourage people to think through the ethical consequences of business decisions. This brings us to the third cause of unethical behavior in businesses: an organizational culture that deemphasizes business ethics, reducing all decisions to the purely economic. The term **organizational culture**

organizational culture
The values and norms shared among an organization's employees.

refers to the values and norms that are shared among employees of an organization. You will recall from Chapter 4 that *values* are abstract ideas about what a group believes to be good, right, and desirable, while *norms* are the social rules and guidelines that prescribe appropriate behavior in particular situations. Just as societies have cultures, so do business organizations, as we discussed in Chapter 4. Together, values and norms shape the culture of a business organization, and that culture has an important influence on the ethics of business decision making.

For example, paying bribes to secure business contracts was long viewed as an acceptable way of doing business within certain companies. It was, in the words of an investigator of a case against Daimler, "standard business practice" that permeated much of the organization, including departments such as auditing and finance that were supposed to detect and halt such behavior. It can be argued that such a widespread practice could have persisted only if the values and norms of the organization implicitly approved of paying bribes to secure business.

UNREALISTIC PERFORMANCE GOALS A fourth cause of unethical behavior has already been hinted at: pressure from the parent company to meet unrealistic performance goals that can be attained only by cutting corners or acting in an unethical manner. In these cases, bribery may be viewed as a way to hit challenging performance goals. The combination of an organizational culture that legitimizes unethical behavior, or at least turns a blind eye to such behavior, and unrealistic performance goals may be particularly toxic. In such circumstances, there is a greater than average probability that managers will violate their own personal ethics and engage in unethical behavior. Conversely, an organization's culture can do just the opposite and reinforce the need for ethical behavior. At Hewlett-Packard, for example, Bill Hewlett and David Packard, the company's founders, propagated a set of values known as The HP Way. These values, which shape the way business is conducted both within and by the corporation, have an important ethical component. Among other things, they stress the need for confidence in and respect for people, open communication, and concern for the individual employee.

LEADERSHIP The Hewlett-Packard example suggests a fifth root cause of unethical behavior: leadership. Leaders help establish the culture of an organization, and they set the example, rules, and guidelines that others follow as well as the structure and processes for operating both strategically and in daily operations. Employees often operate and work within a defined structure with a mindset very much similar to the overall culture of the organization that employs them.

Additionally, employees in a business often take their cue from business leaders, and if those leaders do not behave in an ethical manner, the employees might not either. It is not just what leaders say that matters but what they do or do not do. What message, then, did the leaders at Daimler send about corrupt practices? Presumably, they did very little to discourage them and may have encouraged such behavior.

SOCIETAL CULTURE Societal culture may well have an impact on the propensity of people and organizations to behave in an unethical manner. One study of 2,700 firms in 24 countries found that there were significant differences among the ethical policies of firms headquartered in different countries.[23] Using Hofstede's dimensions of social culture (see Chapter 4), the study found that enterprises headquartered in cultures where individualism and uncertainty avoidance are strong were more likely to emphasize the importance of behaving ethically than firms headquartered in cultures where masculinity and power distance are important cultural attributes. Such analysis suggests that enterprises headquartered in a country such as Russia, which scores high on masculinity and power distance measures, and where corruption is endemic, are more likely to engage in unethical behavior than enterprises headquartered in Scandinavia.

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LO 5-4

Describe the different philosophical approaches to business ethics that apply globally.

Philosophical Approaches to Ethics

In this section, we look at several different philosophical approaches to business ethics in the global marketplace. Basically, all individuals adopt a process for making ethical (or unethical) decisions. This process is based on their personal philosophical approach to ethics—that is, the underlying moral fabric of the individual.

We begin with what can best be described as straw men, which either deny the value of business ethics or apply the concept in a very unsatisfactory way. Having discussed and, we hope you agree, dismissed the straw men, we move on to consider approaches that are favored by most moral philosophers and form the basis for current models of ethical behavior in international businesses.

STRAW MEN Straw men approaches to business ethics are raised by business ethics scholars primarily to demonstrate that they offer inappropriate guidelines for ethical decision making in a multinational enterprise. Four such approaches to business ethics are commonly discussed in the literature. These approaches can be characterized as the Friedman doctrine, cultural relativism, the righteous moralist, and the naive immoralist. All these approaches have some inherent value, but all are unsatisfactory in important ways. Nevertheless, sometimes companies adopt these approaches.

The Friedman Doctrine The Nobel Prize–winning economist Milton Friedman wrote an article in *The New York Times* in 1970 that has since become a classic straw man example that business ethics scholars outline only to then tear down.[24] Friedman's basic position is that "the social responsibility of business is to increase profits," so long as the company stays within the rules of law. He explicitly rejects the idea that businesses should undertake social expenditures beyond those mandated by the law and required for the efficient running of a business. For example, his arguments suggest that improving working conditions beyond the level required by the law *and* necessary to maximize employee productivity will reduce profits and is therefore not appropriate. His belief is that a firm should maximize its profits because that is the way to maximize the returns that accrue to the owners of the firm, its shareholders. If the shareholders then wish to use the proceeds to make social investments, that is their right, according to Friedman, but managers of the firm should not make that decision for them.

Although Friedman is talking about social responsibility and "ethical custom," rather than business ethics per se, many business ethics scholars equate social responsibility with ethical behavior and thus believe Friedman is also arguing against business ethics. However, the assumption that Friedman is arguing against ethics is not quite true, for Friedman does argue that there is only one social responsibility of business: to increase the profitability of the enterprise so long as it stays within the law, which is taken to mean that it engages in open and free competition without deception or fraud.[25]

> There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say that it engages in open and free competition without deception or fraud.[26]

In other words, Friedman argues that businesses should behave in a socially responsible manner, according to ethical custom and without deception and fraud.

Critics charge that Friedman's arguments break down under examination. This is particularly true in international business, where the "rules of the game" are not well established and differ from country to country. Consider again the case of sweatshop labor. Child labor may not be against the law in a developing nation, and maximizing productivity may not require that a multinational firm stop using child labor in that country, but it is still immoral to use child labor because the practice conflicts with widely held views about what is the right and proper thing to do. Similarly, there may be no rules against pollution in a less developed nation and spending money on pollution control may reduce the profit rate of the firm, but generalized notions of morality would hold that it is still unethical to dump toxic pollutants into rivers or foul the air with gas releases. In addition to the local consequences of such pollution, which may have serious health effects for the surrounding population, there is also a global consequence as pollutants degrade those two global commons so important to us all: the atmosphere and the oceans.

Cultural Relativism Another straw man often raised by business ethics scholars is **cultural relativism**, which is the belief that ethics are nothing more than the reflection of a culture—all ethics are culturally determined—and that accordingly, a firm should adopt the ethics of the culture in which it is operating.[27] This approach is often summarized by the maxim

cultural relativism
The belief that ethics are culturally determined and that firms should adopt the ethics of the cultures in which they operate.

"When in Rome, Behave Like a Swede," Really?

You would think that as one of the authors of this book is from Sweden, it seemed convenient to revise the ancient proverb "when in Rome, do as the Romans do" to "when in Rome, behave like a Swede." But instead, this slightly reworded saying was coined in an article in *The Economist*. As just one example, IKEA, the Swedish furniture giant, as mentioned in the article, has gone to great lengths to fight corruption worldwide. In that spirit, the argument is for the case that doing the right thing is smart business. But we all know—even the Swedish author of this book (!)—that the global marketplace can be a jungle: It's eat or be eaten. Now if we go back to the ancient proverb, the meaning of it basically suggests that we should behave as those around us and conform to the culture in the foreign society in which we are doing business. So, what is your preference: Do you prefer "when in Rome, do as the Romans do" or "when in Rome, behave like a Swede"?

Sources: "The Corruption Eruption," *The Economist*, April 29, 2010; Ethical Business Ethics, May 6, 2010, http://ethicalbusinessethics.blogspot.com/2010/05/when-in-rome-should-you-do-as-romans-do.html.

when in Rome, do as the Romans do. As with Friedman's approach, cultural relativism does not stand up to a closer look. At its extreme, cultural relativism suggests that if a culture supports slavery, it is okay to use slave labor in a country. Clearly, it is not! Cultural relativism implicitly rejects the idea that universal notions of morality transcend different cultures, but as we argue later in the chapter, some universal notions of morality are found across cultures.

While dismissing cultural relativism in its most sweeping form, some ethicists argue there is residual value in this approach.[28] We agree. As we noted in Chapter 3, societal values and norms do vary from culture to culture, and customs do differ, so it might follow that certain business practices are ethical in one country but not another. Indeed, the facilitating payments allowed in the Foreign Corrupt Practices Act can be seen as an acknowledgment that in some countries, the payment of speed money to government officials is necessary to get business done, and, if not ethically desirable, it is at least ethically acceptable.

righteous moralist

One who claims that a multinational's home-country standards of ethics are the appropriate ones for companies to follow in foreign countries.

The Righteous Moralist

A **righteous moralist** claims that a multinational's home-country standards of ethics are the appropriate ones for companies to follow in foreign countries. This approach is typically associated with managers from developed nations. While this seems reasonable at first blush, the approach can create problems. Consider the following example: An American bank manager was sent to Italy and was appalled to learn that the local branch's accounting department recommended grossly underreporting the bank's profits for income tax purposes.[29] The manager insisted that the bank report its earnings accurately, American style. When he was called by the Italian tax department to the firm's tax hearing, he was told the firm owed three times as much tax as it had paid, reflecting the department's standard assumption that each firm underreports its earnings by two-thirds. Despite his protests, the new assessment stood. In this case, the righteous moralist has run into a problem caused by the prevailing cultural norms in the country where he was doing business. How should he respond? The righteous moralist would argue for maintaining the position, while a more pragmatic view might be that in this case, the right thing to do is to follow the prevailing cultural norms because there is a big penalty for not doing so.

The main criticism of the righteous moralist approach is that its proponents go too far. While there are some universal moral principles that should not be violated, it does not always follow that the appropriate thing to do is adopt home-country standards. For example, U.S. laws set down strict guidelines with regard to minimum wage and working conditions. Does this mean it is ethical to apply the same guidelines in a foreign country, paying people the same as they are paid in the United States, providing the same benefits and working conditions? Probably not, because doing so might nullify the reason for investing in that country and therefore deny locals the benefits of inward investment by the multinational. Clearly, a more nuanced approach is needed.

naive immoralist

One who asserts that if a manager of a multinational sees that firms from other nations are not following ethical norms in a host nation, that manager should not either.

The Naive Immoralist

A **naive immoralist** asserts that if a manager of a multinational sees that firms from other nations are not following ethical norms in a host nation, that manager should not either. The classic example to illustrate the approach is known as the drug lord problem. In one variant of this problem, an American manager in Colombia routinely pays off the local drug lord to guarantee that her plant will not be bombed and that none of her employees will be kidnapped. The manager argues that such payments are ethically defensible because everyone is doing it.

The objection is twofold. First, to say that an action is ethically justified if everyone is doing it is not sufficient. If firms in a country routinely employ 12-year-olds and make them work

10-hour days, is it therefore ethically defensible to do the same? Obviously not, and the company does have a clear choice. It does not have to abide by local practices, and it can decide not to invest in a country where the practices are particularly odious. Second, the multinational must recognize that it does have the ability to change the prevailing practice in a country. It can use its power for a positive moral purpose. This is what BP is doing by adopting a zero-tolerance policy with regard to facilitating payments. BP is stating that the prevailing practice of making facilitating payments is ethically wrong, and it is incumbent upon the company to use its power to try to change the standard. While some might argue that such an approach smells of moral imperialism and a lack of cultural sensitivity, if it is consistent with widely accepted moral standards in the global community, it may be ethically justified.

UTILITARIAN AND KANTIAN ETHICS In contrast to the straw men just discussed, most moral philosophers see value in utilitarian and Kantian approaches to business ethics. These approaches were developed in the eighteenth and nineteenth centuries, and although they have been largely superseded by more modern approaches, they form part of the tradition on which newer approaches have been constructed.

The utilitarian approach to business ethics dates to philosophers such as David Hume (1711–1776), Jeremy Bentham (1748–1832), and John Stuart Mill (1806–1873). **Utilitarian approaches to ethics** hold that the moral worth of actions or practices is determined by their consequences.[30] An action is judged desirable if it leads to the best possible balance of good consequences over bad consequences. Utilitarianism is committed to the maximization of good and the minimization of harm. Utilitarianism recognizes that actions have multiple consequences, some of which are good in a social sense and some of which are harmful. As a philosophy for business ethics, it focuses attention on the need to weigh carefully all the social benefits and costs of a business action and to pursue only those actions where the benefits outweigh the costs. The best decisions, from a utilitarian perspective, are those that produce the greatest good for the greatest number of people.

utilitarian approaches to ethics
These hold that the moral worth of actions or practices is determined by their consequences.

Many businesses have adopted specific tools such as cost–benefit analysis and risk assessment that are firmly rooted in a utilitarian philosophy. Managers often weigh the benefits and costs of an action before deciding whether to pursue it. An oil company considering drilling in the Alaskan wildlife preserve must weigh the economic benefits of increased oil production and the creation of jobs against the costs of environmental degradation in a fragile ecosystem. An agricultural biotechnology company such as Monsanto must decide whether the benefits of genetically modified crops that produce natural pesticides outweigh the risks. The benefits include increased crop yields and reduced need for chemical fertilizers. The risks include the possibility that Monsanto's insect-resistant crops might make matters worse over time if insects evolve a resistance to the natural pesticides engineered into Monsanto's plants, rendering the plants vulnerable to a new generation of superbugs.

The utilitarian philosophy does have some serious drawbacks as an approach to business ethics. One problem is measuring the benefits, costs, and risks of a course of action. In the case of an oil company considering drilling in Alaska, how does one measure the potential harm done to the region's ecosystem? The second problem with utilitarianism is that the philosophy omits the consideration of justice. The action that produces the greatest good for the greatest number of people may result in the unjustified treatment of a minority. Such action cannot be ethical, precisely because it is unjust. For example, suppose that in the interests of keeping down health insurance costs, the government decides to screen people for the HIV virus and deny insurance coverage to those who are HIV positive. By reducing health costs, such action might produce significant benefits for a large number of people, but the action is unjust because it discriminates unfairly against a minority.

Kantian ethics is based on the philosophy of Immanuel Kant (1724–1804). **Kantian ethics** holds that people should be treated as ends and never purely as *means* to the ends of others. People are not instruments, like a machine. People have dignity and need to be respected as such. Employing people in sweatshops, making them work long hours for low pay in poor working conditions, is a violation of ethics, according to Kantian philosophy, because it treats people as mere cogs in a machine and not as conscious moral beings that have dignity. Although

Kantian ethics
The belief that people should be treated as ends and never as means to the ends of others.

contemporary moral philosophers tend to view Kant's ethical philosophy as incomplete—for example, his system has no place for moral emotions or sentiments such as sympathy or caring—the notion that people should be respected and treated with dignity resonates in the modern world.

rights theories

Twentieth-century theories that recognize that human beings have fundamental rights and privileges that transcend national boundaries and cultures.

RIGHTS THEORIES Developed in the twentieth century, **rights theories** recognize that human beings have fundamental rights and privileges that transcend national boundaries and cultures. Rights establish a minimum level of morally acceptable behavior. One well-known definition of a fundamental right construes it as something that takes precedence over or "trumps" a collective good. Thus, we might say that the right to free speech is a fundamental right that takes precedence over all but the most compelling collective goals and overrides, for example, the interest of the state in civil harmony or moral consensus.[31] Moral theorists argue that fundamental human rights form the basis for the *moral compass* that managers should navigate by when making decisions that have an ethical component. More precisely, they should not pursue actions that violate these rights.

Universal Declaration of Human Rights

A United Nations document that lays down the basic principles of human rights that should be adhered to.

The notion that there are fundamental rights that transcend national borders and cultures was the underlying motivation for the United Nations **Universal Declaration of Human Rights**, adopted in 1948, which has been ratified by almost every country on the planet and lays down basic principles that should always be adhered to irrespective of the culture in which one is doing business.[32] Echoing Kantian ethics, Article 1 of this declaration states

> All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.[33]

Article 23 of this declaration, which relates directly to employment, states:

1. Everyone has the right to work, to free choice of employment, to just and favorable conditions of work, and to protection against unemployment.
2. Everyone, without any discrimination, has the right to equal pay for equal work.
3. Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.
4. Everyone has the right to form and to join trade unions for the protection of his interests.[34]

Clearly, the rights to "just and favorable conditions of work," "equal pay for equal work," and remuneration that ensures an "existence worthy of human dignity" embodied in Article 23 imply that it is unethical to employ child labor in sweatshop settings and pay less than subsistence wages, even if that happens to be common practice in some countries. These are fundamental human rights that transcend national borders.

It is important to note that along with *rights* come *obligations*. Because we have the right to free speech, we are also obligated to make sure that we respect the free speech of others. The notion that people have obligations is stated in Article 29 of the Universal Declaration of Human Rights:

1. Everyone has duties to the community in which alone the free and full development of his personality is possible.[35]

Within the framework of a theory of rights, certain people or institutions are obligated to provide benefits or services that secure the rights of others. Such obligations also fall on more than one class of moral agent (a *moral agent* is any person or institution that is capable of moral action such as a government or corporation).

For example, to escape the high costs of toxic waste disposal in the West, several firms shipped their waste in bulk to African nations, where it was disposed of at a much lower cost. At one time, five European ships unloaded toxic waste containing dangerous poisons in Nigeria. Workers wearing sandals and shorts unloaded the barrels for $2.50 a day and placed them in a dirt lot in a residential area. They were not told about the contents of the barrels.[36] Who bears the obligation for protecting the rights of workers and residents to safety in a case like this? According to rights theorists, the obligation rests not on the shoulders of one moral agent but on the

shoulders of all moral agents whose actions might harm or contribute to the harm of the workers and residents. Thus, it was the obligation not just of the Nigerian government but also of the multinational firms that shipped the toxic waste to make sure it did no harm to residents and workers. In this case, both the government and the multinationals apparently failed to recognize their basic obligation to protect the fundamental human rights of others.

Are Human Rights a Moral Compass?

The Universal Declaration of Human Rights (UDHR) was adopted by the United Nations General Assembly on December 10, 1948, in Paris, France. The Preamble of UDHR starts by stating that "Whereas recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world . . . ." The day on which UDHR was adopted, December 10, is known as "International Human Rights Day," and this day is also the one on which the Nobel Peace Prize is awarded annually. One human right that we discuss in the text is the right to free speech; by the same token, we have an obligation to respect free speech. But are there issues, situations, or reasons where free speech should not be granted?

Sources: "The Universal Declaration of Human Rights," United Nations, www.un.org/en/universal-declaration-human-rights/index.html; the official site of the Nobel Prize, www.nobelprize.org.

JUSTICE THEORIES Justice theories focus on the attainment of a just distribution of economic goods and services. A **just distribution** is one that is considered fair and equitable. There is no one theory of justice, and several theories of justice conflict with each other in important ways.[37] Here, we focus on one particular theory of justice that is both very influential and has important ethical implications. The theory is attributed to philosopher John Rawls.[38] Rawls argues that all economic goods and services should be distributed equally except when an unequal distribution would work to everyone's advantage.

just distribution
A distribution of goods and services that is considered fair and equitable.

According to Rawls, valid principles of justice are those with which all persons would agree if they could freely and impartially consider the situation. Impartiality is guaranteed by a conceptual device that Rawls calls the *veil of ignorance*. Under the veil of ignorance, everyone is imagined to be ignorant of all of his or her particular characteristics, for example, race, sex, intelligence, nationality, family background, and special talents. Rawls then asks what system people would design under a veil of ignorance. Under these conditions, people would unanimously agree on two fundamental principles of justice.

The first principle is that each person be permitted the maximum amount of basic liberty compatible with a similar liberty for others. Rawls takes these to be political liberty (e.g., the right to vote), freedom of speech and assembly, liberty of conscience and freedom of thought, the freedom and right to hold personal property, and freedom from arbitrary arrest and seizure.

The second principle is that once equal basic liberty is ensured, inequality in basic social goods—such as income and wealth distribution, and opportunities—is to be allowed *only* if such inequalities benefit everyone. Rawls accepts that inequalities can be just if the system that produces inequalities is to the advantage of everyone. More precisely, he formulates what he calls the *difference principle*, which is that inequalities are justified if they benefit the position of the least-advantaged person. So, for example, wide variations in income and wealth can be considered just if the market-based system that produces this unequal distribution also benefits the least-advantaged members of society. One can argue that a well-regulated, market-based economy and free trade, by promoting economic growth, benefit the least-advantaged members of society. In principle at least, the inequalities inherent in such systems are therefore just (in other words, the rising tide of wealth created by a market-based economy and free trade lifts all boats, even those of the most disadvantaged).

In the context of international business ethics, Rawls's theory creates an interesting perspective. Managers could ask themselves whether the policies they adopt in foreign operations would be considered just under Rawls's veil of ignorance. Is it just, for example, to pay foreign workers less than workers in the firm's home country? Rawls's theory would suggest it is, so long as the inequality benefits the least-advantaged members of the global society (which is what economic theory suggests). Alternatively, it is difficult to imagine that managers operating under a veil of ignorance would design a system where foreign employees were paid subsistence wages to work long hours in sweatshop conditions and where they were exposed to toxic materials. Such working conditions are clearly unjust in Rawls's framework, and therefore, it is unethical to adopt them. Similarly, operating under a veil of ignorance, most people would probably design a system that imparts some protection from environmental degradation to important global commons,

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such as the oceans, atmosphere, and tropical rain forests. To the extent that this is the case, it follows that it is unjust, and by extension unethical, for companies to pursue actions that contribute toward extensive degradation of these commons. Thus, Rawls's veil of ignorance is a conceptual tool that contributes to the moral compass that managers can use to help them navigate through difficult ethical dilemmas.

Focus on Managerial Implications

LO 5-5

Explain how global managers can incorporate ethical considerations into their decision making in general and for corporate social responsibility and sustainability initiatives.

MAKING ETHICAL DECISIONS INTERNATIONALLY What, then, is the best way for managers in a multinational firm to make sure that ethical considerations figure into international business decisions?

How do managers decide on an ethical course of action when confronted with decisions pertaining to working conditions, human rights, corruption, and environmental pollution? From an ethical perspective, how do managers determine the moral obligations that flow from the power of a multinational? In many cases, there are no easy answers to these questions: Many of the most vexing ethical problems arise because there are very real dilemmas inherent in them and no obvious correct action. Nevertheless, managers can and should do many things to make sure that basic ethical principles are adhered to and that ethical issues are routinely inserted into international business decisions.

Here, we focus on seven actions that an international business and its managers can take to make sure ethical issues are considered in business decisions: (1) favor hiring and promoting people with a well-grounded sense of personal ethics; (2) build an organizational culture and exemplify leadership behaviors that place 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 enterprise policy; and (7) pursue strategies that are sustainable.

Hiring and Promotion It seems obvious that businesses should strive to hire people who have a strong sense of personal ethics and would not engage in unethical or illegal behavior. Similarly, you would expect a business to not promote people, and perhaps to fire people, whose behavior does not match generally accepted ethical standards. However, actually doing so is very difficult. How do you know that someone has a poor sense of personal ethics? In our society, we have an incentive to hide a lack of personal ethics from public view. Once people realize that you are unethical, they will no longer trust you.

Is there anything that businesses can do to make sure they do not hire people who subsequently turn out to have poor personal ethics, particularly given that people have an incentive to hide this from public view (indeed, the unethical person may lie about his or her nature)? Businesses can give potential employees psychological tests to try to discern their ethical predispositions, and they can check with prior employers or other employees regarding someone's reputation (e.g., by asking for letters of reference and talking to people who have worked with the prospective employee). The latter is common and does influence the hiring process. Promoting people who have displayed poor ethics should not occur in a company where the organizational culture values the need for ethical behavior and where leaders act accordingly.

Not only should businesses strive to identify and hire people with a strong sense of personal ethics, but it also is in the interests of prospective employees to find out as much as they can about the ethical climate in an organization. Who wants to work at a multinational such as Enron, which ultimately entered bankruptcy because unethical executives had established risky partnerships that were hidden from public view and that existed in part to enrich those same executives?

Organizational Culture and Leadership To foster ethical behavior, businesses need to build an organizational culture that values ethical behavior. Three things are particularly important in building an organizational culture that emphasizes ethical behavior. First, the businesses must explicitly articulate values that emphasize ethical behavior. Many companies now do

this by drafting a **code of ethics**, which is a formal statement of the ethical priorities a business adheres to. Often, the code of ethics draws heavily on documents such as the UN Universal Declaration of Human Rights, which itself is grounded in Kantian and rights-based theories of moral philosophy. Others have incorporated ethical statements into documents that articulate the values or mission of the business. For example, the Academy of International Business (the top professional organization in international business) has a Code of Ethics for its leadership (as well as a COE for its members):[39]

code of ethics
A business's formal statement of ethical priorities.

> **AIB's Motivation for the Code of Ethics of the Leadership:** The leadership of an organization is ultimately responsible for the creation of the values, norms and practices that permeate the organization and its membership. A strong ethically grounded organization is only possible when it is governed by a strong ethical committee. The term "committee" is used for succinctness; it includes all organizational structures that have managerial, custodial, decision-making or financial authority within an organization.

Having articulated values in a code of ethics or some other document, leaders in the business must give life and meaning to those words by repeatedly emphasizing their importance *and then acting on them*. This means using every relevant opportunity to stress the importance of business ethics and making sure that key business decisions not only make good economic sense but also are ethical. Many companies have gone a step further by hiring independent auditors to make sure they are behaving in a manner consistent with their ethical codes. Nike, for example, has hired independent auditors to make sure that subcontractors used by the company are living up to Nike's code of conduct.

Finally, building an organizational culture that places a high value on ethical behavior requires incentive and reward systems, including promotions that reward people who engage in ethical behavior and sanction those who do not. At General Electric, for example, the former CEO Jack Welch has described how he reviewed the performance of managers, dividing them into several different groups. These included overperformers who displayed the right values and were singled out for advancement and bonuses and overperformers who displayed the wrong values and were let go. Welch was not willing to tolerate leaders within the company who did not act in accordance with the central values of the company, even if they were in all other respects skilled managers.[40]

Decision-Making Processes

In addition to establishing the right kind of ethical culture in an organization, businesspeople must be able to think through the ethical implications of decisions in a systematic way. To do this, they need a moral compass, and both rights theories and Rawls's theory of justice help provide such a compass. Beyond these theories, some experts on ethics have proposed a straightforward practical guide—or ethical algorithm—to determine whether a decision is ethical.[41] According to these experts, a decision is acceptable on ethical grounds if a businessperson can answer yes to each of these questions:

- Does my decision fall within the accepted values or standards that typically apply in the organizational environment (as articulated in a code of ethics or some other corporate statement)?
- Am I willing to see the decision communicated to all stakeholders affected by it—for example, by having it reported in newspapers, on television, or via social media?
- Would the people with whom I have a significant personal relationship, such as family members, friends, or even managers in other businesses, approve of the decision?

Others have recommended a five-step process to think through ethical problems (this is another example of an ethical algorithm).[42] In step 1, businesspeople should identify which stakeholders a decision would affect and in what ways. A firm's **stakeholders** are individuals or groups that have an interest, claim, or stake in the company, in what it does, and in how well it performs.[43] They can be divided into internal stakeholders and external stakeholders. **Internal stakeholders** are individuals or groups who work for or own the business. They include primary stakeholders such as employees, the board of directors, and shareholders. **External stakeholders** are all the other individuals and groups that have some direct or indirect claim on the firm. Typically, this group comprises primary stakeholders such as customers, suppliers, governments,

stakeholders
The individuals or groups that have an interest, stake, or claim in the actions and overall performance of a company.

internal stakeholders
People who work for or own the business such as employees, directors, and stockholders.

external stakeholders
Individuals or groups that have some claim on a firm such as customers, suppliers, and unions.

and local communities as well as secondary stakeholders such as special-interest groups, competitors, trade associations, mass media, and social media.[44]

All stakeholders are in an exchange relationship with the company.[45] Each stakeholder group supplies the organization with important resources (or contributions), and in exchange each expects its interests to be satisfied (by inducements).[46] For example, employees provide labor, skills, knowledge, and time and in exchange expect commensurate income, job satisfaction, job security, and good working conditions. Customers provide a company with its revenues and in exchange want quality products that represent value for money. Communities provide businesses with local infrastructure and in exchange want businesses that are responsible citizens and seek some assurance that the quality of life will be improved as a result of the business firm's existence.

Stakeholder analysis involves a certain amount of what has been called *moral imagination*.[47] This means standing in the shoes of a stakeholder and asking how a proposed decision might impact that stakeholder. For example, when considering outsourcing to subcontractors, managers might need to ask themselves how it might feel to be working under substandard health conditions for long hours.

Step 2 involves judging the ethics of the proposed strategic decision, given the information gained in step 1. Managers need to determine whether a proposed decision would violate the *fundamental rights* of any stakeholders. For example, we might argue that the right to information about health risks in the workplace is a fundamental entitlement of employees. Similarly, the right to know about potentially dangerous features of a product is a fundamental entitlement of customers (something tobacco companies violated when they did not reveal to their customers what they knew about the health risks of smoking). Managers might also want to ask themselves whether they would allow the proposed strategic decision if they were designing a system under Rawls's veil of ignorance. For example, if the issue under consideration was whether to outsource work to a subcontractor with low pay and poor working conditions, managers might want to ask themselves whether they would allow such action if they were considering it under a veil of ignorance, where they themselves might ultimately be the ones to work for the subcontractor.

The judgment at this stage should be guided by various moral principles that should not be violated. The principles might be those articulated in a corporate code of ethics or other company documents. In addition, certain moral principles that we have adopted as members of society—for instance, the prohibition on stealing—should not be violated. The judgment at this stage will also be guided by the decision rule that is chosen to assess the proposed strategic decision. Although maximizing long-run profitability is the decision rule that most businesses stress, it should be applied subject to the constraint that no moral principles are violated—that the business behaves in an ethical manner.

Step 3 requires managers to establish moral intent. This means the business must resolve to place moral concerns ahead of other concerns in cases where either the fundamental rights of stakeholders or key moral principles have been violated. At this stage, input from top management might be particularly valuable. Without the proactive encouragement of top managers, middle-level managers might tend to place the narrow economic interests of the company before the interests of stakeholders. They might do so in the (usually erroneous) belief that top managers favor such an approach.

Step 4 requires the company to engage in ethical behavior. Step 5 requires the business to audit its decisions, reviewing them to make sure they were consistent with ethical principles, such as those stated in the company's code of ethics. This final step is critical and often overlooked. Without auditing past decisions, businesspeople may not know if their decision process is working and if changes should be made to ensure greater compliance with a code of ethics.

Ethics Officers To make sure that a business behaves in an ethical manner, firms now must have oversight by a high-ranking person or people known to respect legal and ethical standards. These individuals—often referred to as ethics officers—are responsible for managing their organization's ethics and legal compliance programs. They are typically responsible for (1) assessing the needs and risks that an ethics program must address; (2) developing and distributing a code of ethics; (3) conducting training programs for employees; (4) establishing and maintaining a confidential service to address employees' questions about issues that may be ethical or unethical; (5) making sure that the organization is in compliance with government laws and regulations;

(6) monitoring and auditing ethical conduct; (7) taking action, as appropriate, on possible violations; and (8) reviewing and updating the code of ethics periodically.[48] Because of these broad topics covered by the ethics officer, in many businesses ethics officers act as an internal ombudsperson with responsibility for handling confidential inquiries from employees, investigating complaints from employees or others, reporting findings, and making recommendations for change.

For example, United Technologies, a multinational aerospace company with worldwide revenues of more than $30 billion, has had a formal code of ethics since 1990.[49] United Technologies has some 450 business practice officers (the company's name for ethics officers), who are responsible for making sure the code is followed. United Technologies also established an "ombudsperson" program in 1986 that lets employees inquire anonymously about ethics issues. The program has received some 60,000 inquiries since 1986, and more than 10,000 cases have been handled by the ombudsperson.

Moral Courage

It is important to recognize that employees in an international business may need significant *moral courage*. Moral courage enables managers to walk away from a decision that is profitable but unethical. Moral courage gives an employee the strength to say no to a superior who instructs her to pursue actions that are unethical. Moral courage gives employees the integrity to go public to the media and blow the whistle on persistent unethical behavior in a company. Moral courage does not come easily; there are well-known cases where individuals have lost their jobs because they blew the whistle on corporate behaviors they thought unethical, telling the media about what was occurring.[50]

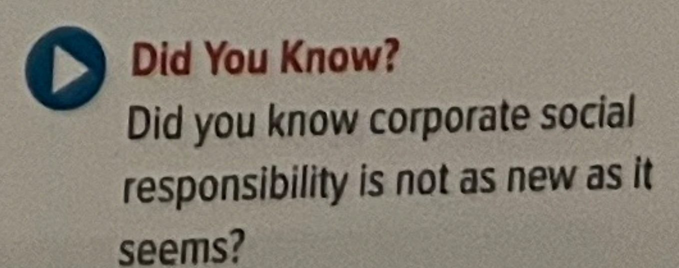
However, companies can strengthen the moral courage of employees by committing themselves to not retaliate against employees who exercise moral courage, say no to superiors, or otherwise complain about unethical actions. For example, consider the following excerpt from the Academy of International Business Code of Ethics:

> **AIB Statement of Commitment by Its Leadership:** In establishing policy for and on behalf of the Academy of International Business's members, I am a custodian in trust of the assets of this organization. The AIB's members recognize the need for competent and committed elected committee members to serve their organization and have put their trust in my sincerity and abilities. In return, the members deserve my utmost effort, dedication, and support. Therefore, as a committee member of the AIB, I acknowledge and commit that I will observe a high standard of ethics and conduct as I devote my best efforts, skills and resources in the interest of the AIB and its members. I will perform my duties as a committee member in such a manner that the members' confidence and trust in the integrity, objectivity and impartiality of the AIB are conserved and enhanced. To do otherwise would be a breach of the trust which the membership has bestowed upon me.[51]

This statement ensures that all members serving in leadership positions within the Academy of International Business adhere to and uphold the highest commitment and responsibility to be ethical in their AIB leadership activities. A freestanding and independent AIB Ombuds Committee handles all ethical issues and violations to ensure independence and the highest moral code.

Corporate Social Responsibility

Multinational corporations have power that comes from their control over resources and their ability to move production from country to country. Although that power is constrained not only by laws and regulations but also by the discipline of the market and the competitive process, it is substantial. Some moral philosophers argue that with power comes the social responsibility for multinationals to give something back to the societies that enable them to prosper and grow.



Did You Know?
Did you know corporate social responsibility is not as new as it seems?

Visit your instructor's Connect® course and click on your eBook or SmartBook® to view a short video explanation from the authors.

The concept of **corporate social responsibility (CSR)** refers to the idea that businesspeople should consider the social consequences of economic actions when making business decisions and that there should be a presumption in favor of decisions that have both good economic and social consequences.[52] In its purest form, corporate social responsibility can be supported for its own sake simply because it is the right way for a business to behave. Advocates of this approach argue that businesses, particularly large successful businesses, need to recognize their *noblesse oblige* and give something back to the societies that have made their success possible. *Noblesse oblige* is a French term that refers to honorable and benevolent behavior considered the responsi-

corporate social responsibility (CSR)
Refers to the idea that businesspeople should consider the social consequences of economic actions when making business decisions and that there should be a presumption in favor of decisions that have both good economic and social consequences.

management FOCUS

Corporate Social Responsibility at Stora Enso

Stora Enso is a Finnish pulp and paper manufacturer that was formed by the merger of Swedish mining and forestry products company Stora and Finnish forestry products company Enso-Gutzeit Oy in 1998. The company is headquartered in Helsinki, the capital of Finland, and it has approximately 25,000 employees. In 2000, the company bought Consolidated Papers in North America. Stora Enso also expanded into South America, Asia, and Russia. By 2005, Stora Enso had become the world's largest pulp and paper manufacturer as measured by production capacity. However, the North American operations were sold in 2007 to NewPage Corporation.

To this day, Stora Enso has a long-standing tradition of corporate social responsibility on a global scale. As part of the company's section "Global Responsibility in Stora Enso," the company states that "for Stora Enso, Global Responsibility means realizing concrete actions that will help us fulfil [*sic*] our Purpose, which is to do good for the people and the planet." Stora Enso continues to state:

> Our purpose "do good for the people and the planet" is the ultimate reason why we run our business. It is the overriding rule that guides us in all that we do: producing and selling our renewable products, buying trees from a local forest-owner in Finland, selling electricity generated at Stora Enso Skoghall Mill, or managing our logistics on a global scale.[54]

Interestingly, Stora Enso also asserts that it realizes that this statement is rather bold and perhaps not even fully believable. But the company suggests that it makes the company accountable for its actions; that is, setting its purpose boldly in writing. At the same time, Stora Enso positions the company as though it has always been attending to the "socially responsible" needs of doing good for the people and the planet. It illustrates this by maintaining that it has created and enhanced communities around its mills, developed innovative systems to reduce the use of scarce resources, and maintained good relationships with key stakeholders such as forest owners, their own employees, governments, and local communities near its mills.

Tracing its past and reflecting on its future, Stora Enso has adopted three lead areas for its global responsibility strategy: people and ethics, forests and land use, and environment and efficiency. For people and ethics, the company focuses on conducting business in a socially responsible manner throughout its global value chain. For forests and land use, it focuses on an innovative and responsible approach on forestry and land use to make it a preferred partner and a good local community citizen. For the environment and efficiency, the focus is on resource-efficient operations that help the company achieve superior environmental performance related to its products.

While a number of companies have corporate social responsibility statements incorporated as part of their websites, annual reports, and talking points, Stora Enso also presents clear targets and performance goals that are assessed by established metrics. Its overall operations are guided by corporate-level targets for environmental and social performance, aptly named Stora Enso's Global Responsibility Key Performance Indicators (KPIs). Targets are publicly listed in a document titled "Targets and Performance" and include two to five basic categories of measures for each of the three lead areas. For people and ethics, the dimensions cover health and safety, human rights, ethics and compliance, sustainable leadership, and responsible sourcing. For forests and land use, the dimensions cover efficiency of land use and sustainable forestry. For environment and efficiency, the dimensions cover climate and energy, material efficiency, and process water discharges. The "Targets and Performance" document also lists performance in the prior year, targets in the current year, and strategic objectives related to each dimension.

Sources: "Global Responsibility in Stora Enso," www.storaenso.com; K. Vita, "Stora Enso Falls as UBS Plays Down Merger Talk: Helsinki Mover," *Bloomberg Businessweek*, September 30, 2013; M. Huuhtanen, "Paper Maker Stora Enso Selling North American Mills," *USA Today*, September 21, 2007.

bility of people of high (noble) birth. In a business setting, it is taken to mean benevolent behavior that is the responsibility of *successful* enterprises. This has long been recognized by many businesspeople, resulting in a substantial and venerable history of corporate giving to society, with businesses making social investments designed to enhance the welfare of the communities in which they operate.

Power itself is morally neutral; how power is used is what matters. It can be used in a positive way to increase social welfare, which is ethical, or it can be used in a manner that is ethically and morally suspect. Managers at some multinationals have acknowledged a moral obligation to use their power to enhance social welfare in the communities where they do business. BP, one of the world's largest oil companies, has made it part of the company policy to undertake "social investments" in the countries where it does business.[53] In Algeria, BP has been investing in a major project to develop gas fields near the desert town of Salah. When the company noticed the lack of clean water in Salah, it built two desalination plants to provide drinking water for the local community and distributed containers to residents so they could take water from the plants to their homes. There was no economic reason for BP to make this social investment, but the company believes it is morally obligated to use its power in constructive ways. The action, while a

small thing for BP, is a very important thing for the local community. For another example of corporate social responsibility in practice, see the accompanying Management Focus feature on the Finnish company Stora Enso.

Sustainability As managers in international businesses strive to translate ideas about corporate social responsibility into strategic actions, many are gravitating toward strategies that are viewed as *sustainable*. By **sustainable strategies**, we refer to strategies that not only help the multinational firm make good profits, but that also do so without harming the environment while simultaneously ensuring that the corporation acts in a socially responsible manner with regard to its stakeholders.[55] The core idea of *sustainability* is that the organization—through its actions—does not exert a negative impact on the ability of future generations to meet their own economic needs and that its actions impart long-run economic *and* social benefits on stakeholders.[56]

A company pursuing a sustainable strategy would not adopt business practices that deplete the environment for short-term economic gain because doing so would impose a cost on future generations. In other words, international businesses that pursue sustainable strategies try to ensure that they do not precipitate or participate in a situation that results in a tragedy of the commons Thus, for example, a company pursuing a sustainable strategy would try to reduce its carbon footprint (CO_2 emissions) so that it does not contribute to global warming.

Nor would a company pursuing a sustainable strategy adopt policies that negatively affect the well-being of key stakeholders such as employees and suppliers because managers would recognize that in the long run, this would harm the company. The company that pays its employees so little that it forces them into poverty, for example, may find it hard to recruit employees in the future and may have to deal with high employee turnover, which imposes its own costs on an enterprise. Similarly, a company that drives down the prices it pays to its suppliers so far that the suppliers cannot make enough money to invest in upgrading their operations may find that in the long run, its business suffers poor-quality inputs and a lack of innovation among its supplier base.

Starbucks has a goal of ensuring that 100 percent of its coffee is ethically sourced. By this, it means that the farmers who grow the coffee beans it purchases use sustainable farming methods that do not harm the environment and that they treat their employees well and pay them fairly. Starbucks agronomists work directly with farmers in places such as Costa Rica and Rwanda to make sure that they use environmentally responsible farming methods. The company also provides loans to farmers to help them upgrade their production methods. As a result of these policies, some 9 percent of Starbucks coffee beans are "fair trade" sourced and the remaining 91 percent are ethically sourced.

Is Sustainability Bad for Profits?

Most customers prefer that the companies they buy products and services from engage in business-focused sustainability practices. Eighty-three percent of the respondents in the Public Opinion Survey on Sustainability said that they think companies should try to accomplish their performance goals while also trying to improve society and the environment. At the same time, multinational firms are overwhelmed by the varied stakeholder needs they face. And the Global Reporting Initiative, with its some 80 equally important sustainability indicators, is not giving companies a clear set of sustainability proprieties. Meanwhile, sustainability executives in companies have not exactly been elevated to the importance levels of other top managers. If you had to pay more for a product, like gasoline for your automobile, how much more would you be willing to pay to buy from a highly rated sustainability-oriented company—5 percent, 10 percent, 25 percent, 40 percent?

Sources: Epstein-Reeves, J., "The Pain of Sustainability," *Forbes*, January 18, 2012; "Consumers Expect Action from Companies on Sustainability," Second Annual Public Opinion Survey on Sustainability; Global Reporting Initiative, www.globalreporting.org.

sustainable strategies
Strategies that not only help the multinational firm make good profits but that do so without harming the environment, while simultaneously ensuring that the corporation acts in a socially responsible manner with regard to its multiple stakeholders.

Key Terms

business ethics, p. 125
ethical strategy, p. 125
Foreign Corrupt Practices Act (FCPA), p. 130
Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, p. 130
ethical dilemma, p. 132
organizational culture, p. 133
cultural relativism, p. 135
righteous moralist, p. 136
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