

UNIT 19 INTERNATIONAL BUSINESS ETHICS

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19.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the concept and approaches to the ethical management
- describe the framework for resolving ethical dilemmas
- discuss the ethical analysis of management decisions
- explain the Foreign Corrupt Practices Act of USA
- discuss various ethical issues in international trade
- examine the social responsibility of business.

19.1 INTRODUCTION

Ethics refers to the business conduct or morals of standard. It is based on the cultural value system and the accepted ways of doing business in each society. Ethical norms are based on broadly accepted guidelines from religion, philosophy and legal system. Global managers are exposed to wide varieties of ethical problems. Therefore, understanding of ethical norms becomes essential for smooth operation of global business. In this unit, you will learn the concept and approaches to ethical management, the framework for resolving ethical dilemmas and various ethical issues involved in international trade. You will be also acquainted with the areas and approaches to the social responsibility.

19.2 THE CONCEPT OF ETHICS

Ethics is the study of decision making within a framework of a system of moral standards. The individual conduct that is considered 'right' and 'good' in the context of a governing moral code is called ethical behaviour. It is not only compatible with law but also confirms to a broader set of moral principles expected by all in the social group. Two basic questions

arise in any examination of managerial ethics: (a) Can there be one fixed moral framework that can provide standards to guide managers every time they face ethical decisions? and (b) If a single set of standard is to guide managerial behaviour, which is the right set among the conflicting definitions of good and bad behaviour? As an example of ethical issue faced by companies, consider the case of pharmaceutical Burrough Welcome. It has come out with a drug AZT that slows the development of AIDS. The biggest issue is its pricing. At a cost of \$3,000 for one year's dosage, many patients cannot afford it. The Burroughs contention is that it has kept the price as low as possible and that it has as much responsibility towards investors and employees as towards its customers. If it does not charge high enough price for the drug, it cannot pay adequate dividends to shareholders and cannot invest in research, impairing the health of the company and thus compromising the interests of its employees. A person whose value system gives more importance to relieving suffering might say that the price should be lowered. However, someone who believes that managers are obliged to repay shareholders as handsomely as possible might hold the view that a higher price is more appropriate. As this example shows, managers facing ethical issues are often feel pulled by conflicting interests.

Ethical Dilemmas and Ethical Lapses

The ethical issues facing the managers fall into two broad categories, ethical dilemmas and ethical lapses. In case of ethical dilemmas the issue has two conflicting but arguably valid sides. The problem of pricing of Burrough's AZT drug was such an issue. A classical ethical dilemma refers to permitting or not tobacco companies to advertise. Not allowing them to advertise, restricts their freedom of speech and obstructs their ability to do business. Examples of such dilemmas are numerous. The common thread running in all ethical dilemmas is the conflict between rights of two or more stakeholders. The number of potential ethical dilemmas increases for a manager with increase in number of stakeholders.

Ethical lapse on part of a manager occurs when he makes an unethical decision. While ethical dilemma arises due to unresolved interpretations of ethical issues, the ethical lapse is associated with cases of unethical behaviour. Thus the desire of a tobacco company to advertise is an ethical dilemma; the decision of a top manager to profit from inside information is an act of ethical lapse.

19.3 APPROACHES TO ETHICAL MANAGEMENT

Identifying Ethical Pressures

An organisation's decision of pursuing ethical management practices, must be a proactive stance and such practices must be pursued with diligence and persistence. To realise this aim there is a need to recognise various ethical pressures on managers that lead to ethical dilemmas and in some cases make ethical behaviour seem attractive. Such an approach is likely to instill a sense of ethical decision making in managers.

The ethical pressure on managers is likely to result from such sources as organisational goals, personal goals, competition, uniformity and fear. The managers may be under pressure to meet their organisation's goals, such as to sell a certain number of products. Such pressures may lead managers to choose course of action that may be less ethical but helps in better short-term performance. Ethical organisations recognise that responsible decision making should consider factors beyond immediate goals and encourage managers to ask ethical questions while taking decisions.

Personal goals, just as organisational goals, can distort the decision making process. For example, a salesman wanting to outsell other salesmen so that he can be promoted to the post of sales manager might be tempted to overstate a products benefit to increase the volume of sale. In other situations for similar reasons, an employee might claim other employees work as his own or put pressure on other employees to lower their performance. As the personal performance has impact on compensation and promotions, ambitious employees are likely to take recourse to unethical behaviour. Increasing competition has visible impact on personal and organisational behaviour. The competitors are likely to overstep ethical boundaries. For example, the level of competition is very high in computer

industry and therefore getting to market generally with advanced products can be crucial to success. This has led some companies to announce products well before they exist. The idea is to pre-empt the market or beat the competitors. Such practice can mislead customers and can cause financial damages to firms who are left wanting for products that arrive late or not at all.

Individuals are under peer group pressure to act in confirming ways, both on jobs and other situations, throughout their lives. Sometimes there is a group norm, say among production line workers, that is unhealthy. Thus, if the group feels that the prescribed safety tests are tedious, there would be pressure on the workers of the group to skip the test. However, some comfort can be taken from the fact that the pressure to conform, in order to be accepted by peers can also lead to ethical behaviour if the group norm warrants it. Many fears, particularly the fear to lose one's job may make employees to take unethical decisions. A site supervisor, working for a building contractor, under instruction to use sub-standard material has to choose between cheating the customer or finding a new job. If there is shortage of jobs and supervisor has a family to support, the pressure to act unethically is really great.

Check Your Progress A

1. What is ethics?

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2. Enumerate three sources of ethical pressure.

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3. What is ethical dilemma?

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19.4 FRAMEWORKS FOR RESOLVING ETHICAL DILEMMAS

Many philosophical and management theorists have provided frameworks that can be used by managers to face ethical dilemmas. Using these frameworks, managers can analyse the issues involved and use plausible criteria for making decisions. However it must be noted that just as the ethical issues are not easy to formulate, the decisions made using the suggested frameworks are also not unambiguous. Though the suggested tools may not enable us to have a single right answer to ethical dilemmas, they lead to answers which appear more right, more just or more fair than it is possible to have without them.

Normative philosophy which is concerned with the study of proper thought and conduct or how people should behave stands at the root of principles used for ethical analysis. The two normative framework commonly used by managers are 'utilitarian' theories and 'deontology' or 'formalism.' Some other frameworks for resolving ethical dilemmas such as 'Eternal Law', 'Distributive Justice', 'Personal Liberty' have been discussed subsequently.

Utilitarianism: This is a preferred approach in North America and is widely used in management literature on ethical decision making. This approach is based on the premise that ethical decision making has a pay-off so that the prosperity of a company is assumed to be related to its ethical behaviour. According to the utilitarian theory, a decision is judged to be ethical on the basis of its perceived outcomes. In its original form, the theory was based on the prospect of greatest good for the greatest number of people. Following this approach, a government could follow a policy believing that the outcome would benefit greatest number of people (even at the expense of minority). Similarly a company could take decision to retrench a minority of workers to make the factory more cost effective so that majority of workers benefit who would remain in employment.

The cost-benefit analysis which looks at decisions from the point of view of total costs, the financial and social and total benefits is a modern day derivative of this theory. Pollution control, related to environmental protection, could be decided using this approach. The benefit to community through pollution control is compared to cost involved in the effort. To the extent that the decisions are made looking into future, both the future costs and future benefits, the utilitarianism tends to be a forward-looking philosophy. There are many problems associated with this school of thought. The first issue raised is the question of justice. It is argued how far it is justifiable to prosecute a minority in the interest of majority. The democratic systems, whether practiced at national level or the organisational level, are also based on utilitarianism.

The utilitarianism principle has been also criticised on the question of subjective benefits. Thus people have subjective notion of benefits occurring to them and there is also the possibility of manipulating the preference i.e. people could be persuaded to believe that they enjoy more benefits from a decision than is actually the reality. An example of this would be the case where a manager, when negotiating with another manager, sells a decision using manipulative technique to magnify the benefits available to the opposite party.

Formalism or Deontology: This approach is based on universal moral principles and is independent of wants and needs. The decision is not based on its expected result but on the consideration whether it is right. The spirit of formalism is captured by Kant's principle of 'categorical imperative' which implies that everyone should act to ensure that others would reach similar decisions in similar circumstances. It follows that formalism is established through shared understanding. Thus everybody understands the principle of right or wrong that you are applying, at least within your organisation or in your culture. As decisions taken, following this approach, are based on historically formulated principles they tend to be backward looking in their perspective. Such approach to decision making can lead to bureaucratic practice of insistence on rules for decisions and actions and thereby leading to dogmatism. Further, it also tends to ignore individualism.

Utilitarianism and Formalism — Illustrations of Contrast: These two important approaches differ in their perspectives while facing ethical decision making situations. Some examples of these differences are listed below.

- a) While describing a business executive's action, the utilitarian sees it from the perspective of its being good or bad but the formalist views it from the angle of being right or wrong.
- b) For a utilitarian the consideration behind an ethical decision is executive's needs, wants and desires, however, for a formalist it is the question of the executive's conscience.
- c) For a utilitarian the solutions to ethical problems are not easily definable, it is exactly opposite as far as the formalist is concerned.
- d) The telling of lies is considered wrong by both, but for different reasons. For an utilitarian speaking lies is wrong because it can lead to attendant problems, in the formalist views it is wrong because it is not correct for anybody to lie.
- e) The role of law is viewed differently. It is the belief of utilitarian that through benevolent legislation, everybody's life can be improved but for the formalists it is important to apply law fairly and impartially.

Cultural Preferences for Decision Principles: It has been observed that individuals from different cultures have marked preference for one or other decision principles. The literature on international negotiation often refer to the styles of Russian negotiators who more often appeal to overriding normative principles during negotiations than negotiators from other countries. The same holds good for cultural differences in decision making in other situations.

Empathy: Apart from various frameworks to resolve ethical dilemmas, practising empathy can provide managers vital insights into the likely consequences of their decisions. By considering the feelings of all those that are likely to be directly and adversely affected by their decisions, the managers will develop empathy that can be used to temper their ethical decisions.

Institutionalising Ethical Organisation's Behaviour

An ethical organisational culture can be introduced and nurtured by managers that emphasises the importance of ethical considerations. The move towards an ethical atmosphere must start at the top of the organisation, led by personal influence of top managers. The way the CEO and other executives exercise moral judgement can have more impact on an organisation than any written policy.

The other approaches that can instil ethical principles in an organisation include standards of ethics, training in ethics-related issues, ethics committee, ombudsmanship and ethical codes. Ethical standards are the guidelines of moral conduct in a given profession or group. Companies try to maintain ethical standards through administering honesty test and conducting background investigation while recruiting. Others require their potential employees to read and sign their agreement to the organisation's values and ethical standards. Code of ethics is a formal statement of the organisation's values, ethical principles and ethical rules. It is probably the most visible sign of an organisation's ethical philosophy. The ethical codes should not be too vague or too detailed. To be effective, it must clearly state basic principles and expectations, must focus on potential ethical dilemmas that employees may encounter, must be communicated to all employees and must be enforced.

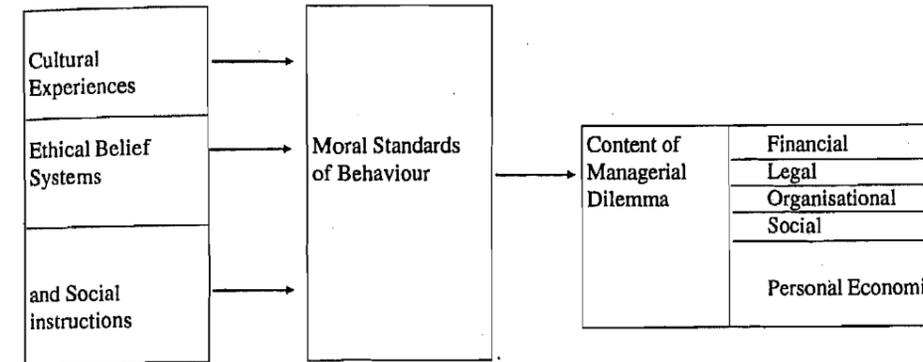
Another way to institutionalise ethical behaviour is to provide ethics training that may start at the time of employment at which employees read and sign the company's code of ethics. One way to make the training pragmatic is by focussing on case studies of hypothetical ethical questions based on interviews of company's managers. There should be any attempt to provide solutions to the cases but use them only as base for discussing ethical issues. Organisations have also tried Ombudsmanship-an informal review process that provides an indirect, nonthreatening means of obtaining a response from senior management about an ethical conflict. Such a system may help the younger managers on sticky career issues, organisational difficulties and ethical issues. It can also serve as organisational conscience and may also investigate complaints about unethical behaviour. Finally it may point out potential ethical lapses or dilemmas to top management. Employees resort to whistle-blowing or public disclosure of illegal, unethical or harmful practices of their organisations when they are convinced that unethical practices can't be halted even when management's attention has been drawn to it. While whistle-blowers get protection in specific situations in some countries, it has high costs, both for the employees and organisations. Some organisations have standing committees of the board of directors to consider ethical aspects of company's policies and practices, assuring the employees and other stakeholders about top management's commitment to ethical behaviour; others have established internal audit committees to monitor organisational ethics.

19.5 ETHICS AND INTERNATIONAL MANAGEMENT

Before the managerial dilemmas faced by the international managers are considered, a general model of ethical analysis of management decision is taken up. It helps to understand the various factors affecting the managerial decisions across cultures.

Ethical Analysis of Management Decisions. Hosmer has suggested a model for ethical analysis of management decisions that is helpful in analysing the ethical dilemmas of international managers. Look at Figure 19.1 which shows the model for ethical analysis. Before giving thought to the other factors of the model and to appreciate the multifaceted nature of managerial dilemmas, consider the elements of content of managerial dilemma. This has been done in the context of a one-country problem related to human resources.

Fig. 19.1: Ethical Analysis of Management Decisions



The HR problem posed by Hosmer relates to employee drug testing issue of a company that faces the problem of low productivity and low quality. It is suspected that it is due to drug and alcohol abuse. The testing for chemical depending is an invasion of personal privacy and the test does not always give accurate result. The management has information that less than 20 per cent of the workforce uses drugs and alcohol. However, if the test is carried out, the other 80 per cent will also have to go through the indignity of tests. The managerial dilemma is whether to go for drug test or not.

Content of managerial dilemma. Hosmer model has financial, legal, organizational, social and personal aspects as parts of content of managerial dilemma. In the HR example these refer to the following.

The financial content refers to financial benefits and costs in solving the drug problem. The organizations tend to give more weight to this aspect in their decisions. The legal content is concerned with any legislation, which permits or prevents the type of drug testing proposed. There is always a possibility of compensation claims, as a result of test that may have financial implications. The organisational consequences of the drug testing can be both positive and negative. It may lead to better working environment once the problem is solved and also more job security due to improved efficiency in production. However, on the negative side, there is the possibility of low morale as a result of the action.

The implication of the proposed action on the wider society is the domain of social content of the managerial dilemma. On the plus side the testing may enhance the competitive position of the company and it may also enhance its reputation in the locality. However, if a society considers individual's privacy important, there can be negative implications in the community as a result of charges of invasion of privacy. The managers while taking decisions are also concerned with the result of their actions on their careers. There is also the possibility of loosing their jobs if something goes wrong. This constitutes the personal content of the managerial dilemma.

The issues discussed under the content of the managerial dilemma above clearly shows that the approach followed by Homer is utilitarian because the action is judged in the light of its outcome. Apart from the content of managerial dilemmas, the model has other elements such as moral standards of behaviour, the ethical system of belief.

Moral Standards of Behaviour. This occurs in the model prior to the consideration of the dilemmas facing the decision-maker. We use moral standards of behaviour to judge our behaviour and that of others. It is important to note that these tend to be subjective, imprecise and varies between the individuals. They are also likely to vary from one situation to another as is evident in our attitude towards lying.

19.6 ETHICAL SYSTEMS OF BELIEF

The seeds of our moral standards of behaviour can be traced back to our ethical systems of belief. They provide guiding principles of our decision making. Hosmer identifies five such systems of belief in decision making, of which utilitarianism and formalism has been already discussed. The following summary gives, in brief, the nature and the problems associated with various systems of belief.

- (a) **Eternal Law:** The religious teachings reveal the moral standards and these standards are eternal law to which we should adhere. However, multiple interpretation of the law creates problem.
- (b) **Utilitarian Theory:** The perceived outcome of the action provides standards. Following this approach, it is easy to justify immoral acts by referring to the benefits to the majority at the expense of a minority.
- (c) **Universal Theory (Formalism):** In this case standards are derived from intent of the decision according to universal principles. The problem in this approach arises from the concept of universality and who judges the morality of principles.
- (d) **Distributive Justice:** A single value of justice, namely that everyone should act towards the more equitable distribution of benefits provides the basis for moral standards. It is believed that this will lead to social cooperation. However, the social cooperation may or may not occur when this decision making rule is followed.
- (e) **Personal Liberty:** The principle of liberty, in this case, is the single basis of moral standard. It is implied that everyone should act to secure greater freedom of choice, promoting market exchange and social productivity. The implicit assumption in this approach is that market system leads to productivity.

The moral standards of behaviours in the Hosmer's model, is determined by the above discussed ethical believe systems together with cultural experiences and the prevailing social and economic system. The managers resolve their ethical dilemmas in the context of their moral standards of behaviour.

When the managers operate in global science, they are likely to face different national cultures where there is preference for different belief systems. There is also possibility that the belief system of the home country is incompatible with that of host country. In such a situation a utilitarian approach (a pragmatic approach) has been found to be useful while dealing with ethical issues. The examples of ethical issues in international decision making include dealing with corporate bribery, acceptable level of pollution and attitude towards the destruction of rain forest, etc.

19.7 FOREIGN CORRUPT PRACTICES ACT OF USA

After many glaring cases of business bribing government officials in other countries came to light, US government passed the Foreign Corrupt Practices Act (FCPA) in 1977 which was amended in 1988. This act requires adherence to strict accounting standards by US companies. It also prohibits them from offering bribe in their overseas operation. The Act establishes specific standards for US managers to help them in determining what is permissible conduct. It permits payments to foreign officials to expedite routine government actions such as processing Visas and licences or providing water, electricity, phone services, police protection and mail delivery. Thus it is not illegal if the US manager pays a custom official \$25 to expedite the custom inspection of landed goods, a task the official performs in routine way. The same action, however, becomes, illegal, if the manager pays to the customs official to process the shipment without inspecting it. Many critics of FCPA hold that it causes US companies to lose export business, though there is no conclusive evidence to support this thesis. However, unless there is consensus among more nations among what constitutes corrupt business practices, US companies operating overseas do seem to face problems due to this act in competitive world marketplace.

Check Your Progress B

1. What is Deontology?

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2. What do you mean by Utilitarianism?

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3. What is personal liberty?

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4. What is Empathy?

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5. State whether following statements are True or False.

- i) In ethical dilemmas the issue has two conflicting but arguably valid sides.
- ii) Utilitarianism is preferred in European countries.
- iii) The principle of liberty is the single basis of moral standards.
- iv) Foreign corrupt practices Act permits payments to foreign officials to expedite routine government actions.
- v) While describing a business executive's action, the utilitarian views it from the angle of being right or wrong.

19.8 ETHICAL ISSUES IN INTERNATIONAL TRADE

International business takes different forms. The most important aspect of international business for Indian executives is international trade. It is, therefore, important to consider the current state of discussion on business ethics in the field of international trade. Most of Indian exporters are small. They have little room to influence the behaviour of the host country. Like many small exporters from developing countries, they adopt the approach of 'When in Rome, do as the Roman's do'. It is quite understandable for a small Indian exporter to be concerned about the receipt of payment from importers from some countries and label those not honouring the terms of trade contract as unethical. However, these are instances of ethical lapses or unethical behaviour. We should also consider the issues of ethical dilemmas faced by major players of international trade, the multinational corporations (MNCs). The MNCs are not only dominant in world production but also important players in the world trade flows. These companies face challenge arising from

differences in standard and values and also due to varying levels of economic development in the countries of their operation. These diversities act as a check on a firm's growth, but for unscrupulous companies it also holds large opportunities for exploitation.

The marketing manager of an international firm has the problem of balancing the demands of domestic stakeholders with that of the demands of stakeholders of host countries. In most cases the decisions are taken keeping in view the commercial considerations and the demands of domestic stakeholders. The worst sufferers of unethical multinational practices are the developing countries. Many firms hardly keep in view the impact of their decisions on host country. The commercial aspect gets priority in their decisions, a reflection of ideologies of western countries from where most of these firms in international trade of goods and services operate. Thus the British Airways withdrew from Ivory Coast on the consideration of lack of commercial viability, unmindful of the fact that it meant to that country a loss of vital communication link and also to an issue related to nation's prestige.

The consumer profile of businesses has undergone considerable change. Consumer's are more educated and more informed and have new set of demands and expectations. The MNCs are constrained to give more importance to their demands. Being large players and having their clientele in many countries they are quite careful about their marketing practices, least it damages their reputation and image. In giving shape to their marketing practices, they not only take into consideration the commercial imperatives but also the expectations of host and home country. The public relations departments of many MNCs take pains to manage the potentially damaging situations. The firms would like to act much before the media or the government forces it to do so. In addition they also want to be perceived by their customers to be ethical. Two instances of proactive behaviour of firms in international trade are given: (i) The Tylenol drug was withdrawn by Johnson and Johnson after seven deaths was attributed to it in Chicago in 1982. The cost of damage control at \$100 million was quite high, even when the loss future sales was not counted. (ii) Perrier withdrew all their bottled water from all countries around the world when presence of benzene was detected in Canada in 1990. This resulted in incurring of a cost of \$140 million but quick action kept its image of provider of 'pure' product untarnished, even when the risk of ill effect was negligible.

19.8.1 Ethical v/s Unethical Activities

Even when there is proactive behaviour on parts of many MNCs in their marketing practices, some of their activities have been debated regarding their ethical nature. While many issues have been raised in this debate, major ones having a bearing on international trade are listed below.

- i) **Selling Products Less in Demand in Home Countries:** After products reach maturity or face decline in demand due to their particular stage in product life cycles in developed markets, there is pressure on firms to sell them in the markets of less developed countries (LDC). Such is the case about tobacco products. It is experiencing decline in consumption in USA and Europe due increased awareness about its potential bad effects. In addition, there is increased competition among producers. Many tobacco companies to retain their profitability are targeting the LDC markets where smokers are not fully aware of the risk of smoking. Such a move is open to question regarding its ethical nature.
- ii) **Selling Prohibited Products in LDC Markets:** In some cases drugs and chemicals prohibited in developed countries, due to their harmful effects, are being sold in LDC countries. This has been justified as not necessarily exploitative. Take the case of DDT. It is known to contaminate ground but it is also only known counter to malaria-bearing mosquitoes and therefore benefits of its use in a LDC, where malaria is rampant, far outweigh its cost. Similar arguments have been also advanced in respect to many drugs and veterinary products, withdrawn from developed country markets due to their side effects, as still useful to LDCs who cannot afford the high priced developed substitutes, now in use in developed countries.
- iii) **Selling Products Likely to be Misused:** Products developed to be used in an environment may be used incorrectly by consumers due to changed circumstances, lack of knowledge or scarcity of resources. If such misuse can be

foreseen, marketing of such products is unethical. One such case was marketing of milk powder by Nestle in LDCs. The company was not fully mindful of its implications for the mothers and the babies, in situation of lack of clean water, money and training. Investigations of some pressure groups have revealed the following.

Nestle was guilty of misrepresentation and for its efforts to change the indigenous behaviour to detriment of population's health. Its distribution of promotional samples in hospitals led to mother's milk to dry up and that in turn forced the use of company's milk powder. Company continued their practice even when being aware that mothers lacked resources to purchase milk powder and thus a situation was reached where children suffered from malnutrition.

The Nestle episode led to its seven years global boycott. Arising from this, UN also came out with a new guideline on the issue.

- iv) **Restrictive Trade Policies:** Restrictive trade policies adopted by certain governments have been labelled as unethical by other governments and companies in international trade. The relative closeness of Japanese market has been attributed to many historical and cultural factors (such as Japanese consumers having tradition of purchasing locally produced goods that is perceived to be superior) but also due to protectionist policies pursued by the government there. There have been high import tariff and non-tariff barriers for wide range of products.
- v) **Dumping:** Dumping occurs when goods produced in one country are offered for sale, in large quantity, at very low price, in international markets. Such trade has been regarded as questionable. Reasons behind such trade include state subsidies, debt write-offs and high exit barriers of a particular industry (e.g. steel, shipbuilding and aircraft manufacturing). Such trade leads to hurting of business and jobs in one country by state-supported, non-viable jobs in another country. A case of supporting non-viable jobs is evident in many national air-carriers, which are subsidised even when there is substantial over-capacity in the industry.

Some have argued that imports by developed countries of cheap goods from LDC, which have labour and other material cost advantages and low cost production methods, such as shoes from Eastern Europe and clothes from Pacific Rim countries, has led to loss of thousands of jobs in those industries in importing countries. It is acknowledged, however, that the consumers in western countries benefit from low priced products and exporting countries get much-needed foreign exchange.

- vi) **Counterfeiting:** This growing problem relate to firms violating the patent and copyright of another firm, usually in case of luxury products. The product copies are normally produced in LDCs. This leads to creation of jobs in copying countries, mostly LDCs, and consumers, particularly in developed countries, have opportunity of purchasing a copy of a luxury product at very low price. However, the producers of original products claim that this practice leads to diminishing value for their products, whose image has been built through large investment. There are many that hold that the concept of counterfeiting and the violation of intellectual property right appear to be a Western and ethnocentric view of ethics. If such right exists than China should get royalty for noodles, compass and ice cream.
- There is a counterpart of this international marketing ethical issue in domestic marketing. The private label category of fast-moving consumer goods can be also regarded as counterfeiting. Own-brand products of food retailers in developed countries only marginally differ from corresponding branded items.
- vii) **Grey Marketing:** This arises when goods are imported and sold through market distribution channels not authorised by the manufacturer. It occurs mainly due to significant differences in market price of same product in different countries. Such difference in price can occur due to variation in exchange rates, differences in country taxation rates and differences in market cost structures. This makes it attractive for an unauthorised dealer to purchase branded products at low rates in one country and sell it at higher price in another country. Such practice, when assumes significant proportion, makes the authorised dealer demotivated. Though

not illegal, it leads to consumer not receiving their due in terms of service and guarantee and the producer may also suffer due to market loss. Superdrug, a drug store in UK, was found to obtain perfume through unauthorised distribution channels at large discounted price and sold them at lower rates in competition with authorised retailers. The practice was quite legal but unethical. When the Office of Fair Trading, which is part of Monopolies and Merger Commission, UK, heard the case it could not be defended as it was held that the appeal of perfume is based on its exclusive image that gets diluted by mass marketing.

19.8.2 Code of Ethics for International Marketing

A large amount of international trade is carried out by MNCs that are under conflicting pressures of their stakeholders. Some of the notable pressures on them are listed below.

Pressure to meet demands of consumers of their products, having apparently similar characteristics and expectations from products and services, but differing in their lifestyles and environmental factors. Pressure to meet the expectations of shareholders about rate of return on investment, requiring them to be prudent investors and to effectively handle various risks of their activities. Pressure to do effective financial management including availing all legally permissible tax benefits. Pressure to compete effectively in their markets.

A review of various pressures on major player in international trade shows the need to clearly lay down guidelines, in form of code ethics, for their employees. Such code of ethics should lay down guidelines for operating in various markets, particularly focussing on places where unethical behaviour is more common. However, as the player have been more concerned with growth and development of their business, the code of conduct has been emphasised and laid down by outside agencies such as OECD, International Chamber of commerce, International Labour Organisation and UN Committee on Transnational Corporations. These codes address issues related to MNCs and their stakeholders such as host government, the public, consumers and employees.

Apart from conforming to general ethical behaviour, the ethical codes of the companies active in international trade should ensure the following.

- i) Need to respect laws and regulations of the host countries and do nothing to compromise with the health and safety of consumers. US laws on product liability, a big litigation issue, is an extreme case that affects the development of new products, especially the pharmaceuticals. Such legislation makes small firms reluctant to export to USA due to prohibitive cost of litigation.
- ii) Firms should not exploit the weakness in legislation in host countries such as selling products in these markets that are banned elsewhere.
- iii) The firms can be proactive and assist the governments in preventing marketing of unsafe products. However, the close relationship developed by firm with the local government, should not be misused such as gaining competitive advantage through adaptation of company's product specification, taking advantage of local lack of expertise in a particular area.

19.9 BUSINESS AND SOCIAL RESPONSIBILITY

There has been increasing debate among the academics, local activist, and managers about the ideal relationship between the organisation and society. Two issues have predominantly emerged: an organisations responsibility for its activities that affect society, both positively and negatively and about the extent of responsibility that should be born by an organisation to solve social problems.

Social Responsibility can be examined at four levels: Economic, Legal, Ethical and Discretionary. First, for all for-profit business, an organisation has economic responsibility to produce products and services needed by people and sell them at profit. Peter Drucker advises organisations not to undertake social actions that are economically unviable or act as distraction in achieving a minimally acceptable profit level. Economist Milton Freedman, who advocates that business's only social responsibility is to maximize profits, holds an

extreme view. The non-economic activity, not only robs shareholders of their due but also distracts managers from their profit-making goals. It has been also argued that business managers are not experienced in solving social problem and their involvement in such activities may conflict with their ordinary business activities.

For an organisation to pursue its activities within the bonds of laws and regulations are its second responsibility and are termed as legal responsibility. The laws and regulations of a society do not cover all the possible actions that an organisation and its managers are called upon to undertake. In their various activities spanning from labelling to employment practices, they may have to choose among two or more courses of action, all of them legal. The choice is not based, then, on the consideration of legality, but on the basis of their 'rightness'. Deciding which is right and basing decisions and actions on this consideration represents an organisation's third responsibility. This has been termed as ethical responsibility.

There are yet other type of social responsibilities that are purely voluntary and guided by individual judgement and choice. They can be placed in the final and fourth category of responsibility, the discretionary responsibilities. These four categories of responsibilities are not mutually exclusive. A given decision or activity can have a combination of economic, legal, ethical and discretionary motive behind it. Though the economic responsibility is most important, the weight of responsibility to shareholders should not override the organisation's legal, ethical or discretionary responsibilities to other stakeholders.

The motivation for an organisation to pursue social responsibility can range from pure self-interest to pure altruism. In pure altruism there is a desire to act in best interest of society without considering self-interest. The in-between position is that of enlightened self-interest which arises from an organisation's belief that it will prosper over the long term by undertaking activities that benefit society, even if the organisation has to bear additional short-term costs. Organisations are increasingly using enlightened self-interest to combine the concern for their own interest with concern for their customers and other affected by their activities. For example, a US Bank brought out ads persuading consumer not to overuse their credit card and not to take loans they really do not need. This bank followed the philosophy of 'consumer advocacy' and was doing what is best for customer today and hoped to retain the customer's loyalty tomorrow.

The motivation for organisations to undertake social responsibility has undergone large transformation in many countries. Till early twentieth century, the organisations were largely concerned with economic consequences of their actions. After that business did contribute to social causes but these activities were separate from their economic pursuits. The focus further widened during 1960s and 1970s and businesses were forced to consider the social aspects of their economic activities. This was due to social unrest, greater government involvement and more socially motivated laws and regulations. Now a stage has been reached where firms are engaging in social activities as they expect economic advantages to follow from it. Many businesses have come to believe that social responsibility and profitability are not incompatible. Now the stress is on the concept of corporate social performance as a way to understand how much a business integrates the principle of social responsibility, the process of responsiveness to social issues and the development of policies to address social issues. However, as yet, there is no agreement among government officials, academics and social commentators on the appropriate level of social responsibility for contemporary organisations.

19.9.1 Areas of Social Responsibility

The socially responsible organisations are all the time looking for creative and new ways of servicing their stakeholders. Such efforts can be grouped under the following categories: local community welfare including health care, education, human rights, the natural environment, consumer rights and support for cultural events.

Socially responsible business can make substantial differences to the welfare of local and regional community by providing leadership and assistance in solving its pressing needs. By devising well considered programmes, many banks have shown that it is possible to be both socially responsible and financially sound. Socially responsible organisations have

also realised that investing in community health care is not only desirable but also valuable and necessary for everyone including the company, the employees and the community at large. Many organisations earmark large sums of money for community's development and welfare. The resources for the purpose need not have to be large. Encouraging and providing time off for managers and employees to do volunteer work for hospitals, health care centres and engage in other welfare and developmental activities can also support such activities.

Organisations have also shown interest in their social responsibility in education. It is not just to be charitable or generate positive publicity, but to survive. They have contributed in efforts to improve preschool, primary, secondary and vocational education.

Many organisations direct their social responsibility efforts towards upholding the cause for human rights. Reebok International, the athletic shoe manufacturer, has promoted the activities of Amnesty International. The right to freedom of expression is a part of its corporate philosophy. It has also instituted annual awards for young men and women who raise awareness of human rights and freedom of expression.

Some organisations have focussed on natural environment as their area of social responsibility. The important issues of this area include ecology, conservation of natural resources, protection of endangered species and responsible waste disposal. In many cases buyer's purchase decision is based on a company's environmental reputation. This has forced organisations to support recycling efforts, to contribute towards waste reduction and to actively use biodegradable material. Thus Apple computer uses brown cardboard as a packing material, in place of white cardboard, to avoid the bleaching agents. Many organisations are capitalising on consumer concern for the environment by marketing environmentally friendly products.

Many socially responsible organisations exhibit great concern for the rights of their consumers. For this they take great pains to ensure high quality, safety and truthful advertising. The Gillette company has a Vice President of product integrity to protect consumer interest. In addition to quality control measures employed during production, it maintains a big team of managers to double-check the company's products. It also has medical evaluation laboratories where scientists focus on ill effects of new Gillette products and check for any allergic reactions to shampoos and its other products. The firm's obsession with effectiveness and quality goes beyond meeting the legal minimum requirement and costs a lot of money. However, it believes that a satisfied consumer is a loyal consumer and its efforts are worthwhile.

Businesses are also keen to support cultured events as a form of social responsibility. It promotes the positive image of their company. Further, support for arts may also help the company to reach out to a generally upscale audience.

19.9.2 Approaches to Social Responsibility

Continuum of Social Responsibility. The stance taken by organisations towards their social responsibility can be categorised in one of four ways: opposition, obligation, responsiveness and contribution to social responsibility. These categories form a continuum; the lowest level responsibility is shown by firms who must be forced to comply with legal and ethical standards. The highest level is occupied by the firms that actively look for ways to help stakeholders, above and beyond what is expected of them. The lower middle position is occupied by organisations that meet their social obligation by voluntarily confirming with the legal and ethical standards but go no further. Next to them on the continuum of social responsibility are organisations that choose to respond to stakeholder's needs by assuming obligations beyond their legal and economic responsibilities.

Social Audit: Organisations concerned with keeping their social responsibility at the forefront of their strategy employ the tool of social audit. It provides them a systematic evaluation and reporting of their current performance in various areas of social responsibility. The common components of social audit include the stakeholders audit which focusses on interest of its stakeholders and the organisational response, safety audit which is concerned with controlling and eliminating work-related hazards, and the

environmental audit which identifies the potential risks to the natural environment, evaluates a organisation's efforts in the area and also comes out with potential solutions. A growing number of organisations are publicising their social audit reports to underline their concern for social responsibility.

19.9.3 Institutionalising Social Responsibility

To help to institutionalise socially responsible behaviour, organisations are setting up a separate Public Affairs Department to serve as a link between them and the key stakeholders such as customers, government agencies and the media. This department undertakes functions such as identifying social issues, forecasting social trends, analysing the social environment, keeping management aware with such information and developing programmes to meet the needs of specific external stockholder groups.

Other methods of institutionalising social responsibility include the following:

Advocacy: Supporting a particular cause through financial, material and human resource backing.

Partnership: Cooperating with special interest groups, such as environmental groups, to seek mutually acceptable solutions to social problems.

Philanthropy: Gifting money, time, goods or services to charitable, humanitarian or educational institutions.

Executive Loan: Allowing their executives to take leave of absence and assume management positions in non-profit organisations for short duration.

Cause-Related Marketing: Offering to contribute a specified amount to a designated cause when customers buy the company's goods or services. In 1983 American Express donated one cent from its every card purchase to help refurbish the State of Liberty. It raised \$1.7 million for the Statue.

Check Your Progress C

1. What is Dumping?

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2. What do you mean by Counterfeiting?

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3. What is pure Altruism?

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4. What do you mean by social Audits?

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5. State whether following statements are **True** or **False**.

- i) Restrictive trade policies adopted by certain government have been labelled as unethical by other governments in international trade.
- ii) Goods imported and sold through market distribution channels authorised by the manufacturer is referred as Grey marketing.
- iii) Goods produced in one country and sold in other country at higher price is referred as dumping.
- iv) US laws on product liability affects the development of new products.
- v) Multinational corporations face the issue of ethical dilemmas.

19.10 LET US SUM UP

Ethics refers to the closeness of managerial decisions and actions with codes of moral standards that try to distinguish right from wrong. Ethical decision making is viewed differently because people from different cultures analyse their ethical dilemmas differently. At the heart of analysis of such dilemmas is the culture's moral code of behaviour which is affected by cultural experiences, ethical belief systems and economic and social situations. The culture's ethical system of belief includes; utilitarian, deontology, eternal law, distributive justice and personal liberty.

In international trade, proper understanding of ethical practices becomes essential. A number of practices have been termed as unethical. Some of such practices include: selling products in less developed countries which are less in demand in developed countries, selling products in less developed countries which have been prohibited in developed countries, selling products which are likely to be misused due to the differences in environment, restrictive trade practices of some governments, dumping, counterfeiting, grey marketing, etc. Apart from conforming to the general ethical behaviour, Multinational corporations should also follow the code of ethics for International Marketing.

Besides ethics, social responsibility of business is another important area of concern for the international marketer. Organisations have also obligations to the society beyond pursuing organisational goals and should take actions that benefit society as well. These obligations fall into four categories: economic, legal, ethical and discretionary. The motivation to undertake social responsibility range from pure self-interest to enlightened self-interest and to pure altruism. Organisations are affected by a number of stakeholder groups. The major groups include customers and constituents, employees and unions, suppliers, competitors, lenders, shareholders and owners, governments, special interest groups and local communities. In order to perform better, the organisations should be socially responsive.

19.11 KEY WORDS

Ethics: Study of decision making within a framework of system of moral standards.

Utilitarianism: A theory which focusses that a decision is judged to be ethical on the basis of its perceived outcomes.

Deontology: A theory based on universal moral principles from which standards are derived.

Dumping: Goods produced in one country and offered for sale in another country at lower price.

Grey marketing: Goods imported and sold through market distribution channels not authorised by the manufacturer.

19.12 ANSWERS TO CHECK YOUR PROGRESS

B 5 i) True ii) False iii) True iv) True v) False

C 5 i) True ii) False iii) False iv) True v) True

19.13 TERMINAL QUESTIONS

1. What is ethical dilemmas? Describe the frameworks for resolving ethical dilemmas.
2. Describe Hosmer's model for ethical analysis of management decisions.
3. Describe various ethical v/s unethical activities of Multinational Corporations.
4. Explain various code of ethics for International marketing relevant for the Multinational Corporations.
5. What is social responsibility to business? Explain the areas of social responsibility.
6. Write notes on:
 - i) Ethical systems of belief.
 - ii) Foreign Corrupt Practices Act of USA
 - iii) Approaches to social responsibility.