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**Working Paper**

## Cross-Country Ethical Dilemmas in Business: A Descriptive Framework

Nota di Lavoro, No. 28.2004

**Provided in Cooperation with:**

Fondazione Eni Enrico Mattei (FEEM)

*Suggested Citation:* Ferro, Nicoletta (2004) : Cross-Country Ethical Dilemmas in Business: A Descriptive Framework, Nota di Lavoro, No. 28.2004, Fondazione Eni Enrico Mattei (FEEM), Milano

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**Cross-Country Ethical Dilemmas  
in Business: A Descriptive  
Framework**

Nicoletta Ferro

NOTA DI LAVORO 28.2004

**FEBRUARY 2004**

CSR – Corporate Social Responsibility and Sustainable Management
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# **Cross-Country Ethical Dilemmas in Business: A Descriptive Framework**

## **Summary**

As businesses span the globe, multinational and translational companies conduct their business operations in foreign settings, especially in developing countries and in countries in transition from Communist regimes. This poses new challenges to expatriate managers and to home-based staff in charge of foreign affiliates. They are called on to determine the right versus the wrong, the good versus the bad over international business transactions, negotiations, advertisement and supply chain management taking place in foreign settings. As most of the time, businessmen lack a certain degree of cultural awareness and knowledge, managing ethical diversity over cross-country business transactions ends up to be a major challenge for business people.

This paper's aim is to provide an introductory sketch on the cross-country issues facing international business, through detailed description of their level of disclosure (Political, Corporate, Internal) diverse areas and connected situations.

The pros and cons of the traditional paradigms used by business people in dealing with such circumstances (Universalism and Relativism) will be weighed. In addition examples of "irresponsible business practices" resulting from cultural misunderstandings, ignorance and lack of contextualization on the behalf of business people will be provided.

**Keywords:** Business ethics, Cross-country ethical dilemmas, Corporate Social responsibility, Diversity

**JEL Classification:** M1, M14

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## ***Introduction***

*"We are living through a period of transformation that will rearrange the politics and economics of the coming century"*<sup>1</sup>. Robert Reich's words describe the epochal changes the world is undergoing. Globalization is the buzzword of the moment, internationally demonized as the source of all ills or uncritically proclaimed as the solution of world's pains. Whether globalization is good or ill is a topic of heated debate we will not get involved in. On the other hand, we will analyze globalization from an economic perspective as the growing integration of world markets. This is not a new issue as the world has already undergone similar phases of market integration in the past. What seems to distinguish the current phenomenon from past events are new factors such as the end of economic nationalism, the rise of new actors on the global scenario (transnational corporations and anti-globalization activists for instance), great technological changes and communication improvements.

As the progressive weakening of the links between territorial states and their corresponding national production has advanced, national governments have seen their power slowly eroded by the rise of powerful corporations that, in the words of Sir Geoffrey Chandler, have become: *"The most significant part of the world economic bloodstream"*.<sup>2</sup>

Multinational enterprises were the typical companies' organizational structure of the '80, whose main characteristic was dislocation of production processes through subsidiaries and affiliates in target countries, controlled by the home industry.

A new organizational model called Transnational corporation, with production and sales "distributed" (and not only dislocated) within independent and specialized units crossing national boundaries,<sup>3</sup> has recently emerged. This new kind of economic entity provides business transactions with flexibility within

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<sup>1</sup> R. B. Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*, Random House, New York, 1991

<sup>2</sup> Sir Geoffrey Chandler, Founder Amnesty International Uk Business Group and Former Senior Executive at Royal Dutch Shell as well as member of Sustainability Council

<sup>3</sup> O. F. Williams, *Global Codes of Conduct, an idea whose time has come*, C.S.C. Editor

policy guidelines established by corporate headquarters predominantly based in Western Europe, North America and Japan. Transnational corporations' operations span the globe and gain unprecedented economic power; according to a study realized in 2000<sup>4</sup>, today's top 200 transnational corporations' combined sales are bigger than the combined economies of all countries minus the biggest nine; that is to say their sales surpass the combined economies of 182 countries thus having almost twice the economic clout of the poorest four-fifths of humanity.<sup>5</sup>

A key concern regarding both transnational and multinational corporations is that they tend to establish subsidiaries in countries where conditions are most favorable to their business operations, specifically developing countries and countries in transition from communist regimes.

On the other hand, governments in less industrialized countries, burdened by debts, low commodity prices and high levels of unemployment, have seen transnational corporations, in the words of the British Magazine *The Economist*<sup>6</sup> as “*the embodiment of modernity and the prospect of wealth*” and have been “*queuing up to attract multinationals through liberalization of investment restrictions as well as privatization of public sector industries, keeping at the meantime lower wages and fewer environmental regulations in comparison with developed countries*”.<sup>7</sup>

Dislocation processes typical of recent trends are not only limited to labor intensive production processes as outsourcing of labor-intensive service industries functions (such as information technology, financial functions, customer services, managing human resources) have been one of the fastest-growing recent management trends allowed by improvements in international communications and related reduction in costs.

Therefore it is now increasingly common to find a company headquartered in the United States, but with research, design, and production facilities spread over Japan, Europe, and North America; additional production facilities in Southeast Asia and Latin America; marketing and distribution centers on every continent; and lenders and investors in Taiwan and Japan.

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<sup>4</sup> S. Anderson, J. Cavanagh, *Top 200: the rise of global corporate power*, Corporate Watch 2000

<sup>5</sup> *Ibidem* 4

<sup>6</sup> *The Economist*, Survey on Multinationals, “*Everybody's favourite monsters*”, 27 March 1993

<sup>7</sup> *Ibidem* 4

## **Global challenges**

Although cross-border activities seem to shape the global economy, statistical data reveal that the average transnational corporation produces more than two-thirds of its output and locates two-thirds of employees in its home country.

As a consequence, very few companies can be defined truly global, as moving to foreign countries to relocate subsidiary production means, for most multinational and transnational corporations, transplanting their own Western cultural matrix together with their staff and production.

Despite the global ramification system created by transnational corporations, the cultural make-up of some companies known world-wide such as AT&T remains distinctively American, as that of Volkswagen identifiably German, no matter where the corporation's branches, affiliates or subcontractors are located.<sup>8</sup>

Transnational corporations are thus like seeds sown on hostile grounds and find it increasingly difficult to face the challenges different cultural, political, religious and social scenarios pose. The task results exceedingly complex for western corporations which according to Daniel Litvin: "*Time and time again, in a pattern that is too pronounced to be coincidental, have exercised their power in unplanned, unsophisticated or self-defeating ways*"<sup>9</sup>.

This unplanned way of exercising a corporation's power carries many consequences, as ignorance and misconception about foreign cultures often results in "*irresponsible business practices*"<sup>10</sup> on the behalf of multinational and transnational corporations. On the pretence of doing good, in fact, corporations harm their business interests and local communities at the same time.

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<sup>8</sup> T.W. Dunfee, T.L. Fort, Corporate Decision Types in Managing Across Culture in "*Corporate Hypergoals, Sustainable Peace and the Adapted Firm*", 2002

<sup>9</sup> D. Litvin, *Empires of Profit, Commerce, Conquest and Corporate Responsibility*, Texere, 2003

<sup>10</sup> The Economist, "*Ethically Unemployed*", November 30<sup>th</sup> 2002 p 59

While multinational enterprises used to send both managers and technicians abroad to coordinate local branches (expatriate staff) while holding home based managers with responsibilities for foreign operations, transnational corporations create intercultural management teams employing both local staff and expatriate officers. In spite of differences in the organizational structure, both multinational enterprises and transnational corporations require their staff in charge of foreign operations to hold cross-cultural skills and competencies necessary to deal with local habits, mentalities and language.

### **Cross-country ethical conflicts: framing the issue**

Production, negotiation, international marketing, advertisement, distribution, pricing, service and supply chain management are the business areas most affected by cross-country issues.

Moreover cross-country ethical conflicts emerge at different levels such as:

- Political as certain corporations embody national values in their way of doing business potentially conflicting with host countries national values and beliefs
- Corporate, which opposes inner corporate values and hosts country national values and beliefs.
- Cultural consisting in clashes between personal moral values and mind-set belonging to the individual members of the corporation and host countries traditions.

In order to go deeper into the matter, cross-country ethical conflicts in business can be related to: differences in values, which are principles people use to define what is right, good and just and provide guidance in determining the right versus the wrong, the good versus the bad; reasoning processes; time perception and use; behaviors, manners and customs; use of space (for example while American and Japanese feel comfortable with a space distance while Italian or Mexican tend to get extremely close to their counterpart); food preferences; hygienic habits, relation with the environment; languages and body languages such as facial expressions, eye contact, gestures, posture and colors (for example white stands for death in Asian countries).

Dunfee and Bowie<sup>11</sup> distinguish moral expressions pressuring business organizations into three groups: Benign, Disputed and Problematic.

The Benign category does not pose particular problems as it deals with moral desires, consistent with most ethical principles with which most people agree.

The Disputed category of ethical conflicts is more interesting as it involves beliefs that are held across a particular social political or business community and are not easily validated by general consensus. An example is provided by the pro-life animal's choice versus the use of animals in human medical research. The Problematic category is the more related to foreign settings and involves conflicts arising from different principles depending on one's religious or social background and often inconsistent with universal recognized principles, therefore posing ethical conflicts.

Along with the problematic category of moral expressions pressuring corporations, Donaldson and Dunfee distinguish "cross-country ethical conflicts" in those generating within: Conflicts of Relative Development or within Conflict of Cultural Tradition.<sup>12</sup>

### ***Conflict of Relative Development***

From a business-oriented perspective, Conflicts of Relative Development are those conflicts dealing with differences between host countries legal standards and corporations standards. On the one hand differences in the level of economic development acquired by a nation state can be real, due to lower development of public institutions or legal frameworks. On the other hand, some less developed countries' governments favor the investments of corporations in their territories in order to boost the economy and infrastructures. Hence some less developed countries, in order to attract foreign investments and capitals, voluntarily keep wage rates, working hours and health standards low and not in conformity with major international regulations such as ILO Conventions and Recommendations and OECD Guidelines for Multinational Enterprises. As a consequence local communities are routinely exposed to an array of health, social and ecological dangers. An example of a conflict of relative development between countries' legal systems which has been given a flexible solution is that of a drug for the treatment of serious viral infections, including measles. The drug has been

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<sup>11</sup> T. W. Dunfee, N. E. Bowie, *Confronting Morality in Markets*, Journal of Business Ethics 38(4), July 2002, Pp381-393



rejected by the U.S market on the basis of a very sensitive new test for endotoxins<sup>13</sup> required by the U.S Food & Drug Administration (FDA), the American health agency. The new test was added to a previous test that has been the FDA standard for many years and showed a very low level of endotoxins in the drug. As endotoxins can cause a high fever when injected into patients, but possibly no other problems, this is a case in which a double standard exists. One for the U.S. where the drug was not admitted for sale and one for developing countries where more sensitive tests are not compulsory. As this drug can potentially save thousands of lives, especially among children and given the low risks of side effects, there was room for a flexible solution of the conflict of relative development and a limited sale of the drug to developing countries was allowed.

### ***Conflicts of Cultural Tradition***

Conflicts of cultural tradition occur when business-making processes within western corporations are confronted with well-established norms and behaviors strictly linked to local settings and most of the time unfamiliar to western staff in foreign settings. As a result norms and behaviors result acceptable in one setting, and unacceptable in another.

An example will make the point clearer. Let us take for instance a country such as Saudi Arabia where women, in the name of strongly held religious and cultural beliefs, are not allowed to serve as corporate managers, their role being strictly limited to education and health care. It is clear that this not a conflict falling under the umbrella of relative development, as any increase in the country's level of economic development, which is already quite high compared to other Muslim countries, won't change the norms,<sup>14</sup> as these norms are generated by different cultural and religious setting.

Cultural misunderstandings may be fatal as occurred when some consultants of a large U.S. computer-products company insisted on using exactly the same lessons on sexual harassment with Muslims managers, as that used with American

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<sup>12</sup> T. Donaldson , T.W. Dunfee, "*Values in Tension, Ethics Away from Home*", Harvard Business Review, p 121-129, Sep 1996

<sup>13</sup> Endotoxins, which occurred in the outer membrane of certain gram-negative bacteria, are not secreted but are released only when the cells are disrupted or destroyed. They are complex polysaccharide molecules that elicit an antigenic response resulting in fever and altered resistance to bacterial infections.

<sup>14</sup> T. Donaldson, W.T. Dunfee, *When Ethics Travel, the Promise and Peril of Global Business Ethics*, California Management Review, Vol 41, No.4. Summer 1999

employees in the United States. As a result of this narrow minded approach, Muslim managers felt offended by the training about sexual harassment in the workplace and the message about avoiding coercion and sexual discrimination was lost.<sup>15</sup>

Conflicts of cultural tradition are evident when companies fail to take into consideration the complexity of cultural issues, making a mockery of religious traditions. Let us consider what happened when McDonald's decided to enter the complexity of Indian business landscape, counting only on its "*fast food global formula*", without any apparent previous cultural training.

Things complicated when in 2001 rumors about McDonald's cooking French fries in beef fat quickly spread all over the country. As almost one billion of the Indian Hindu population worship cows as holy creatures, the problem was not an easy one to handle. McDonald's denied any charge and things became worse when McDonald's spokesmen replied to allegations arguing that they never meant to market themselves as vegetarian. McDonald's incurred the wrath of locals and "*restaurant windows were smashed, statues of Ronald McDonald smeared with cow dung*"<sup>16</sup>. The Indian affair risked undermining the company activity over an enormous market. As a result McDonald's started to slowly shift its approach from universalism to a self-conscious adaptation to local habits resulting in pure vegetarian menu (vegeburgers made of soybeans) and lamb hamburgers throughout the Indian subcontinent.

Another case is that of the athletic footwear company, Nike.

In summer 1997, Nike created a new line of shoes carrying a logo which was meant to look like flames as the shoes name were: Air Bakin', AirMelt, AirGrilland and Air B-que.<sup>17</sup>

The Council on American- Islamic relations (CAIR), a Washington-based Islamic advocacy group, felt deeply offended as, they said, the design resembled the word "Allah" in the Arabic script. The furious reaction of the Muslim world forced Nike to recall shoes from sensitive markets such as Saudi Arabia, Kuwait, Indonesia and Turkey and to rework them with the logo obliterated. Moreover,

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<sup>15</sup> *Ibidem* 8

<sup>16</sup> L. Goodtsein, "*For Hindus and Vegetarians, surprise in McDonald's fries*", New York Times, May 20, 2001

<sup>17</sup> The Indian Express "*Islamic ire over 'air' on logos of Nike shoes*" April 11, 1997

Nike agreed to sign an agreement with CAIR apologized to Muslims, obtaining in exchange declarations urging Muslims not to boycott Nike products worldwide.<sup>18</sup>

### **From conflicts to dilemmas**

When two or more practices conflict in the perception of the decision maker and no clear right or wrong seems to dominate a plausible solution, that is the moment when cross-country ethical conflicts turn into dilemmas. While cross-country ethical conflicts seem to exist at a more superficial level, cross-country ethical dilemmas include practices categorized as ethical in one setting and unethical in another. The western decision-maker is thus driven into a sort of moral quagmire with no easy way out.

Here we provide a list, not to be considered exhaustive, of practices generating ethical dilemmas in doing business in foreign countries.

- Bribery and corruption
- Gift giving
- Violation of Human Rights
- Gender and racial discrimination
- Exploitation of child labor
- Contractual obligations
- Software piracy
- Nepotism
- Employee theft
- Insider trading
- Local safety and working standards
- Untested or harmful product selling
- Harm to natural resources
- False or misleading advertisement

Let us make some examples. Nepotism in Indian firms and the concept of business relations known as Guanxi typical of South East Asian markets are cross-cultural situations posing ethical interrogatives.

It is usual practice within successful Indian companies to offer their employees' children the chance to join the company once they have completed school. The habit is so deeply rooted in the Indian cultural context that companies tend to

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<sup>18</sup> The Cincinnati Enquirer "Nike recalls disputed logo", Jeff Harrington, June 25 1997

honor this commitment even when other applicants are more qualified than employee's children. In some Western countries this form of institutionalized nepotism would be branded as unacceptable, while in the Indian cultural context, with its catastrophic levels of unemployment and strong family linkages, privileging clan and family relationships is a legitimate practice.

On the other side Guanxi is a controversial research topic liable to produce cross-country ethical conflict for those coming from outside South East Asia.

Guanxi is a prevalent social custom in collectivist cultures like China and East Asian countries where the lack of governmental control and of coherent business law is remarkable. According to related literature, the term Guanxi refers to “*tight, close knit networks*”<sup>19</sup> and “*interpersonal connections*”<sup>20</sup>, and to the networks of informal relationships and exchanges of favors that dominate business activity in such contexts. In practical terms, in China “Guanxi base” entails either an ascribed blood relationship or social interconnections achieved through going to the same school or living in the same neighborhood. As Guanxi base is insufficient to establish strong links, individuals must work over time to maintain relationships through invitations to visit one's home, place of business or entertainments or through gifts.

No surprise then if many foreigners find themselves trapped with this ancient and unknown practice and often make the easy identification of gifts with bribes and see Guanxi as the Chinese word for corruption.

Though the practice is not limited to China as the words *blat*<sup>21</sup> and *bakshish*<sup>22</sup> identify more or less the same thing in certain countries or areas of the world, posing challenges to western companies contemplating doing business there.

### **Great Expectations**

As I pointed out earlier, expatriate staff and home based staff with responsibilities for foreign operations of corporations are the most exposed to increasing problems due to differences in local business practices. As these kinds of problems generally do not arise in domestic business, businesspeople are not adequately equipped to deal with such circumstances. According to a study

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<sup>19</sup> I.Y.M Yeung, R. L Tung, *Achieving Business Success in Confucian Societies: the Importance of Guanxi*, *Organisation Dynamics*, 25 (2) p54-66

<sup>20</sup> K. R Xin, J.L. Pearce, *Guanxi: Connections as Substitutes for Formal Institutional Support*, *Academy of Management Journal*, 39 P 1641-1658

<sup>21</sup> S. M. Puffer, D. J. McCarthy, *Business Ethics in a Transforming Economy: Applying the ISCT to Russia*, *Journal of International Economy*, 1997

<sup>22</sup> D. Izraeli, *Business Ethics in the Middle East*, 16(14): 1555-1560; *Journal of Business Ethics*, Oct 1997

conducted by Waters<sup>23</sup> on a range of managers, conflicts in ethical evaluation within business activities are confronted on a daily bases not only at the highest managerial levels, as the majority of ethically-charged situations are experienced at all levels and are everyday issues rather than the more dramatic and redundant episodes found in much of the literature.

It is clear that business people at all levels should acquire skills for approaching cross-cultural issues systematically. What businesspeople seem to lack most is a basic degree of “*context awareness*” which is likely to become a part of their core business competencies.

From conflict prone countries to complex societies, managers are expected to learn how to “*successfully manoeuvre the disturbing trends that lie at the intersections of different cultures*”<sup>24</sup> thus being able to make decisions in a climate of ethical assumptions and reasoning that differ from those in their home country.

### **Traditional approaches in dealing with cross-country ethical dilemmas**

The task is complex and rarely these kind of skills are held by executives as part of their core business competencies.

In fact Relativism and Universalism have been the competitive approaches traditionally adopted by enterprises and business people in dealing with cross-cultural ethical dilemmas.

### **Relativism**

Cultural pluralism is an undeniable fact, especially in a globalized world where moral rules and social institutions evidence an astonishing cultural and historical variability. The doctrine of cultural relativism, supported among the others by Rosen<sup>25</sup> and B.F. Skinner<sup>26</sup>, thus holds that no culture’s ethics are better than any other’s; therefore according to relativism there are no rights and wrongs but only

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<sup>23</sup> J. Waters , F. B. Bird and P. D. Chant, *Everyday Moral Issues Experienced by Managers*, Journal of Business Ethics, 5(5), 373-384, 1986

<sup>24</sup> T. Donaldson, T.W. Dunfee, *Ties that Bind: a Social Contracts Approach to Business Ethics*, Cambridge Harvard Business School Press, 1999

<sup>25</sup> H. Rosen. *The Development of Socio-Moral Knowledge*, Columbia University Press, New York, 1980

<sup>26</sup> B.F. Skinner, *Beyond Freedom and Dignity*, Knopf, New York, 1971

relative opinions. According to this formula, Relativism developed into two different paradigms.

In the most extreme form of “*Radical Cultural Relativism*” culture is considered as the principal source of the validity of a moral right or rule inextricably linked to local settings and situations. In this perspective only a few basic rights with virtually universal application are accepted, and a wide range of variations for most rights are justified. As is clear that the true relativist must accept slavery, human sacrifice, female mutilation or any other practice that represents a genuine norm within a social group, very few modern philosophers support the strongest form of relativism. We thus agree with Thomas Donaldson who argues that “*cultural relativism offers no persuasive reason for seeing the international realm as a moral free-for-all in which anything goes*”.<sup>27</sup>

On the other hand “*Weak Cultural Relativism*” holds that culture may be an important source of the validity of a moral right or rule, but not the only one.

In this case universality is initially presumed, but the relativity of human nature, communities, and rights serves as a check on potential excesses of universalism. At its furthest extreme, weak cultural relativism would recognize a comprehensive set of prima facie universal human rights, but allow occasional and strictly limited local variations and exceptions to them.

### **Universalism**

The counterpoint to relativism is universalism, consisting of simply ignoring differences and in maintaining one’s own norms in different societies and cultures. According to universalism, people should behave everywhere exactly as they do at home in name of universal principles that transcending local customs and practice. Fundamental human values such as life, liberty, and physical well-being, constitute the basis of such an approach. Under this “photocopy approach” there is only one list of truths and they can be expressed only in one acceptable and right way. Society as a whole can be considered immoral if its generally accepted practices violate such universal norms. Exceptions exist within the universalistic framework as universal norms can identify with national values, thus hiding seeds of Nationalism or adopt corporate oriented approaches typical of Imperialist model of enterprises applying their own internal corporate ethical values. Lying between the two, is the Compromise model in which enterprises

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<sup>27</sup> T. Donaldson (1989.), *The Ethics of International Business*, New York, Oxford University press p.19

sometimes do it their own way and some other times accommodate the differences, depending on different situations.

### **Good intentions, bad results**

If the pros and cons of these approaches are carefully considered, neither of the two solutions is ethically acceptable as the solution offered by both paradigms are not as socially and environmentally responsible as most corporations would like them to be. The danger lies in unintended consequences spreading from both the approaches and often due to a low level of local knowledge.

Problems related to the Relativistic approach are evident when dealing with the current debate about the propriety of paying bribes in foreign markets, the evidence of existing lower standards for plant safety overseas or the opportunistic use of child labor in developing economies.

Relativists who defend such actions argue that local customs considers it mandatory that international enterprises follow local rules, habits, and norms according to the motto: *“When in Rome, one must do what Romans do”*. This assertion appear to be so tempting for enterprises that everything seems to be acceptable in the name of an imaginary self-adaptation to differences. Moreover when failing to do as the locals would do means forfeiting business opportunities and losing important networks, evidence is given for a pro-active relativistic choice with a hidden economic purpose.

Such a view is ultimately based on what had happened when the practices in question were more damaging than petty bribery or insider trading. The Bophal tragedy vividly illustrates the point showing what happens when the life of thousands of people is at stake in countries where local governments offer lower safety standards and regulations as a way to attract foreign investments and western investors simply adapt to the situation. The Bhopal tragedy, apart from being rightly considered the greatest industrial disaster in history, holds a meaningful component of corporate mismanagement in its roots. Union Carbide, an American owned corporation, was licensed to manufacture a pesticide called Sevin in an overcrowded working class neighborhood in Bhopal, Madhya Pradesh, India between 1977 and 1984. In December 1984, during the early hours of the morning a poisonous gas, used in producing the pesticide, leaked from one of the plants into the surrounding areas. At least 3000 people died as a result of

the accident, while figures of people injured currently range from 200,000 to 600,000.<sup>28</sup> The official inquiry revealed that the plant was built with inferior controls to avoid accidental chemical releases and that it was due to the lower Indian legal and norms standards. Further inquiries revealed that safety standards and maintenance procedures at the plant had been deteriorating and ignored for months by the Indian staff, having far less experience and training than would be expected and required in the US. Furthermore American supervision didn't compensate Indian inexperience and negligence and this resulted in a lack of enforcement of safety measures. The complete absence of community information and emergency procedures, as the emergency sirens had been switched off, did the rest. Bophal is a case in which the blindness of the relativistic approach appears to be clear, in terms of silent acceptance of every local custom as the right conduct. Bophal is a well-known tragedy but not the only one as other less famous episodes attest to the negative effects of double standards implemented by western corporations in less developed countries as the case of German TNC Bayer's Chromate production factory in South Africa shows.

In 1976, a South African government report noted health problems in nearly half the plant employees, which indicated a lack of concern regarding the physical welfare of workers. As chromate is a corrosive compound causing respiratory illness and in the long run lung cancer, its production should follow strict healthy and safety provisions. Things went on without any external regulatory intervention and in the '90's South African trade unions learned that several workers had developed lung cancer without even being informed that their disease might have been related to their employment. As a result Chrome Chemicals management refused to review the plant's industrial hygiene records and in 1991 the firm was forced to shut down, dismissing most of its workers without lung cancer being added to compensable occupational disease.

In Germany, Bayer could not get away with this as early as 1936 lung cancer was considered a compensable occupational disease for chromate workers.<sup>29</sup>

Another typical problem generally related to the relativistic approach, is that embracing such position without any previous training, results in acting out an unfamiliar role, which will be easily perceived by the adversary and result in mistrust.

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<sup>28</sup> <http://www.corrosion-doctors.org/Modules/mod-environ.htm>



The Universalistic approach on the other hand consists of an absolutist denial of national and sub-national ethical autonomy and self-determination that is neither acceptable nor realistic. As a matter of fact failing to take sufficient account of the complexity of the local context results in enterprises imposing a simplistic “*one-fit-for-all-approach*” on the pretence of doing good. This “*doing harm by doing good*” paradigm reveals itself to be of questionable value and feasibility and most of the time paves the way to socially irresponsible practices (rather than responsible). The Reebok case is just one of the several examples that demonstrate that what is internationally advocated is not always what is locally desired.

The famous sportswear supplier, fearing the loss of western markets due to anti sweatshop protesters, recently started a good corporate governance campaign. The aim of the campaign was the withdrawal of business from subcontracted factories accused of making employees work more than the International standards allowed. Previous inquiries had revealed that workers in a factory in Thailand used to work more than 72 hours a week<sup>30</sup>. Protesters appeared to be winning the battle of public opinion and the factory was closed. As a result thousands of people lost their well-paid jobs and were forced into less paid and more hazardous activities. The unintended consequences of western compassion were worse than the current situation as the Indian economist Pranab Bardhan reveals:

*“While transnational companies may have deeper pockets and larger political clout vis-à-vis the poor unskilled laborers of a country, there is little evidence that the latter get lower wages and fewer jobs in the presence of those companies, compared to what they will get in their absence. Contrary to the impression created by the campaign in affluent countries against sweatshops run by transnational companies in poor countries, it can be pointed out that the poor people are often banging at the gates of these sweatshops for a chance of entry, since their current alternative is much worse, in inferior occupations or work conditions or unemployment”*<sup>31</sup>

In the Thailand case, sweatshop protesters and Reebok decision-makers were unaware of the fact that salaries in Reebok subcontracted factories were well

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<sup>29</sup> B. Castleman, “*The migration of Industrial Hazards*”, Third World Resurgence, August 1995

<sup>30</sup> The Economist, “*Ethically Unemployed*”, November 30<sup>th</sup> 2002 p 59

<sup>31</sup> P. Bardhan, *Globalisation and the Limits to Poverty Alleviation*, University of California Berkley, March 2003

above average wage compared to the prevailing market retribution for similar jobs in Thailand. Moreover, the conditions offered by the factory were no worse than the general alternatives existing in Thailand and represented the only alternative poor people had to achieve better conditions of life and to escape violence (for women) or hazardous work such as subsistence farming, domestic service, casual manual labor or prostitution.

Moreover a lack of understanding of the Southeast Asian social structure was evident. In countries where governments don't provide social security, life is structured essentially around the building block of the family<sup>32</sup>. Extended families are made up of many people and build a sort of "social safety net" around their working members thus allowing a longer work day, thus violating international codes.

The lesson which should be drawn from this episode, is that rather than dismissing workers, corporations should invest resources in enhancing the functions of family social safety nets. A whole new framework of action is thus needed to avoid unintended consequences of western compassion and to provide culturally sensitive solutions.

### **Beyond Universalism and Relativism**

After having examined solutions provided by cultural paradigms in dealing with cross-country dilemmas, let us look at the role played by law in dealing with such issues.

Many of the ethical issues previously described have received adequate regulation through a myriad of legal initiatives which have a global constituency but are not legally binding. A fundamental role was played by international organizations that provided legal regulations for doing business in foreign countries, such as the OECD (Organization for Economic Development and Cooperation) "*Guidelines for Multinational Enterprises*" or the International Labor Organization "*Declaration of Principles concerning Multinational Enterprises and Social Policy*" (1977). Moreover ILO's Declarations and Recommendations of policy regulate almost every aspect of international business.

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<sup>32</sup> U. Wikkan, *Sustainable Development in the Mega-City*, Current Anthropology n. 4, 1995

Latest intervention was the United Nations Sub-commission on the Promotion and Protection on Human Rights' draft of comprehensive "*Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises*" Presented in august 2003 and likely to go to the Human Rights Commission for consideration in March 2004.

Despite the importance of these codification initiatives, their value is only nominal as countries and governments that have formally ratified them as a part of their national law don't necessarily reach the implementation phase and are not forced to. Although it is undeniable that legal compliance should be regarded as a moral minimum in terms of providing guidance to international business, the law alone may not provide enough answers, especially when dealing with more complex issues. Moreover it's undeniable that international regulatory efforts reflect a mainly western perspective (this is partially balanced by ILO Conventions which have been developed in multilateral setting<sup>33</sup>) rather than a global one, leaving the gray area of cross-country ethical dilemmas unregulated.

When the law alone seems not able to provide valuable solutions, a trip beyond law can be a thoughtful experience.

What's beyond law? Not the uncharted territory, imagined by early jurists,<sup>34</sup> but rather what in Durkheim's words lies at the bottom of every society:

*"Dans chaque société particulière, à chaque moment de l'histoire, il existe des valeurs admises et partagées, même sous une forme diffuse. Il existe une conscience commune, une conscience collective des valeurs, qui sert de régulateur des désirs et des besoins, les encadre, les oriente, leur donne un sens social".*<sup>35</sup>

The world beyond law responds to Moral Obligations rather than to legal regulations. To be clear, the corporate world doesn't allow the selling of children not only because national and international legislation punishes it, but also in the name of deeper Moral obligations that everybody is expected to feel and accomplish.

For what concerns enterprises, going beyond law means taking the inner moral obligations they embody as an active framework of action.

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<sup>33</sup> M.McIntosh, D. Leipziger, G. Coleman, *Analysis: International Standards for Corporate Responsibility*, 30 January 2003, Ec Newsdesk

<sup>34</sup> N. Rouland, *Antropologia Giuridica*, Giuffrè Editore 1992

<sup>35</sup> E. Durkheim, *La Division du Travail Social*, 1893 Excerpt from Alun Jones , Emile Durkheim: An Introduction to four major Works, Beverly Hills, CA, Sage Publications 1986

Let us shed some light on the philosophical concepts of Moral and Ethics.

According to the Kantian perspective, Moral revolves around individual beliefs resulting from personal background. As enterprises are made up of individuals each one bringing his or her moral values, moral divide between individuals not only exists, but should remain so.

The value of individuality is put severely in crises when general decisions concerning the company should be taken. When personal moral values are in accordance with corporate norms, there is little difficulty.

On the contrary when one's personal moral values conflict with current corporate policies, moral divide is likely to be bridged in order to form a unique set of ethical principles, embedded in the company corporate policy, shared by the rest of the corporation, aiming at the same goals and sensitive to local habits. In this view Ethics, stands for the "*joining of moral values commonly shared in the aim of attaining mutual goals*".<sup>36</sup>

### **Conclusions, a new theoretical framework**

What are the links between business ethics (BE) and social and environmental responsibility of corporations (CSR)?

Even if they are usually presented as separate fields, they belong to the same framework of action. It can be reasonably asserted that while the primary goal of business ethics programs is to prevent harm, the objective of Corporate Social Responsibility initiatives is to do good. No wonder then if the two are as linked as two sides of the same coin.

According to what I pointed out earlier, it is clear that a deep understanding of the social, political and religious context of in which a business is operating is a skill every manager in charge of foreign business should hold. The final goal will be to acquire the capacity, albeit temporarily to assume a sensibility and a mind-set consonant with the scenario one is acting in, thus overstepping local ethical boundaries. Learning to manage ethical diversity thus means in turning differences into strengths with important achievements for corporations and positive improvements for local communities. That's why it is extremely important to learn to

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<sup>36</sup> G. Sapelli, *Responsabilità oltre la legge*, Equilibri, rivista per lo sviluppo sostenibile, 2/2002, il Mulino, Fondazione Enrico Mattei

consider cultural diversity as a resource for fostering business rather than an obstacle to it.

If the goal for corporations acting on the global scene is to act ethically as social responsible entities, our opinion is that personal knowledge of cross-country issues on the part of managers and staff of corporations is necessary, but not sufficient, and should be joined by a whole new paradigm of Corporate Social Responsibility to be developed within corporations.

Under this new view, CSR, should lose its monolithic appearance and stop being considered as a marble tool corporation hold, able to succeed in its social and environmental aims through a “*one size fits all*” paradigm. Only through flexibility in both the theoretical approach and the practice, CSR will be able to penetrate and adapt to the cultural, religious, political scenarios the global world poses.

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- (lix) This paper was presented at the ENGIME Workshop on “Mapping Diversity”, Leuven, May 16-17, 2002
- (lx) This paper was presented at the EuroConference on “Auctions and Market Design: Theory, Evidence and Applications”, organised by the Fondazione Eni Enrico Mattei, Milan, September 26-28, 2002
- (lxi) This paper was presented at the Eighth Meeting of the Coalition Theory Network organised by the GREQAM, Aix-en-Provence, France, January 24-25, 2003
- (lxii) This paper was presented at the ENGIME Workshop on “Communication across Cultures in Multicultural Cities”, The Hague, November 7-8, 2002
- (lxiii) This paper was presented at the ENGIME Workshop on “Social dynamics and conflicts in multicultural cities”, Milan, March 20-21, 2003
- (lxiv) This paper was presented at the International Conference on “Theoretical Topics in Ecological Economics”, organised by the Abdus Salam International Centre for Theoretical Physics - ICTP, the Beijer International Institute of Ecological Economics, and Fondazione Eni Enrico Mattei – FEEM Trieste, February 10-21, 2003
- (lxv) This paper was presented at the EuroConference on “Auctions and Market Design: Theory, Evidence and Applications” organised by Fondazione Eni Enrico Mattei and sponsored by the EU, Milan, September 25-27, 2003
- (lxvi) This paper has been presented at the 4th BioEcon Workshop on “Economic Analysis of Policies for Biodiversity Conservation” organised on behalf of the BIOECON Network by Fondazione Eni Enrico Mattei, Venice International University (VIU) and University College London (UCL), Venice, August 28-29, 2003
- (lxvii) This paper has been presented at the international conference on “Tourism and Sustainable Economic Development – Macro and Micro Economic Issues” jointly organised by CRENoS (Università di Cagliari e Sassari, Italy) and Fondazione Eni Enrico Mattei, and supported by the World Bank, Sardinia, September 19-20, 2003

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