

# Chapter 02: Business Ethics and Social Responsibility and Business in Global Environment

## 1. Business Ethics and Social Responsibility

### 1.1. What Is Ethics?

You probably already know what it means to be ethical<sup>1</sup>: to know right from wrong and to know when you're practicing one instead of the other. At the risk of oversimplifying, then, we can say that business ethics<sup>2</sup> is the application of ethical behavior in a business context. Acting ethically in business means more than simply obeying applicable laws and regulations: It also means being honest, doing no harm to others, competing fairly, and declining to put your own interests above those of your company, its owners, and its workers. If you're in business you obviously need a strong sense of what's right and what's wrong (not always an easy task). You need the personal conviction to do what's right, even if it means doing something that's difficult or personally disadvantageous.

### 1.2. What Is Social Responsibility?

Corporate social responsibility<sup>3</sup> deals with actions that affect a variety of parties in a company's environment. A socially responsible company shows concern for its stakeholders<sup>4</sup>—anyone who, like owners, employees, customers, and the communities in which it does business, has a “stake” or interest in it. We'll discuss corporate responsibility later in the chapter. At this point, we'll focus on ethics.

### 1.3. How Can You Recognize an Ethical Organization?

One goal of anyone engaged in business should be to foster ethical behavior in the organizational environment. How do we know when an organization is behaving ethically? Most lists of ethical organizational activities include the following criteria:

- Treating employees, customers, investors, and the public fairly
- Making fairness a top priority
- Holding every member personally accountable for his or her action
- Communicating core values and principles to all members
- Demanding and rewarding integrity from all members in all situations

Whether you work for a business or for a nonprofit organization, you probably have a sense of whether your employer is ethical or unethical. Employees at companies that consistently make Business Ethics magazine's list of the “100 Best Corporate Citizens” regard the items on the above list as business as usual in the workplace. Companies that routinely win good-citizenship awards include Procter & Gamble, Intel, Avon Products, Herman Miller, Timberland, Cisco Systems, Southwest Airlines, AT&T,

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<sup>1</sup> Ability and willingness to distinguish right from wrong and when you're practicing one or the other.

<sup>2</sup> Application of ethical behavior in a business context.

<sup>3</sup> Approach that an organization takes in balancing its responsibilities toward different stakeholders when making legal, economic, ethical, and social decisions

<sup>4</sup> Parties who are interested in the activities of a business because they're affected by them.

Starbucks Coffee, Merck, and Medtronic. (Interestingly, their employees not only see their own firms as ethical, but also tend to enjoy working for them.)

By contrast, employees with the following attitudes tend to suspect that their employers aren't as ethical as they should be:

- They consistently feel uneasy about the work they do.
- They object to the way they're treated.
- They're uncomfortable about the way coworkers are treated
- They question the appropriateness of management directives and policies.

## **2. Business in Global Environment**

We wear Nike shoes or Timberland boots. We eat from McDonald's, Domino's or drink Coca Cola or Pepsi, We listen to Jennifer Lopez, Rihanna or Korean groups. So we are global business customer for all kind of industries. Both Nike and Timberland manufacture most of their products overseas. Music companies bring international stars to our phones, computers, or Domino's deliver food for our taste (Turkish sauces, no pork etc.)

The globalization of business is bound to affect you. Not only will you buy products manufactured overseas, but it's highly likely that you'll meet and work with individuals from various countries and cultures as customers, suppliers, colleagues, employees, or employers. The bottom line is that the globalization of world commerce has an impact on all of us. Therefore, it makes sense to learn more about how globalization works.

Never before has business spanned the globe the way it does today. But why is international business important? Why do companies and nations engage in international trade? What strategies do they employ in the global marketplace? What challenges do companies face when they do business overseas? How do governments and international agencies promote and regulate international trade? Is the globalization of business a good thing? What career opportunities are there for you in global business? How should you prepare yourself to take advantage of them? These are the questions that we'll be addressing in this chapter. Let's start by looking at the more specific reasons why companies and nations engage in international trade.

### **Why Do Nations Trade?**

Why does the United States import automobiles, steel, digital phones, and apparel from other countries? Why don't we just make them ourselves? Why do other countries buy wheat, chemicals, machinery, and consulting services from us? Because no national economy produces all the goods and services that its people need. Countries are importers when they buy goods and services from other countries; when they sell products to other nations, they're exporters. The monetary value of international trade is enormous. In 2017, the total value of worldwide trade in merchandise and commercial services was \$26.3 trillion.

#### **2.1. Opportunities in International Business**

The fact that nations exchange billions of dollars in goods and services each year demonstrates that international trade makes good economic sense. For an American company wishing to expand beyond national borders, there are a variety of ways it can get involved in international business. Let's take a closer look at the more popular ones.

### ***Importing and Exporting***

Importing (buying products overseas and reselling them in one's own country) and exporting (selling domestic products to foreign customers) are the oldest and most prevalent forms of international trade. For many companies, importing is the primary link to the global market. American food and beverage wholesalers, for instance, import the bottled water Evian from its source in the French Alps for resale in U.S. supermarkets.

Other companies get into the global arena by identifying an international market for their products and become exporters. The Chinese, for instance, are increasingly fond of fast foods cooked in soybean oil. Because they also have an increasing appetite for meat, they need high-protein soybeans to raise livestock.

As a result, American farmers now export over \$2 billion worth of soybeans to China every year.

### ***Licensing and Franchising***

A company that wants to get into an international market quickly while taking only limited financial and legal risks might consider licensing agreements with foreign companies. An international licensing agreement allows a foreign company (the licensee) to sell the products of a producer (the licensor) or to use its intellectual property (such as patents, trademarks, copyrights) in exchange for royalty fees.

Here's how it works: You own a company in the United States that sells coffee flavored popcorn. You're sure that your product would be a big hit in Japan, but you don't have the resources to set up a factory or sales office in that country. You can't make the popcorn here and ship it to Japan because it would get stale. So you enter into a licensing agreement with a Japanese company that allows your licensee to manufacture coffee-flavored popcorn using your special process and to sell it in Japan under your brand name. In exchange, the Japanese licensee would pay you a royalty fee.

Another popular way to expand overseas is to sell franchises. Under an international franchise agreement, a company (the franchiser) grants a foreign company (the franchisee) the right to use its brand name and to sell its products or services. The franchisee is responsible for all operations but agrees to operate according to a business model established by the franchiser. In turn, the franchiser usually provides advertising, training, and new-product assistance. Franchising is a natural form of global expansion for companies that operate domestically according to a franchise model, including restaurant chains, such as McDonald's and Kentucky Fried Chicken, and hotel chains, such as Holiday Inn and Best Western.

### ***Contract Manufacturing and Outsourcing***

Because of high domestic labor costs, many U.S. companies manufacture their products in countries where labor costs are lower. This arrangement is called international contract manufacturing or outsourcing. A U.S. company might contract with a local company in a foreign country to manufacture one of its products. It will, however, retain control of product design and development and put its own

label on the finished product. Contract manufacturing is quite common in the U.S. apparel business, with most American brands being made in Asia (China and Malaysia) and Latin America (Mexico and the Dominican Republic).

Thanks to twenty-first-century information technology, nonmanufacturing functions can also be outsourced to nations with lower labor costs. U.S. companies increasingly draw on a vast supply of relatively inexpensive skilled labor to perform various business services, such as software development, accounting, and claims processing. For years, American insurance companies have processed much of their claims-related paperwork in Ireland. With a large, well-educated population, India has become a center for software development and customer-call centers for American companies.

### ***Strategic Alliances and Joint Ventures***

What if a company wants to do business in a foreign country but lacks the expertise or resources? Or what if the target nation's government doesn't allow foreign companies to operate within its borders unless it has a local partner? In these cases, a firm might enter into a strategic alliance with a local company or even with the government itself. A strategic alliance is an agreement between two companies (or a company and a nation) to pool resources in order to achieve business goals that benefit both partners. For example, Viacom (a leading global media company) has a strategic alliance with Beijing Television to produce Chinese-language music and entertainment programming.

### **Multinational Corporations**

A company that operates in many countries is called a multinational corporation (MNC). Fortune magazine's roster of the top five hundred MNCs speaks for the strong global position of U.S. business: almost 40 percent are headquartered in the United States, and these U.S. companies: Wal-Mart, Exxon Mobil, General Motors, Ford, Apple, Google, Oracle, and General Electric and etc.

### **The Cultural Environment**

Even when two people from the same country communicate, there's always a possibility of misunderstanding. When people from different countries get together, that possibility increases substantially. Differences in communication styles reflect differences in culture<sup>18</sup>: the system of shared beliefs, values, customs, and behaviors that govern the interactions of members of a society. Cultural differences create challenges to successful international business dealings. We explain a few of these challenges in the following sections.

### **Language**

English is the international language of business. The natives of such European countries as France and Spain certainly take pride in their own languages and cultures, but nevertheless English is the business language of the European Community. Whereas only a few educated Europeans have studied Italian or Norwegian, most have studied English. Similarly, on the South Asian subcontinent, where hundreds of local languages and dialects are spoken, English is the official language. In most corners

of the world, English-only speakers—such as most Americans—have no problem finding competent translators and interpreters.

In many countries, only members of the educated classes speak English. The larger population—which is usually the market you want to tap—speaks the local tongue. Advertising messages and sales appeals must take this fact into account. More than one English translation of an advertising slogan has resulted in a humorous (and perhaps serious) blunder.

In Belgium, the translation of the slogan of an American auto-body company, “Body by Fisher,” came out as “Corpse by Fisher.”

- *Translated into German, the slogan “Come Alive with Pepsi” became “Come out of the Grave with Pepsi.”*
- *A U.S. computer company in Indonesia translated “software” as “underwear.”*
- *A German chocolate product called “Zit” didn’t sell well in the United States.*
- *A proposed new soap called “Dainty” in English came out as “aloof” in Flemish (Belgium), “dimwitted” in Farsi (Iran), and “crazy person” in Korea; the product was shelved.*
- *One false word in a Mexican commercial for an American shirt maker changed “When I used this shirt, I felt good” to “Until I used this shirt, I felt good.”*
- *In the 1970s, GM’s Chevy Nova didn’t get on the road in Puerto Rico, in part because Nova in Spanish means “It doesn’t go.”*
- *A U.S. appliance ad fizzled in the Middle East because it showed a well-stocked refrigerator featuring a large ham, thus offending the sensibilities of Muslim consumers, who don’t eat pork.*

## **The Economic Environment**

If you plan to do business in a foreign country, you need to know its level of economic development. You also should be aware of factors influencing the value of its currency and the impact that changes in that value will have on your profits.

### ***Economic Development***

If you don’t understand a nation’s level of economic development, you’ll have trouble answering some basic questions, such as, Will consumers in this country be able to afford the product I want to sell? How many units can I expect to sell? Will it be possible to make a reasonable profit? A country’s level of economic development is related to its standard of living, which can be evaluated using an economic indicator called gross national income (GNI) per capita. To calculate GNI per capita, we divide the value of all goods and services produced in a country (its GNI) by its average population, to arrive at an estimate of each citizen’s share of national income.

## **The Legal and Regulatory Environment**

One of the more difficult aspects of doing business globally is dealing with vast differences in legal and regulatory environments. The United States, for example, has an established set of laws and regulations that provide direction to businesses operating within its borders. But because there is no global legal system, key areas of business law—for example, contract provisions and copyright protection—can be treated in different ways in different countries. Companies doing international business often face many inconsistent laws and regulations. To navigate this sea of confusion,

American businesspeople must know and follow both U.S. laws and regulations and those of nations in which they operate.

The annals of business history are filled with stories about American companies that have stumbled in trying to comply with foreign laws and regulations. Coca Cola, for example, ran afoul of Italian law when it printed its ingredients list on the bottle cap rather than on the bottle itself. Italian courts ruled that the labeling was inadequate because most people throw the cap away. In another case, 3M applied to the Japanese government to create a joint venture with the Sumitomo Industrial Group to make and distribute magnetic tape products in Japan. 3M spent four years trying to satisfy Japan’s complex regulations, but by the time it got approval, domestic competitors, including Sony, had captured the market. By delaying 3M, Japanese regulators managed, in effect, to stifle foreign competition.

### Foreign Corrupt Practices Act

One U.S. law that creates unique challenges for American firms operating overseas is the Foreign Corrupt Practices Act (FCPA), which prohibits the distribution of bribes and other favors in the conduct of business. Unfortunately, though they’re illegal in this country, such tactics as kickbacks and bribes are business-as-usual in many nations. According to some experts, American businesspeople are at a competitive disadvantage if they’re prohibited from giving bribes or undercover payments to foreign officials or businesspeople who expect them; it’s like asking for good service in a restaurant when the waiter knows you won’t be giving a tip.

In theory, because the FPCA warns foreigners that Americans can’t give bribes, they’ll eventually stop expecting them. Where are American businesspeople most likely and least likely to encounter bribe requests and related forms of corruption? Transparency International, an independent German-based organization, annually rates nations according to “perceived corruption,” which it defines as “the abuse of public office for private gain.”

*Table 1 Corruptibility Around the World (A score of 10 means that a country is squeaky clean. Anything under 3 means that corruption is rampant.)*

Rank	Country	CPI Score
1	Finland	9.7
2	New Zealand	9.6
3	Denmark	9.5
4	Iceland	9.5
5	Singapore	9.3
6	Sweden	9.2
7	Switzerland	9.1
8	Norway	8.9
9	Austria	8.8
10	Netherlands	8.7
17	Belgium	7.5
	Ireland	7.5

	United States	7.5
133	Congo, Democratic Republic	2.0
	Côte d'Ivoire	2.0
	Georgia	2.0
	Indonesia	2.0
	Tajikistan	2.0
	Turkmenistan	2.0
140	Azerbaijan	1.9
	Paraguay	1.9
142	Chad	1.7
	Myanmar	1.7
144	Nigeria	1.6
145	Bangladesh	1.5
	Haiti	1.5

## Preparing for a Career in International Business

### *Plan Your Undergraduate Education*

Many colleges and universities offer strong majors in international business, and this course of study can be good preparation for a global career. In planning your education, remember the following:

- Develop real expertise in one of the basic areas of business. Most companies will hire you as much for your skill and knowledge in accounting, finance, information systems, marketing, or management as for your background in the study of international business. Take courses in both areas.
- Develop your knowledge of international politics, economics, and culture. Take liberal arts courses that focus on parts of the world that especially interest you. Courses in history, government, and the social sciences offer a wealth of knowledge about other nations and cultures that's relevant to success in international business.
- Develop foreign-language skills. If you studied a language in high school, keep up with it. Improve your reading or conversational skills. Or start a new language in college. Recall that your competition in the global marketplace is not just other Americans, but also individuals from countries, such as Belgium, where everyone's fluent in at least two (and usually three) languages. Lack of foreign-language skills often proves to be a disadvantage for many Americans in international business.

### *Get Some Direct Experience*

Take advantage of study-abroad opportunities, whether offered on your campus or by another college. There are literally hundreds of such opportunities, and your interest in international business will be received much more seriously if you've spent some time abroad. (As a bonus, you'll probably find it an enjoyable, horizon expanding experience, as well.)

### *Interact with People from Other Cultures*

Finally, whenever you can, learn about the habits and traits of other cultures, and practice interacting with the people to whom they belong. Go to the trouble to meet international students on your

campus and get to know them. Learn about their cultures and values, and tell them about yours. You may initially be uncomfortable or confused in such intercultural exchanges, but you'll find them great learning experiences. By picking up on the details, you'll avoid embarrassing mistakes later and even earn the approval of acquaintances from abroad. Whether you're committed to a career in global business, curious about the international scene, or simply a consumer of worldwide products and services, you can't avoid the effects of globalization. Granted, the experience can be frustrating, maybe even troubling at times. More often, however, it's likely to be stimulating and full of opportunities.