

Ethical Corporate Culture and Guidelines for Ethical Leadership

Shafi Mohamad

Abstract—The ethical relativist's creed is "When in Rome do as the Roman do". For the ethical relativist nothing is sacred and nothing is wrong. At the opposite end of the spectrum is the creed of ethical imperialism which is anchored in the theory of absolutism and directs people to do everywhere exactly as they would do in their home country. How can companies which are doing bulk of their business offshore shape their ethical corporate culture so that they can train their overseas managers to distinguish between practices that are merely different from those that are wrong? This paper tries to identify guidelines for ethical leadership that can help corporations work through the maze of cultural differences and establish codes of conduct for globally ethical business practices.

Index Terms—ethical relativism, ethical corporate culture, ethical leadership

I. INTRODUCTION

Ethical Relativism is the philosophical viewpoint which holds that there are no absolute moral truths, only truths relative to the cultural context in which they exist. It follows therefore that what one society considers as being morally right, another society may consider being morally wrong; therefore, moral rights and wrongs are only relative to a particular society. The strength of ethical relativism as a philosophy is that it allows holding fast to a societies' moral intuitions without having to be judgmental about other societies that do not share those intuitions. If ethical relativism is rejected by these societies, they will face many difficulties. If societies are to be consistent about their moral beliefs then it seems that societies ought to condemn those past societies that have not conformed and perhaps even seek to impose their moral code on those present societies that have not already accepted it. However, ethical relativism allows societies to evade this difficulty. In ethical relativism, one moral code applies to only one society, so there is no pressure on that society to hold to others moral standards. By this token therefore, gender equality in the work-place which is seen as a moral imperative in contemporary American society may not be appropriate elsewhere around the globe. In an age where tolerance is increasingly being seen as the most important virtue of all, this can seem to be an attractive position to take. Besides that, the strength of ethical relativism is also its weakness whereby it excuses the societies from judging the moral status of other cultures.

Furthermore, when faced with a permissive western culture that deems same sex marriages morally acceptable, it seems to be appropriate to condemn that society as morally abhorrent. In order to make such judgments as these however, these societies need to be able to invoke an ethical standard that is not culturally relative. In order to make a cross-cultural moral comparison, these societies need a cross-cultural moral standard, which is precisely the kind of moral standard that ethical relativism claims does not exist. The ethical relativist's creed 'when in Rome do as the Romans do' is therefore tempting, especially when failing to do as the locals do means forfeiting business opportunities. The inadequacies of ethical relativism however become more apparent when the practices in question are more pernicious than petty bribery, insider trading or workplace gender discrimination. Donaldson (1996) cites the example of the failure of an American company to land the job of restoring an old luxurious ocean liner because U.S. health standards for asbestos removal made the cost of completing the job prohibitive resulting in the American company losing the job to an Ukrainian company which offered to do the same job at a fraction of the cost. Donaldson(1996) says that even if ethical relativists do not have a problem with such an outcome, it still constitutes an unethical business practice arguing that ethical relativism should not be morally blind since there are fundamental values such as universal health and safety standards that cross cultures, which companies must uphold regardless of which jurisdiction they operate in.

At the opposite end of the spectrum of ethical relativism is ethical imperialism, which directs people to do everywhere exactly as they do at home. The theory behind ethical imperialism is absolutism which is based on three problematic principles namely, that there is a single list of truths, that they can be expressed with one set of concepts, and that they call for exactly the same response around the globe. When cultures have different standards of ethical behavior and different ways of handling unethical behavior, a company that takes an absolutist approach may find itself making a disastrous mistake. For instance, in Japan people doing business together often exchange gifts, sometimes expensive ones, in keeping with long standing Japanese traditions. On the other hand, Western business people like the Americans and Europeans consider the practice of gift giving to be wrong because for them accepting a gift is akin to accepting a bribe resulting in their losing contracts unnecessarily. In distinguishing between practices that are merely different from those that are wrong, the company must provide training to help managers shape their ethical behavior. Thus neither extreme absolutism nor relativism

Accounting Research Institute, Universiti Teknologi Mara, Shah Alam, Malaysia (Corresponding author. Tel.: + 60355211714; fax: +60355444921, E-mail address: shafie@salam.uitm.edu.my).

helps to explain moral behavior in the real world of business decision making.

II. GUIDING PRINCIPLES

Therefore the company can help their overseas managers shape their ethical behavior by guiding them on the basis on three principles. The first principle is respect for core human values, which is the absolute moral threshold for all business activities. Research by Donaldson et al (1995) has shown that management ethics varies amongst cultures, respecting those differences means recognizing that some cultures have obvious weaknesses as well as hidden strengths. For example in Egypt, gifts can be given but should not consist of alcohol or items made of pigskin, which could be considered offensive in this predominantly Muslim country. Therefore, some research in selecting a gift may be necessary so as not to offend Egyptian sensibilities. Meanwhile, in other non-Muslim countries, it may be permissible to give such gifts. Managers in Hong Kong for instance have a higher tolerance for some forms of bribery than their Western counterparts, but they have a much lower tolerance for the failure to acknowledge a subordinate's work. The second principle is respect for local traditions. Many people erroneously equate respect for local traditions with cultural relativism when in fact some practices are clearly wrong by any measure. This can be explained by Union Carbide's tragic experience in Bhopal, India on December 2, 1984. The company's executives seriously underestimated how much on-side management involvement was needed at the Bhopal plant to compensate for the country's poor infrastructure and regulatory capabilities. In the aftermath of the disastrous gas leak, the lesson is clear: companies using sophisticated technology in a developing country must evaluate that country's ability to oversee its safe use. Since the tragic incident at Bhopal, Union Carbide has become a leader in advising companies on using hazardous technologies safely in developing countries. The last principle is that context matters when deciding what are right and what is wrong. Some activities are wrong no matter where they take place however others that are unethical in one setting may be acceptable in another. For instance, the chemical EDB, a soil fungicide, is banned for use in the United States. In hot climates, however, it quickly becomes harmless through exposure to intense solar radiation and high soil temperatures. As long as the chemical is monitored, company may be able to use EDB ethically in certain parts of the world. Donaldson (1989) talks about some hard truths that must guide managers' actions which he refers to as "core human values or hypernorms" which define the minimum ethical standards for all companies. According to Donaldson (1989), there are two core human values which are the right to good health and the right to economic advancement with an improved standard of living. Another hypernorm is what Westerners call the Golden Rule which is to maintain reciprocity or not to do to others what they do not want done to themselves which is recognizable in every major religious and ethical tradition around the world. Even though there are differences between Western and non-Western cultural and religious traditions, both express the same attitudes about what it means to be

human. First, individuals must not treat others simply as tools; in other words they must recognize a person's value as a human being. Next, individuals and communities must treat people in ways that respect people's basic rights. Finally, members of a community must work together to support and improve the institutions on which community depends. These three values are called respect for human dignity, respect for basic right and good citizenship. These values must be the starting point for all companies as they formulate and evaluate standards of ethical conduct at home and abroad. However, companies need much more specific guidelines and the first step to developing those is to translate the core human values into core values for business. Companies can respect human dignity by creating and sustaining a corporate culture in which customers and suppliers are treated not as means to an end but as people whose intrinsic value must be acknowledged and by producing safe products and services in a safe workplace. Furthermore, companies can respect basic rights by acting in ways that support and protect the individual rights of employees, customers and surrounding communities. In addition, company can also avoid relationships that violate human being's rights to health, education, safety and an adequate standard of living. Companies can be good citizens by supporting essential social institutions such as the economic system and the education system and by working with host governments and other organizations to protect the environment. These core values establish a moral compass for the company so that they can identify practices that are acceptable and those that are intolerable.

A. Ethical Corporate Culture

Whenever intolerable business situations arise, overseas managers should be guided by precise statements that spell out the behavior and operating practices that the company demands. In addition, codes of conduct must provide clear direction about appropriate ethical behavior when the temptation to behave unethically is strongest. The bland statement in a code of conduct that bribery is unacceptable is useless unless it is accompanied by specific guidelines for dealing with gift giving, payments to get goods through customs, and "requests" from intermediaries who are hired to ask for bribes. In the case of Motorola they had successfully provided clear directions about ethical behavior in their company. Motorola's values state very simply that they will always act with constant respect for people and with uncompromising integrity. With respect to bribery, their code states that the funds and assets of Motorola shall not be use either directly or indirectly for illegal payments of any kind. The term illegal payments are described clearly by the company and include the payment of bribes to a public official or the kickback of funds to an employee of a customer. In addition, the code also prescribes the appropriate action for all situations in which employees might have an opportunity to accept or offer bribes such as the specific procedures for handling commissions to intermediaries, issuing sales invoices and disclosing confidential information in a sales transaction.

Codes of conduct must be explicit to be useful, but they must also give a space for a manager to use his/her judgment in

situations requiring cultural sensitivity. Host-country employees should not be forced to adopt all home-country values and renounce their own. For example, employees may sometimes accept certain types of small gifts in rare circumstances, where the refusal to accept a gift would injure Motorola's legitimate business interests. Under certain circumstances, such gifts may be accepted so long as the gift inures to the benefit of Motorola and not to the benefit of the Motorola employee. A company's leader need to refer often to their organization's credo and code and must themselves being credible, committed and consistent in order to establish the codes of conduct that give balance between providing a clear direction and leaving room for individual judgment. Many business practices that are considered unethical in one setting may be ethical in another which is also known as moral free space or gray zone. For example some successful Indian companies offer employees the opportunity for one of their children to gain a job with the company once the child has completed a certain level in school. The companies honor this commitment even when other applicants are more qualified than an employee's child. However in most Western countries such a practice would be branded unacceptable nepotism. In the United States the ethical principle of equal opportunity holds that jobs should go to the applicants with the best qualifications. If U.S companies made similar promises to its employees, it would violate regulations established by the Equal Employment Opportunity Commission. Donaldson(1996) argues that for a country like India that puts a premium on family relationships and has very high levels of unemployment this practice be viewed in moral free space and be permitted at least for members of that country. Helping managers develop good ethical judgment requires companies to be clear about their core values and codes of conduct.

B. Guidelines for Ethical Leadership

There are some guidelines for ethical leadership. First, treat corporate values and formal standards of conduct as absolutes. Whatever ethical standards a company chooses, it cannot waver on its principles either at home or abroad. Donaldson(1996) notes how around 1950, a senior executive of Motorola who was negotiating with officials of a South American government on a ten million dollar sales transaction walked away from the deal at the final stages because the officials were asking for a fee of one million dollars. Motorola's CEO fully supported the decision made by his subordinate. Over the years this resolve by the then CEO has helped to cement a culture of ethics for thousands of Motorola employees. Secondly, design and implement conditions of engagement for suppliers and customers. For example Sears has developed a policy of not contracting production to companies that use prison labor or infringe on workers' rights to health and safety and BankAmerica has specified as a condition for many of its loans to developing countries that environmental standards and human rights must be observed. Thirdly, allow foreign business units to help formulate ethical standards and interpret local ethical issues. For example the French pharmaceutical company Rhone-Poulenc Rorer has allowed foreign subsidiaries to augment lists of corporate ethical principles with their own

suggestions. Similarly Texas Instruments has paid special attention to issues of international business ethics by creating the Global Business Practices Council, which is made up of managers from countries in which company operates. Ethical leadership can also be projected by supporting efforts to decrease institutional corruption in host countries. Companies can do so by participating in reforming host-country institutions. For example, General Electric has taken a strong stand in India by using the local media to make repeated condemnations of bribery in business and government. Finally exercise moral imagination, which means revolving ethical tensions responsibly and creatively. For instance, Levi Strauss discovered that two of its suppliers in Bangladesh were employing children under the age of 14. This practice was in violation of the company's principles but was tolerated in Bangladesh. Forcing the suppliers to fire the children would not have ensured that the children received an education and it would have caused serious hardship for the families depending on the children's wages. Therefore, in a creative arrangement the suppliers agreed to pay the children's regular wages while they attended school and to offer each child a job upon reaching the age of 14. Levi Strauss in turn agreed to pay the children's tuition and provides books and uniforms. The arrangement allowed Levi Strauss to uphold its principles and provide long term benefits to its host country. Without a company's commitment, statements of values and code of ethics end up as empty platitudes that provide managers with no foundation for behaving ethically. Therefore, employees need and deserve more and responsible members of the global business community can set examples for others to follow. The dark consequences of incidents such as Union Carbide's disaster in Bhopal remind us how high the stakes can be. Appreciating the fact that individuals from different cultural backgrounds have different cultural norms, practices and expectations is vital for success in international business. Although companies all around the world seem to be moving closer to common practices and appear to become more alike each day, differences in the way we think or act profoundly influence business interactions. People and companies may appear to have certain similarities superficially, but our upbringing, education and training in ways of conducting business, the basis for our judgments and behaviour, all vary not only from country to country, but also from region to region, from small company to large company, from one business sector to another. Previously when there was relatively limited contact, and contacts were confined to a small number of individuals, cultural awareness was the preserve of a few. In today's world of global communications and team empowerment, everyone needs some level of cultural awareness. Etiquette, manners, cross-cultural and intercultural communication have all become critical elements required of international and global business executives, managers, and employees. As international, multinational, transnational, multi-domestic, and global business continues to expand and bring people closer, the most important element of successful business outcomes may be the appreciation and respect for regional, country, and cultural differences, also known as cultural diversity. People

see the world through their own set of assumptions and attitudes, through their own "cultural prisms". For example, culture influences the way we deal with people and the way we solve problems. At the most fundamental level, each individual's interpretation of the world is different, depending upon the groups to which he or she belongs be it national, regional, local, professional, or family although we may share some interpretations in common with others. Culture can, for instance, be defined as a system of beliefs and values shared by a particular group of people. 'Culture' means that we and others will expect conformity to certain patterns of behavior as a consequence of the groups we are perceived to belong to. As culture influences every aspect of our lives, from the way we dress to the way we do business, we need to develop certain attitudes and skills to become successful global players, be it in our own country or abroad. These skills will enable us to interact both effectively and in a way that is acceptable to others when working in a group whose members have different cultural backgrounds. Companies operating overseas find that understanding and complying with variant laws, managing employees far from headquarters, serving customers and relating to suppliers and partners in multiple jurisdictions can introduce significant challenges to developing shared ethics in business and values. Having a defined set of companywide global business ethics is a key part of realizing a truly global culture.

III. CONCLUSION

Therefore we can state that overseas managers should realize that no matter where they go to conduct their business, the culture or practices in those other countries will often not be the same as what they are used to in their own country. Thus, it is necessary to be pragmatic and flexible when adapting to the culture or ways of doing business in other countries. Overseas managers can bring their own domestic work culture so long as it is not against the way the business in other countries is conducted. Furthermore, overseas managers should be more sensitive and avoid doing anything that is unethical even though it may be ethical in their own domestic jurisdictions. Thus overseas managers should be mindful about how business is conducted in other countries for example in Saudi Arabia, there is restriction against the free intermingling of sexes in the workplace, since such behavior is frowned upon because Saudi Arabia is an Islamic country. Hence companies conducting workshops on the avoidance of sexual harassment in the work place should be mindful of such taboos in Saudi Arabia. Therefore companies which are doing the bulk of their business offshore should help their overseas managers distinguish between practices that are merely different from those that are wrong. For the cultural relativists nothing is sacred and nothing is wrong. For the absolutists on the other hand, many things that are different are wrong. Neither extreme illuminates the real world of business decision making. The answer frequently lies somewhere in between. As is often said in matters of ethical business practices there is no black and white, there are only shades of grey.

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