When Ethics Travel:

The Promise and Peril of Global Business Ethics

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Global managers often must navigate the perplexing gray zone that arises when two cultures—and two sets of ethics—meet. Suppose:

> You are a manager of Ben & Jerry's in Russia. One day you discover that the most senior officer of your company's Russian joint venture has been "borrowing" equipment from the company and using it in his other business ventures. When you confront him, the Russian partner defends his actions. |After all, as a part owner of both companies, isn't he entitled to share in the equipment?[1]
>
> Or, competing for a bid in a foreign country, you are introduced to a "consultant" who offers to help you in your client contacts. A brief conversation makes it clear that this person is well connected in local government and business circles and knows your customer extremely well. The consultant will help you prepare and submit your bid and negotiate with the customer . . . for a substantial fee. Your peers tell you that such arrangements are normal in this country—and that a large part of the consulting fee will go directly to staff people working for your customer. Those who have rejected such help in the past have seen contracts go to their less-fussy competitors.[2]

What should you do in such cases? Should you straighten out your Russian partner? How should you deal with the problem of bribery? Bribery is just like tipping, some people say. Whether you tip for service at dinner or bribe for the benefit of getting goods through customs, you pay for a service rendered. But while many of us balk at a conclusion that puts bribery on a par with tipping, we have difficulty articulating why.

Most Western companies' codes of ethics never dreamed of cross-cultural challenges like these. How can managers successfully maneuver the disturbing gray zones that lie at the intersections of different cultures? Issues such as these have tended to bedazzle many modern multinational corporations. Companies are finding—and stumbling over—ethics issues abroad as never before. Corporate ethics and values programs are in vogue; and many companies are asking whether they should take their ethics and values programs global. But confusion abounds.

Some companies, recognizing cultural differences, simply accept whatever prevails in the host country. This is a mistake because it exposes the company (and its brand names) to corruption and public affairs disasters, and because it misses the opportunity to find the glue that cements morale and cooperative strategy. It neglects the important role for hypernorms.* It substitutes unmitigated relativism for good sense. Years ago, foreign companies operating in South Africa broke the South African apartheid law that required segregated washrooms for employees. Not to break that South African law, and to leave the washrooms segregated, would have been unethical. Consider a more recent example:

> The SS *United States*, arguably the most luxurious ocean liner during the 1950s, was loaded with asbestos and would have cost about $100 million to be refurbished for luxury cruising. In 1992 it was towed to Turkey, where the cost of removing the asbestos was only $2 million. Turkish officials refused to allow the removal because of the danger of cancer. In October 1993 it was towed to the Black Sea port of Sebastopol where laws are lax. It will have more than one-half million square feet of carcinogenic asbestos removed for even less than $2 million, and in the context we can predict that the safety standards will be even lower.[3]

Few would argue that exposing workers to hazardous asbestos is the ethically correct policy. A company must sometimes refuse to adopt host-country standards even when there is no law requiring it. Yet it is all too possible to make exactly the opposite mistake. Some companies attempt to export all home-country values to the host country. Wanting to duplicate successful ethics and values programs, these companies "photocopy" home-country ethics initiatives. Photocopying values is a mistake because it is disrespectful of other cultures. It neglects the important role of moral free space.

To create and succeed with a clear, consistent overseas policy, any company must face up to home-/host-country conflicts in ethics. It must develop responses and craft relevant policies. It must anticipate that sometimes the policies it discovers in other countries will appear to fall below its own standards. The Gordian knot of international business ethics is formed around the vexing question, how should a company behave when the standards followed in the host country are lower than those followed in the home country?

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* Hypernorms are principles so fundamental that, by definition, they serve to evaluate lower-order norms, reaching to the root of what is ethical for humanity. They represent norms by which all others are to be judged.

This article will show ways in which Integrative Social Contracts Theory (ISCT)** can provide a practical guide for corporations operating globally. In particular, it will demonstrate how cutting the Gordian knot of international business ethics means utilizing two key aspects of ISCT: hypernorms and microsocial contracts. First, it is important to make use of hypernorms, especially the structural hypernorm of necessary social efficiency.*** Second, many problems dissolve when relevant microsocial contracts are carefully identified and the proper priority is established among them. In order to illustrate the application of these and other concepts in ISCT, we will look once again at the issue of corruption. As we will see here, ISCT is capable of unraveling such problems, and it has obvious application to many other problems in international business, including those of intellectual property, host government relations, sourcing, and environmental policy.

Mapping International Business Ethics: Is There Evidence of Microsocial Contracts and Moral Free Space?

No one denies that cultural differences abound in global business activities. That much is indisputable. The real question is whether these differences add up to different microsocial contracts with different authentic, legitimate norms being affirmed by different cultures: in other words, attitudes and behaviors operating in true moral free space. Might it be the case, instead, that in every instance of cultural difference, one side is invariably more "right" than the other is? If so, the task of an international manager turns out to be simply one of discovering what the "right" norms are, and acting accordingly. ISCT's notion of the microsocial contract provides a tool for interpreting the significance of ethical differences, a tool we will use here.

Kluckhorn,[4] Hofstede,[5] Turner and Trompenaars,[6] and many other management theorists have shown the importance of cultural differences to business—but the further issue of the ethical implications of many of these differences remains unexplored. For example, researchers have documented the importance of understanding the time sensitivity of the Swiss in contrast to the time laxity of South Americans, or the group orientation of the Japanese in contrast to the individualism of the Americans. Not understanding such differences,

** ISCT [an approach developed by the authors in their book] is "pluralism," not "relativism." It allows for tolerance without amoralism by combining two previously unconnected traditions of social contract thinking—the hypothetical or "macro" contract and the extant or "micro" contract. Under ISCT, business communities cannot claim that their set of ethical norms is necessarily universal; they must exercise tolerance of some approaches from different communities.

*** The hypernorm of "necessary social efficiency," or "efficiency" hypernorm, speaks to the need for institutions and coexistent duties designed to enable people to achieve basic or "necessary" social goods. These are goods desired by all rational people, such as health, education, housing, food, clothing, and social justice.

most business managers now recognize, can trigger missteps and financial losses. But the importance of understanding ethical differences among cultures is much less well understood; this is a puzzling oversight, since ethical differences often take a volatile, sensitive form.

On a positive note, a clearer picture of the significance of cultural differences has slowly been emerging in the last decade, and a few of these have shed light on implicit ethical differences. In one study,[7] for example, thousands of international managers around the world responded to the following question:

> While you are talking and sharing a bottle of beer with a friend who was officially on duty as a safety inspector in the company you both work for, an accident occurs, injuring a shift worker. The national safety commission launches an investigation and you are asked for your evidence. There are other witnesses. What right has your friend to expect you to protect him?
>
> The choices offered as answers to the question were these:
> 1. A definite right?
> 2. Some right?
> 3. No right?

Here the explicit ethical notion of a "right" and the implicit notion of the duties of friendship come into play. The results of the questionnaire were striking, with cultural patterns perspicuous. To cite only one set of comparisons, approximately 94 percent of U.S. managers and 91 percent of Austrian managers answered "3," i.e., "no right," whereas only 53 percent of French and 59 percent of Singaporean managers did.

Surveys of international managers also show striking differences among cultural attitudes towards profit. When asked whether they affirmed the view that "[t]he only real goal of a company is making profit," 40 percent of U.S. managers, 33 percent of British managers, and 35 percent of Austrian managers affirmed the proposition, in contrast to only 11 percent of Singaporean managers, and only 8 percent of Japanese managers selected.[8]

Or, consider studies that show striking differences among ethical attitudes toward everyday business problems. One study revealed that Hong Kong managers rank taking credit for another's work at the top of a list of unethical activities, and, in contrast to their Western counterparts, they consider it more unethical than bribery or the gaining of competitor information. The same study showed that among Hong Kong respondents, 82 percent indicated that additional government regulation would improve ethical conduct in business, whereas only 27 percent of U.S. respondents believed it would.[9]

Not only individual, but group ethical attitudes vary. This clearly holds for corporations; different corporations can have strikingly different cultures and sets of beliefs. ISCT implies that companies as well as cultures vary in microsocial contract norms. But what is it that stamps a company's culture as unique from the vantage point of ethics? Theorists have recently begun distinguishing global companies in terms of their distinctive styles of ethical approach. George

Enderle, for example, has identified four types of approach, each of which is analogous to a posture taken historically by nation-states.[10] These are:

- Foreign Country Type
- Empire Type
- Interconnection Type
- Global Type

The first, or Foreign Country, type does not apply its own, home-country concepts to host countries abroad. Instead, as the Swiss have historically done in Nigeria, it conforms to local customs, assuming that what prevails as morality in the host climate is an adequate guide. The second, or Empire type, resembles Great Britain in India and elsewhere before 1947. This type of company applies domestic concepts and theories without making any serious modifications. Empire-type companies export their values in a wholesale fashion—and often do so regardless of the consequences. Next, the Interconnection type of company is analogous to states engaging in commercial relations in the European Union, or NAFTA. Such companies regard the international sphere as differing significantly from the domestic sphere, and one in which the interconnectedness of companies transcends national identities. In this model, the entire notion of national interest is blurred. Companies don't see themselves as projecting or defending a national identity.

Finally, the Global type abstracts from all regional differences. Just as the phenomenon of global warming exhibits the dominance of the international sphere over that of the domestic, so the Global type views the domestic sphere as irrelevant. From this vantage point the citizens of all nations, whether they are corporate or individual citizens, must become more cosmopolitan. The nation-state is vanishing, and in turn, only global citizenry makes sense.

It is helpful to analyze these basic types of corporate approaches from the standpoint of ISCT's two key concepts, i.e., moral free space and hypernorms. Each type may be seen to have strengths and weaknesses explainable through these concepts. What is ethically dangerous about the Foreign Country type is that nothing limits the moral free space of the host-country culture. If a given culture accepts government corruption and environmental degradation, then so much the worse for honest people and environmental integrity. From the vantage point of the Foreign Country type, no rules of thumb restrain granting an automatic preference to host-country norms—whatever they are.

Both the Global and the Empire types succeed in avoiding the vicious relativism that characterizes the Foreign Country type, but manage to fall prey to exactly the opposite problem. Since each type acts from a fixed blueprint of right and wrong, each suffocates the host country's moral free space and leaves no room for legitimate local norms. The Empire type displays a version of moral imperialism. It is bedazzled, as it were, by its own larger-than-life goodness. Just as the nations of Western Europe have so often in the past colonized others in a smug, self-righteous manner, so too a company adopting the Empire posture

sees itself as the bearer of moral truth. The Global type, too, suffocates the host country's moral free space, but for a different reason. Instead of imposing its home morality on a host culture, it imposes its interpretation of a global morality on a host culture. Because only global citizenry makes sense, the company can be numb to the moral differences that mark a culture's distinctiveness. The opportunity for host cultures to define their moral and economic identity is lost; it is dissolved by the powerful solvent of global Truth, administered by the all-knowing multinational.

The Interactive type alone satisfies ISCT by acknowledging both universal moral limits and the ability of communities to set moral standards of their own. It balances better than the other types a need to retain local identity with the acknowledgment of values that transcend individual communities. Its drawbacks are practical rather than moral. As noted earlier, the entire notion of national interest is blurred in this model, an ambiguity that may make it difficult to integrate the interests of any nation-state in the corporation's deliberations. Even so, it manages to balance moral principles with moral free space in a way that makes it more convincing than its three counterparts.

As intriguing as the differences in global ethical attitudes in business are, they leave nagging questions in their wake. Granted, differences in global ethical attitudes abound, and granted also that it may be possible to map and identify those differences. As Enderle suggests, even global companies may be seen to vary along ethical dimensions, and these differences, too, can be mapped. So far so good. But does it follow that those differences entail the existence of moral free space? It did not turn out to be true, as noted earlier, that in every instance of cultural difference, one side is simply more "right" than the other is. If such an explanation were true, then the task of an international manager would be simply to discover what the "right" norms were, and to act accordingly. Moral free space, and in turn, the need for corporations to attend to subtle differences among cultures, would vanish.

Evidence does exist to confirm the existence of different, legitimate norms in domestic contexts. For example, in the area of employee drug testing, Strong and Ringer have shown that microsocial contracts differ among employee and non-employee populations, with non-employees affirming significantly different norms for privacy in such testing than employees, even when the views of both populations appear authentic and legitimate.[11]

New evidence suggests global ethical differences exist that are not only quite subtle, but that represent beliefs treated as both legitimate and authentic by ISCT. They are beliefs, in other words, residing in what we have called "moral free space." Bigoness and Blakely used measures drawn from Milton Rokeach's Value Scale to investigate cross-national differences in managerial values.[12] A total of 567 managers from twelve nations participated. Their data indicated that different values not only existed, but also converged neatly in most instances on a national basis. The Rokeach value matrix contains values such as "responsible," "honest," "clean," and "broad-minded," none of which are likely to be

overturned by hypernorms. And yet groups differed significantly by national type. For example, analysis by means of Duncan multiple range tests showed that Japanese managers assigned a significantly higher priority than did managers from other nations to the value dimension that included the characteristics "clean, obedient, polite, responsible, and self-controlled."[13] The three other available value groupings were:

- Forgiving, helpful, loving, and cheerful
- Broad-minded, capable, and courageous
- Imaginative, independent, and intellectual

Swedish and Brazilian managers, for their part, assigned much higher significance than their global peers did to the category of "broad-minded, capable, and courageous."

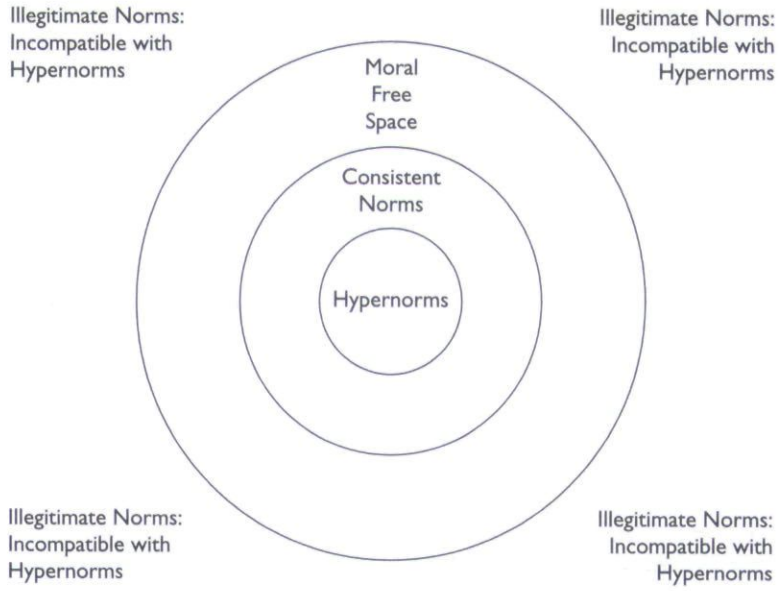
Differing Advice from Academics

Having seen evidence that business ethics vary from country to country, and that at least some of these constitute authentic, legitimate norms, the obvious question for a multinational manager is: "What should I do?" How does a manager navigate these moving, complex currents of international values?

Many business writers lack clear solutions and give sharply differing advice. Some seem hopelessly callous, and others idealistically impractical. At one extreme, Boddewyn and Brewer have defended the view that managers should consider the host-country government on a par with any other competitive factor.[14] The government is seen merely as another factor of production, or set of "agents" that international firms can use in the management of their chain of economic value-adding activities in cross-border activity.[15] For his own part, Boddewyn has even argued that when companies seek competitive advantages, bribery, smuggling, and buying absolute market monopolies are not necessarily ruled out.[16]

At the other extreme, DeGeorge has postulated ten guidelines for multinational corporations.[17] The second of these ten guidelines specifies that every company must "produce more good than harm for the host country." This claim seems innocent enough until one realizes that it entails information and decision-making requirements possessed by few if any large multinational corporations. How is a company to know with confidence that on balance it is doing more good than harm? This is an enormously challenging requirement involving an all-things-considered assessment of, for example, pollution effects, wage labor effects, hypothetical alternatives (what would have happened if the MNC had not done business in the country), host-country government effects, and so on. It would at a minimum require a separate moral "accounting" process. That DeGeorge means for the evaluation to be intentionally undertaken is obvious, for in explaining the guideline he remarks, "If an American chemical company builds a chemical plant in a less developed country, it must ensure that its plant

FIGURE 1. Categories of Authentic Global Norms under ISCT



brings more good than harm to the country."[18] While the requirement is reasonable as a general principle, it imposes accounting requirements that may divert corporate resources in an inefficient manner. It exists in stark contrast to Boddewyn's blunt, self-seeking prescriptions, and reflects well-wishing idealism.

The ISCT Global Values Map

In the face of such conflicting and confusing advice, the application of ISCT categories to global problems is helpful. The broadest categories for sorting authentic global norms through ISCT may be displayed in a diagram (see Figure 1).

The concentric circles represent core norms held by particular corporations, industries, or economic cultures. Particular values of a corporation, as expressed through its actions and policies, may be plotted as points within the circles.

- *Hypernorms*—These include, for example, fundamental human rights or basic prescriptions common to most major religions. The values they represent are by definition acceptable to all cultures and all organizations.
- *Consistent Norms*—These values are more culturally specific than those at the center, but are *consistent both with hypernorms and other legitimate norms*, including those of other economic cultures. Most corporations'

ethical codes and vision-value statements would fall within this circle. Johnson & Johnson's famous "Credo" and AT&T's "Our Common Bond" are examples.

- *Moral Free Space*—As one moves away from the center of the circle to the circle signifying moral free space, one finds norms that are inconsistent with at least some other legitimate norms existing in other economic cultures. Such norms can be in mild tension with hypernorms, even as they are compatible with them. They often express unique, but strongly held, cultural beliefs.
- *Illegitimate Norms*—These are norms that are incompatible with hypernorms. When values or practices reach a point where they transgress permissible limits (as specified, say, by fundamental human rights), they fall outside the circle and into the "incompatible" zone. Exposing workers to unreasonable levels of carcinogens (asbestos), for example, is an expression of a value falling outside the circle.

Navigating Using the ISCT Map: The Case of Bribery and Sensitive Payments

To gain an understanding of the implications of ISCT for international business, it helps to apply it to a single, concrete instance. Accordingly, we shall probe the issue of corruption—in particular, the question of bribery or "sensitive payments." Although a single example, it is one with ringing significance for contemporary global business. It is widely known that sensitive payments flourish in many parts of the globe. Once this illustrative application is complete, we will draw—later in the article—implications of ISCT for a much broader array of international cases.

Consider two typical instances of sensitive payments. First, there is the practice of low-level bribery of public officials in some developing nations. In some developing countries, for example, it is difficult for any company, foreign or national, to move goods through customs without paying low-level officials a few dollars. The payments are relatively small, uniformly assessed, and accepted as standard practice. But the salaries of such officials are sufficiently low that the officials require the additional income. One suspects the salary levels are set with the prevalence of bribery in mind.

Or consider a second kind of instance where a company is competing for a bid in a foreign country, and where in order to win the competition a payment must be made not to a government official, but to the employee of a private company. Nonetheless, it is clear that the employee, instead of passing on the money to the company, will pocket the payment. In a modified version of this scenario, the bribe may even appear one level deeper. For example, a company competing for a bid may be introduced to a "consultant" who offers to help to facilitate client contacts. (See the example that begins this article.)

It is not obvious where the norms and issues that arise from such cases should be situated on the ISCT map, if indeed they belong there at all. Are practices involving such payments examples of authentic norms, thus qualifying them to be located on the map? Are payments invariably direct violations of hypernorms and hence located outside the circles in the "illegitimate" arena? Or, instead, do some practices tolerating payments qualify as expressions of moral free space?

Ethical views about business vary around the globe. Bribery is no exception. Not only does the incidence of bribery vary, so does its perception as being unethical. In one study, for example, Greeks perceived the actions in some bribery scenarios as being less unethical than Americans.[19] In another, Hong Kong managers were shown to be somewhat less critical of bribery than their American counterparts.[20] Tsalikis showed that ethical reactions to bribery vary, with Nigerians perceiving some scenarios being less unethical than they seemed to Americans.[21]

From the vantage point of ISCT, then, are there ethical problems with bribery? The answer is "yes," as the following list clarifies:

1. From the standpoint of the bribe recipient, the acceptance usually violates a microsocial contract specifying the duties of the agent, i.e., the bribe recipient, to the principal, i.e., the employing body, such as the government, a private company, etc.

Perhaps the most obvious problem with bribery is that it typically involves the violation of a duty by the person accepting the bribe to the principal for whom he acts as an agent. Note that in both the illustrative cases above, the bribe recipient performs an action at odds with the policies established by his employer. In the case of the customs official, he accepts money for a service that he was supposed to provide anyway. In the case of the company competing for a bid, the employee pockets money in violation of company policy, and the company is shortchanged. In other words, if the money belongs to anyone, it belongs to the customer's company, not the individual employee. Such policies may or may not be written down. Often they are explicit, but even where they are not, they usually reflect well-understood, implicit agreements binding the employee as agent to the interests of his employer (the principal). In short, even when not formally specified, such duties flow from well-understood microsocial contracts existing within the relevant economic community.

But while this rationale shows one ethical problem with bribery, it is inconclusive. To begin with, it shows an ethical objection to accepting a bribe, but says nothing about offering a bribe. Has the person making the payment also committed an ethical error? Second, although violating a duty to an employer is one reason for considering an act unethical, it remains uncertain whether this reason could not be overridden by other, more pressing reasons. Perhaps other microsocial contracts in the culture firmly endorse the ethical correctness of bribe giving and bribe taking. Perhaps these microsocial contracts, along with an employee's legitimate interest in supporting his family, etc., override the prima

facie obligation of the employee to follow the policies of his employer. It makes sense to explore the further implications of ISCT.

2. Bribery is typically not an authentic norm.

The mythology is that bribery is accepted wherever it flourishes. This image is badly distorted. Despite the data mentioned earlier that shows variance in the degree to which various people regard bribery as unethical in comparison with other unethical activity, there is a surprising amount of fundamental agreement that bribery is unethical.

All countries have laws against the practice. This is a striking fact often overlooked by individuals who have something to gain by the practice. "There is not a country in the world," writes Fritz Heimann, "where bribery is either legally or morally acceptable." That bribes have to be paid secretly everywhere, and that officials have to resign in disgrace if the bribe is disclosed, makes it clear that bribery violates the moral standards of the South and the East, just as it does in the West."[22]

Some countries, even ones where the practice has flourished, not only outlaw it, but prescribe draconian penalties. "In Malaysia, which is significantly influenced by the Moslem prescriptions against bribery, execution of executives for the offense of bribery is legal."[23] In China in 1994, the President of the Great Wall Machinery and Electronics High-Technology Industrial Group Corp., Mr. Shen Haifu, was executed by a bullet to the back of his neck for bribery and embezzlement offenses.

Many broad efforts are currently being made against bribery. The OECD is among the leading organizations mounting such efforts, in part due to U.S. pressure resulting from a provision in the amendment of the Foreign Corrupt Practices Act, which requires the President to take steps to bring about a level playing field of global competition. At a symposium held in Paris, France, in March 1994, the OECD launched a campaign aimed at reducing the incidence of bribery in trade transactions, especially in international contracts.[24] And in 1996 an OECD committee, with support from an international non-governmental organization (NGO) dedicated to eradicating bribery, Transparency International, passed a resolution requiring that all member countries pass laws prohibiting the tax-deductibility of bribery in foreign transactions undertaken by their domestic firms. The outcome of this last effort is unclear at the time of this writing; but the OECD is clearly ramping up its battle against bribery. Reflecting this same spirit, some academics have suggested the implementation of a worldwide code against bribery and the use of ethical impact statements by corporations.[25] Many leading accounting firms, among them Arthur Andersen, KPMG, and Coopers & Lybrand, now offer services that enhance the ability of internal auditing functions to control the payment of bribes.

When one of the authors of this article (Donaldson) interviewed CEOs in India in 1993, he discovered that they were willing to acknowledge that their

companies constantly engaged in bribery and payoffs. (They justify their actions on grounds of extortion—the practice began with the Indian government, and they were forced to bribe.) More surprising, however, was their disgust for the practice. They had no illusions about the propriety of bribery, and were aware that its most pernicious aspect was its effect on efficiency. Under ISCT this implies that even among a community of bribe payers, bribery cannot necessarily be established as an authentic norm.

Philip Nichols cites specific references from each of the world's major religions condemning bribery. "Corruption is condemned and proscribed," he writes, "by each of the major religious and moral schools of thought. Buddhism, Christianity, Confucianism, Hinduism, Islam, Judaism, Sikhism, and Taoism each proscribe corruption. Adam Smith and David Ricardo condemned corruption, as did Karl Marx and Mao Tse Tung."[26]

In short, in many if not most instances, the necessary condition imposed by ISCT that the norm be authentic—i.e., that it is both acted upon and believed to be ethically correct by a substantial majority of the members of a community —cannot be met. To the extent that this is true, most instances of bribery would fail the ISCT test.

3. Bribery may violate the hypernorm supporting political participation as well as the efficiency hypernorm.

Even this last consideration, however, leaves a nagging doubt behind. In particular, is bribery only wrong because most people dislike it? Is there nothing more fundamentally wrong with bribery? Suppose, hypothetically, that the world came to change its mind about bribery over the next thirty years. Suppose that in some future state, a majority of people finds bribery morally acceptable. If so, would bribery be ethically correct? In such a world, would reformers who spoke out against bribery be speaking illogical nonsense?

The answer to this question turns on the further question of whether a hypernorm disallowing bribery exists. For if such a hypernorm existed, then no legitimate microsocial norm could support bribery, and, in turn, it would deserve moral condemnation even in a world whose majority opinion endorsed it.

At least two hypernorms may be invoked in seeking a more fundamental condemnation of bribery. The first is rather obvious. To the extent that one places a positive, transnational value on the right to political participation, large bribes of publicly elected officials damage that value. For example, when Prime Minister Tanaka of Japan bought planes from the American aircraft manufacturer Lockheed in the 1970s, after accepting tens of millions of dollars in bribes, people questioned whether he was discharging his duties as a public official correctly. In addition to the fact that his actions violated the law, the Japanese citizenry was justified in wondering whether their interests, or Tanaka's personal political interest, drove the decision. Implicit in much of the political philosophy written in the Western world in the last three hundred years—in the writings of

Rousseau, Mill, Locke, Jefferson, Kant, and Rawls—is the notion that some transcultural norm supports a public claim for the citizenry of a nation-state to participate in some way in the direction of political affairs. Many have discussed and articulated the implications of this right in current contexts.[27] If such a right exists, then it entails obligations on the part of politicians and prospective bribe givers to not violate it. In turn, large-scale bribery of high government officials of the sort that the Lockheed Corporation engaged in during the 1970s would be enjoined through the application of a hypernorm. It would thus be wrong regardless of whether a majority of the members of an economic community, or even the majority of the world's citizens, endorsed it.

This, then, is the first hypernorm that may affect an ISCT interpretation of bribery. But notice that it, too, leaves nagging questions unanswered. Suppose it is true that large-scale payoffs to public officials in democratic or quasi-democratic countries are proscribed by considerations of people's right to political participation. In such countries, bribery may defeat meaningful political rights. But many countries in which bribery is prevalent are not democratic. Bribery in countries such as Zaire, Nigeria, and China may not have a noticeable effect on political participation by ordinary citizens, since that participation is directly repressed by authoritarian governments.

Many other troubling questions may be raised. What about much smaller payoffs to public officials? And what about bribes not to public officials, but to employees of corporations? It seems difficult to argue that small, uniformly structured bribes to customs officials, or that bribes to purchasing agents of companies in host countries, seriously undermine people's right to political participation. These questions prompt the search for yet another hypernorm relevant to the issue of bribery.

The second hypernorm that appears relevant to the present context is the efficiency hypernorm, which requires that economic agents efficiently utilize resources in which their society has a stake. This hypernorm arises because all societies have an interest in husbanding public resources, developing strategies to promote aggregate economic welfare (Efficiency Strategies), and, in turn, developing economizing parameters to do so. Indeed, nations and NGOs that oppose bribery most commonly couch their opposition in terms of the damage bribery does to the economic efficiency of the nation-state.

Is bribery inefficient? It certainly appears to be. As the economist Kenneth Arrow noted years ago, "a great deal of economic life depends for its viability on a certain limited degree of ethical commitment."[28] To the extent that market participants bribe, they interfere with the market mechanism's rational allocation of resources, and their actions impose significant social costs. When people buy or sell on the basis of price and quality, with reasonable knowledge about all relevant factors, the market allocates resources efficiently. The best products relative to price, and, in turn, the best production mechanisms, are encouraged to develop. But when people buy or sell not on the basis of price and quality, but on the basis of how much money goes into their own pockets,

the entire market mechanism is distorted. By misallocating resources, bribery damages economic efficiency. As economists Bliss and Di Tella note, "Corrupt agents exact money from firms."[29] Corruption affects, they observe, the number of firms in a free-entry equilibrium, and in turn increases costs relative to profits. In contrast, "the degree of deep competition in the economy increases with lower overhead costs relative to profits; and with a tendency towards similar cost structures."[30] Corruption can even be shown to take a toll on social efforts to improve economic welfare, including industrial policy initiatives,[31] and on predictability in economic arrangements.

A striking example of the effect of corruption on predictability occurred recently in Brazil. When a large U.S. company's crates were unloaded on the docks of Rio de Janeiro, handlers regularly pilfered them. The handlers would take about 10 percent of the contents of the crates. Not only did the company lose this portion of the contents, it also never knew which 10 percent would be taken. Finally, in desperation, the company began sending two crates for every one sent in the past. The first crate contained 90 percent of the merchandise normally sent; the second contained 10 percent. The handlers learned to take the second crate and to leave the first untouched. The company viewed this as an improvement. It still suffered a 10 percent loss—but it now knew which 10 percent it would lose![32]

Interviews with Indian CEOs in 1993 revealed that they were well aware that inefficiency metastasizes as decisions are made not on the basis of price and quality, but on the basis of how much money people are getting under the table. This they acknowledged as their principal reason for concern about the widespread phenomenon of Indian bribery. Again, the market is a remarkably efficient tool for allocating resources, but it only works if people buy based on price and quality—not clandestine payoffs. A trip to the streets of Calcutta in 1993 would have brought home the bitter fruits of corruption. The Indian economy in 1993 was one so inefficient that even dramatic redistribution of wealth would leave most of its inhabitants in dire poverty. The poverty is so stark that social activists have given up their attempt to enforce child labor laws, and have turned instead to advocating better working conditions for children—better conditions, for example, for eight-year-old children in match factories. Most of the Indian executives interviewed believed that a great deal of India's economic inefficiency was driven by the presence of massive corruption.

NGOs and government bodies usually cite the negative impact of bribery on efficiency as their principal rationale for attempting to eliminate it. From 1993 to 1997, the OECD targeted bribery as one of its key concerns. Its rationale has focused almost exclusively on the way corrupt practices hamper development of international trade by "distorting competition, raising the cost of transactions and restricting the operation of free markets."[33]

As David Vogel notes, the conviction that bribery harms efficiency is especially pronounced in the United States, the only country to pass a comprehensive act against bribery that prohibits bribes to officials of non-U.S. countries,

i.e., the Foreign Corrupt Practices Act. He writes, "The U.S. view that not only bribery but other forms of corruption are regarded as inefficient . . . [helps] account for the fact that during the fifteen-year period from 1977 to 1992, the United States fined or imprisoned more corporate officers and prominent businessmen than all other capitalist countries combined.[34]

The rejection of bribery through ISCT, using an appeal to hypernorms, refutes the claim often heard that bribery is inevitably the product of primitive, non-universalistic perspectives. For example, the philosopher David Fisher once commented:

> Bribery, as a practice, belongs to a pre-modern world in which inequality of persons is assumed, and in which moral obligation is based on (1) birth into gender and class, (2) birth order, and (3) personal relationships that define duties. The theoretical perspectives of modern ethics, such as those of Kant or Mill, have little to offer those who inhabit such worlds, because they construe moral identity in ways that deny the universalism implied by all forms of modern ethics.[35]

This seems wrong-headed. Developing countries possess at least as many universalistic conceptions as developed ones. To think otherwise is to indulge in the kind of moral imperialism that brought well-educated scientists in the nineteenth century to regard all primitive people as "savages." Recent studies of the moral development of people in Belize, for example, found that they scored higher on Kohlberg-style moral development tests than did people in the United States. A comparative field study evaluated the moral reasoning used by U.S. and Belize business students in resolving business-related moral dilemmas. The Belize business students, inhabitants of a less-developed country, though with a Western heritage, resolved the dilemmas using higher stages of moral judgment than did the U.S. business students.[36]

Nonetheless, at the level most individual managers confront it, bribery has no satisfactory solution. Refusing to bribe is very often tantamount to losing business. Often sales and profits are lost to more unscrupulous companies, with the consequence that both the ethical company and the ethical individual are penalized. (Of course, companies help employees caught in the bribery trap by having clear policies, and giving support to employees who follow them.) The answer, then, lies not at the level where individuals face bribery, but at the level of the host country's background institutions. A solution involves a broadly based combination of business pressure, legal enforcement, and political will. Companies, in turn, should make a point not only of speaking out against bribery, but of doing so in cooperation with other companies.

Practical Implications of ISCT for Global Companies

The principles of moral free space and adherence to hypernorms imply a balanced approach for companies attempting to navigate global international waters. The presence of hypernorms means that companies must never simply

adopt a "do in Rome as the Romans do" philosophy. They must be alert to the transcultural value implications of their actions. Moral free space, in turn, implies the need to precede judgment with an attempt to understand.

Hypernorms

Hypernorms are more than abstractions. The research over the last fifteen years shows that in business ethics we're more alike than we think. Practically speaking, hypernorms mean that sometimes there is no compromising in business ethics. In 1992 Levi-Strauss cited its "Business Partners Terms of Engagement" when it broke off business with the Tan family in the Mariana Islands, a U.S. Territory. The Tan family reportedly "held twelve hundred Chinese and Philippine women in guarded compounds, working them seventy-four hours a week."[37] Strauss's "Business Partners Terms of Engagement" deals with the selection of contractors and requires practices compatible with the company's values on issues such as working hours, child labor, prison labor, discrimination, and disciplinary practices. Yet hypernorms should be applied carefully in the international arena and without rigidity. Even when it comes to ethics, facts make a difference. Consider the issue of price gouging in controlled economies. Price gouging is more unethical in a closed market than an open one because free markets automatically restrain arbitrary pricing (if one seller gouges, then another will grab his customers). In a controlled market, however, sellers can exploit customers by manipulating prices. When polled, Soviet Enterprise Executives in the former Soviet Union once ranked price gouging as the worst ethical problem they confronted in business.[38] This is not because the Soviet executives were confused; rather, it was because the rules of the Soviet game were different. When the rules of the game are different, so are the ethics of playing it.

Complying with hypernorms often demands considerable managerial creativity. Consider another situation confronted by Levi-Strauss, this time involving the hypernorms connected with child labor. The company discovered in the early 1990s that two of its suppliers in Bangladesh were employing children under the age of fourteen—a practice that violated the company's principles but was tolerated in Bangladesh. Forcing the suppliers to fire the children would not have insured that the children received an education, and it would have caused serious hardship for the families depending on the children's wages. 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 at age fourteen. Levi-Strauss, in turn, agreed to pay the children's tuition and provide books and uniforms. This approach allowed Levi-Strauss to uphold its principles and provide long-term benefits to its host country.[39]

Moral Free Space

Despite the importance of hypernorms, it is well to remember that ISCT implies the need for moral free space in global transactions. Here too, managerial creativity is often required. The most tempting and popular answer available for

global companies is the "photocopy approach." Its simple advice is, "Do the same thing abroad you do at home." Falling into this trap, CEOs are often heard boasting that their companies act the same way ethically around the globe. Such claims are well-meaning, but eventually subvert the very ethics they intend to support. Saying "we pride ourselves on doing the same thing around the globe" is a bit like saying "I pride myself on saying the same thing to every one of my friends." Friends are different; cultures are different. And the demonstration of a company's ethics must be different as it recognizes cultural differences abroad.

Being true to one's own ethics often means not only sticking by one's own sense of right and wrong, but respecting the right of other cultures to shape their own cultural and economic values. Forgetting this can be a disaster. Consider the mess one well-intentioned effort created. In 1993, a large U.S. computer-products company insisted on using exactly the same sexual harassment exercises and lessons with Muslim managers halfway around the globe that they used with American employees in California. It did so in the name of "ethical consistency." The result was ludicrous. The managers were baffled by the instructors' presentation, and the instructors were oblivious of the intricate connections between Muslim religion and sexual manners.

The U.S. trainers needed to know that Muslim ethics are especially strict about male/female social interaction. By explaining sexual harassment in the same way to Muslims as to Westerners, the trainers offended the Muslim managers. To the Muslim managers, their remarks seemed odd and disrespectful. In turn, the underlying ethical message about avoiding coercion and sexual discrimination was lost. Clearly sexual discrimination does occur in Muslim countries. But helping to eliminate it there means respecting—and understanding—Muslim differences.

Such cultural conflicts suggest that we should revise a common litmus test for ethics, the one that asks, "How would you react if your action were described on the front page of the *Wall Street Journal*?" Instead we should sometimes ask the additional question: "How would you react if your action were described on the front page of Bangkok's *Daily News*, Rome's *Corriere Della Serra*, or the Buenos Aires *Herald*?" For example, in Africa, a businessperson may be invited to a family banquet following business dealings—and in order to attend he is expected to pay. This invitation is likely not to be a bribe, but a genuine sign of friendship and a commitment to good-faith business dealings in the future.

Companies in India sometimes promise employees a job for one of their children when the child reaches the age of majority. Yet while such a policy may be in tension with Western notions of egalitarianism and anti-nepotism, it is clearly more in step with India's traditional values of clan and extended family. The ISCT framework we propose acknowledges that the Indian company's policy is in tension with the norms of other economic communities around the globe (hence placing it in the "moral free space" ring of the ISCT circle) while stopping short of declaring it ethically impermissible (a conclusion that would place it

outside the circle). This third ring of the circle of the ISCT framework depicts an inevitable tension in values that any global manager must confront, and accept.

In short, ISCT suggests that international business ethics seldom come in black and white. On the one hand, managers must respect moral free space and cultural diversity. On the other, they must reject any form of relativism. Common humanity and market efficiency are part of the equation, but so too is a certain amount of moral tension. The lesson? Any manager unprepared to live with moral tension abroad should pack her bags and come home. Because ISCT is designed to help managers navigate the gray zones between ethical worlds, it pictures reality in more than black and white.

Notes

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