THE RIGHT WAY TO DO BUSINESS

SIMON WEBLEY OF THE INSTITUTE OF BUSINESS ETHICS TAKES A LOOKS AT THE ETHICAL CONSIDERATIONS FIRMS NEED TO MAKE WHEN DOING BUSINESS IN EMERGING MARKETS.

One of the most frequently asked questions by corporate executives concerning dilemmas arising in countries where law, values and customs are different from those in the company's home country is: "When in Rome do I do as the Romans do?"

And it is not only global corporations that encounter this problem. In emerging markets, for example, inadequate information, volatile and often unstable financial regimes, as well as considerable host government involvement, can lead to a range of ethical dilemmas for local managers, whatever the size of the organisation. They may find themselves caught up in difficult situations of having to decide what is right and wrong. For instance, do they acquiesce in paying protection money to secure the safety of a plant or retail premises and, if they do, how does this measure up to the company's ethical standards?

BEST PRACTICE. Ideally, a company should anticipate such problems before they become public issues, but that is not always feasible. Best practice is to provide guidance for staff wherever they operate on how to handle ethical dilemmas they may encounter. This is normally done in the form of a code of business ethics. While such a code is produced in the first instance for employees in the home country, it needs to be applied, with the help of local directors, to problems which are experienced in other cultures. Regional versions of a company's code are not uncommon and are usually published in local languages. Among issues on which guidance should be included are the giving and receiving of gifts and favours, 'grease' payments, extortion, discrimination and relations with local government officials.

There is a further important point. The code is not only for local employees but also for those acting on behalf of the company, including agents and partners. They need to be informed that they are expected to follow the standards set out in the code. Failure to do this will almost certainly place the parent company's reputation at risk.

This has become all the more important since the passing of the Anti-Terrorism, Crime and Security Act, 2001. Among other things, it prohibits facilitation payments to public official by a company or its agents anywhere in the world. The US Foreign Corrupt Practices Act is not so draconian but has the same intention. While the wording of the new UN Convention on Bribery and Corruption has not been finalised, it is expected to be presented in New York in the autumn of 2003 and, when ratified, will have worldwide implications for international business.

SOME ETHICAL ISSUES. There are recurring issues beside corruption in its various guises that companies will experience in countries unused to Anglo-Saxon ways of doing business, whether they are joint ventures, partnerships or other trading relationships.

Surveys of issues covered in the codes of larger international corporations (MNCs) indicate that the most common cross-cultural issues addressed are:

- bribes, gifts, hospitality;
- conflicts of interest;
- insider dealing using confidential information;

Box 1
CONCERNS FOR COMPANIES INVOLVED IN INTERNATIONAL BUSINESS

- bribery and corrupt payments;
- employment and personnel issues;
- marketing practices;
- the impact of the company on development in the host country;
- effects on the natural environment;
- cultural impacts of company operations;
- relations with host governments; and
- relations with home countries.

Source: Donaldson T, The Ethics of International Business, OUP, 1989

'HONOURING THE PRINCIPLES OF EQUAL TREATMENT OF MEN AND WOMEN PROVIDES AN EXAMPLE OF WHERE OPERATING IN DIVERSE CULTURES CAN AFFECT THE APPLICATION OF A CODE'

- equal opportunities, diversity and discrimination;
- protection of the environment; and
- supply chain issues.

Professor Tom Donaldson identifies eight key areas of concern that businesses have to address in internationalising their domestic codes of business practice (see *Box 1*).

Most codes emphasise the need to ensure that the policy is communicated effectively to all their employees and partners in every location and are usually prefaced with a clear statement from chairmen, presidents or CEOs explaining the importance of the document, and providing guidance and training about how it is to be implemented and monitored.

EQUAL TREATMENT. Honouring the principles of equal treatment of men and women provides an example of where operating in diverse cultures can affect the application of a code. Most domestic codes of ethics have a policy on non-discrimination on grounds of gender, while many state that they have an equal opportunities or diversity policy. Yet in countries where a Muslim culture predominates and the law is different, the policy often has to be applied differently. Morris Tabaksblat, a former chairman of Unilever NV, referred to this in a speech in 1997. He explained how Unilever's policy of equal opportunities for everyone could be brought into line with one Muslim country's legal ban on women working outside the home:

"That ban is based on religious principles and is applied in, for instance, Saudi Arabia. We feel that we must respect the culture and the law of the land, regardless of our personal view on this. That means that no women work in our businesses there. For the men who work there, the principle of 'equal opportunities' applies in full and nationality, social status or religious background are not allowed to play a role in recruitment or promotion."[1]

GIFTS AND HOSPITALITY. Another example is the policy on the giving and receiving of gifts, favours and hospitality. In some cultures it is considered offensive not to give or accept modest gifts on certain occasions. Most company ethics policies allow the giving and receiving of nominal gifts and a modest scale of entertainment. Reciprocity is one consideration to take into account when framing and applying a policy. In other words, can I/they give or offer a gift/hospitality of similar value or scale? Some companies now keep a register of gifts/hospitality that have been offered or accepted. An example of a policy on gifts and hospitality is shown in *Box 2*.

SUPPLY CHAIN. The sourcing of products and services, especially from and in emerging market locations, has become a major source of public concern in recent years. Companies are being called upon to show that the organisations from whom they procure their merchandise or services operate in a way that conforms to basic health and safety standards, provides living wages, and does not employ child labour or forced labour. There are now some basic check-lists available, notably those of the Ethical Trading Initiative Base Code (www.ethicaltrade.org) and the Global Reporting Initiative (www.globalreporting.org). For an assessment of major external standards that cover the main issues in doing business in emerging economies, most of which can be verified, see *Demonstrating Corporate Values* by Deborah Smith, IBE, 2002.

Box 2
GIFTS AND HOSPITALITY

The receipt of gifts or substantial favours by employees can give rise to embarrassing situations and may be seen as improper inducement to give some concession in return to the donor. The following principles should be observed:

- gifts and favours must not be solicited;
- gifts of money must never be accepted;
- reasonable small tokens (below £X) and hospitality may be accepted, provided they do not place the recipient under any obligation, are not capable of being misconstrued and can be reciprocated at the same level; and
- any offer of gifts or favours of unusual size or questionable purpose should be reported immediately to the employee's manager and the company secretary.

Source:IBE's Illustrative Code of Business Ethics, 2003

DO AS THE ROMANS DO? So what should the answer be to the executive who asks if he or she should do as the Romans do when in Rome? The answer is 'no' if that means that the reputation of the parent company is put at risk. Core ethical and business values set by the Board are not negotiable. Their application to the way the business is run normally takes the form of a code endorsed by the chief executive. It will usually include some absolutes – "we do not give political donations" – as well as a framework for exercising discretion – "we will develop relationships with suppliers based on honesty, fairness and mutual trust".

Codes help to forge an important consensus on ethical behaviour across the organisation. Corporate leaders have come to realise that employees of the company around the world will not necessarily share a common set of values. Guidance on ethical issues is therefore essential.

Ultimately, it is the decisions of individuals at all levels of the business which will determine the ethical quality of the organisation. Corporate reputation depends on continuity of approach and the courage to reject the easy way out.

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[1] *M Tabaksblat, Dialogue with Society, Unilever, 1997.*