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Business ethics in the age of super size me.

Abstract

This paper identifies that not all multinationals are exposed to the same level of ethical risk. It proposes a framework which will assist business to asses the level of ethical risk to which it is exposed. The framework is based upon two dimensions: the visibility of the business and the extent of cultural differences between the home and host country. These two dimensions interact to form a two by two matrix which identifies the conditions which predicts the level of ethical risk to which a firm is exposed. The paper proposes that those firms exposed to a high level of ethical risk should actively manage their exposure if they are not to be caught unawares by unanticipated challenges to their business. The paper suggests appropriate risk management techniques.

Key words: Business ethics, risk, multinationals, cultural differences

Business ethics in the age of Super Size Me

Introduction

Given the role of business as a generator and distributor of wealth and as a determiner of much of what we consume, it is not surprising that business ethics attracts considerable social commentary. Discourse on

business behaviour has moved from the specialised press to the mainstream media and now attracts a general audience. A recent phenomenon is the activist who uses the mass media to critique business. An example is the documentary film aimed at the mass market such as *Super Size Me*, which recounts the director's experience of eating only at McDonalds for a month. The aim is to highlight the role McDonalds is perceived to play in the problem of obesity. Needless to say the experiences were injurious to his health. Another is the Canadian documentary *The Corporation* which concludes that the modern business firm has the characteristics of a psychopath. Such work draws its inspiration and methodology from the political commentaries of Michael Moore. An example of similar work in book form is that of Naomi Klein's *No Logo*, a critique of the role of brands and the social dislocation arising from aspiring to them. These modern forms of protest complement the already widely publicised transgressions in the finance industry, the escalation in executive pay, and deficiencies in corporate governance.

The operations of multinationals, particularly those domiciled in western countries, attract considerable publicity. In addition to issues related to the suitability of products are the inevitable problems arising from operating in different cultures. Almost all the population is aware of a number of them such as those associated with Nike and its "sweatshops"

Whilst the manner in which protest is expressed will be subject to fashions and fads, it is unlikely that issues concerning business ethics will diminish in importance. In recognition of this, business ethics has emerged as a disciplinary area and is attracting considerable research and theoretical development. But research and theory building has been hampered by lack of clear definition as to what constitutes an ethical problem. At one level this is fairly easy to establish, as ethics may be associated with criminality or breach of clearly defined professional standards of conduct. But once we move beyond the obvious breaches, ethicality becomes blurred. For instance in the case of McDonald's discussed in the first paragraph, is McDonalds unethical in not offering balanced menus or does the problem lie with those who overindulge? The law has the concept of the "reasonable person" to help them in making such judgements. But business people must conduct their defence not in measured terms in the courtroom but in the arena of public opinion where emotion often counts for more than reason. Whilst unreasonable and poorly argued critiques will eventually lose support, considerable damage may be incurred by business, particularly if they have vulnerable brand names.

Some ethical issues are fairly clear-cut, such as those relating to adherence to the law or accepted customs and practices. Other issues discussed under the rubric of ethics are less obvious. This is particularly so where there is cultural dissonance between a multinational's home and host country. This paper concentrates upon this latter situation. In particular it highlights those areas where ethical issues are matters of interpretation and companies often find themselves responding to unanticipated accusations.

This paper concentrates on one segment of business ethics, namely that related to the operations of multinationals in overseas markets. It suggests that in many cases issues related to ethics may be part of wider social and political movements. This in turn creates difficulties for companies in formulating adequate responses to ethical challenges. This paper proposes a framework which identifies the conditions which pose heightened ethical challenges for multinationals and suggests ways in which companies may prepare for them.

The paper uses as its subject western based multinationals. There are of course many multinationals from developing and non-western countries but these often appear to escape the close scrutiny experienced by companies like Nike and Shell. So this paper is in effect using as its subject critiques in western media of western domiciled multinationals.

Approaches to the study of multinationals and business ethics

The activities of multi nationals and the study of business ethics constitute an expanding part of the business ethics literature (Carlson and Bloggett 1997, Beyer and Nino 1999, Robertson and Fadil 1999 and Donaldson 1989, 2001). Partly this arises from firms having to work within two separate cultures and jurisdictions. There is no shortage of advice in the ethics literature as to how firms should conduct themselves in another culture. De George (1993) encapsulates many of these. He suggests seven guidelines for western multinational to follow in doing business in lesser-developed countries. These are: multinationals should do no direct harm, they should produce more good than harm for the host country, they should contribute by their activity to the host country's development, they should respect human rights of their employees, to the extent that local culture does not violate ethical norms, they should respect local culture and work with it and not against it, multinationals should pay their fair share of taxes, and multinationals should cooperate with the local government in developing and enforcing just background institutions.

Asgary and Mitschow (2002) propose an International Business Code of Ethics to guide individual behaviour which stresses the values of honesty and integrity. The importance of codes of conduct providing behavioural guidance is a common theme in the ethics literature and is taken up by Payne, Raiborn and Askvik (1997), Jose and Thibodeaux (1999) and Barker and Cobb (1999). Weaver (2001) notes that most codes of ethics are oriented to the culture of the home country and are difficult to apply in a foreign culture. They propose a culture-structure contingency analysis in an attempt to promote ethical decision making in widely varying cultures. A further model is proposed by Kaptein and Van Dalen (2000) which again represents the ethical problem as one of individual choice.

A further strand of the literature suggests ways in which intercultural conflict may be managed. Buller, Khols and Anderson (2000) propose a complex decision tree which incorporates weightings for moral significance, the level of influence and the level of urgency of the problem. Hamiliton and Knouse (2001) also propose a complex model of dealing with cross-cultural ethical conflicts, including subjective judgements as to the problem's importance.

A practical effort to make ethical issues central to business decision making is the Caux initiative (Carlson and Blodgett,1997). Named after the Swiss city in which it is headquartered, the initiative emerged from the moral rearmament movement in an attempt to inject "morals" and "principles" into multinational operations. It stresses the need for honesty and openness in building more trusting relationships. It views ethics as a matter

of personal choice and exhorts business people and others in leadership positions to make choices which "make a difference". The generalised nature of the Caux aims may be explained by the fact that it is not targeting any particular industry or country. A similar approach to the Caux roundtable is taken by Kung (1997)

A method commonly used by authors to illustrate ethical dilemma is to use case studies. Many of these recur in the literature. They include the Union Carbide gas leak at Bhopal in India, Nike and labour practices, inappropriateness of marketing techniques highlighted by Nestle in Africa, and Shell's experiences in Nigeria. Employment practices also figure prominently. (Donaldson 2001) is typical of authors who discuss the ethicality of bribery, human rights, labour violations including the use of child labour, and wage rates. These themes resonate with western audiences and have a receptive and sympathetic audience.

Whilst these common ethical problems appear easy to define and fairly straight forward to dissect, they do lend themselves to oversimplification. This leads to recommendations which are often too generalised to be of guidance to managers An example of this is contained in the writings of Amba-Rao (1993) and in the principles of the Caux roundtable. Multinationals often operate in countries which are rapidly changing as a result of industrialisation and economic growth. This generates major societal changes with dislocations in wealth patterns and established power bases. It is almost inevitable that, under these conditions, many of the sources of protest take on an ethical hue. Asgary and Walle (2002) note that interpreting societal changes and their impact upon business is poorly handled by management scholars, the area being more appropriate to the field of cultural anthropology.

This paper proposes a framework in which business can identify the conditions leading to an elevated level of ethical risk. The paper's view of business ethics reflects the coverage which is expressed in the mass media. This is that there are areas of business activity which are clearly unethical such as theft or negligence. But there are other areas which are not so clear cut and which may be drawn upon by interest groups to publicise their agendas. This paper does not take a position as to what is right or wrong; its aim is to identify the conditions which place multinationals at greater risk of accusation of malfeasance. Its contribution is and attempt to build some structure into what is a generalised literature.

Cultural dissonance

High Low

High

3. High ethica... e management reasons to in... ...l knowledge and relations important – high levels of staff	2. Presence of foreigners likely to exacerbate potential and emergent tensions. Strong community consultation and openness in dealings.

ility of presence

sensitivity. Active PR.	Decentralisation of decision making and involvement of local managers. Positive and pre-emptive PR
cted and ation. Active data gathering and ear to local community. Low profile. Complacency a problem Can be caught up in generalised xenophobic and nationalistic campaigns	1. Low ethical risk – businesses may be managed much as they can at home

Table 1. I Low the assessment of ethical risk applicable to multinationals

Introduction and description of the framework

The framework, shown in Table 1, identifies those areas of multinational operations which are likely to result in elevated levels of ethical risk. Firms facing a high probability of risk need to take active steps to comprehend and manage their situation. Those multinationals facing a low level of ethical risk cannot of course neglect ethical considerations but their approach to managing risk would take a different form.

The model is composed of a two by two matrix, which is a common way of classifying management alternatives. The advantage of such a matrix is that it is composed of two easily described dimensions and the four classifications generated by the axes represent a comprehensive set of options which accommodate most variations Whilst such a model may have the tendency to oversimplify, it has the pedagogical advantage of being simple to describe and understand.

The first dimension is cultural dissonance. This continuum represents the extent of difference between the cultural conditions of the country of domicile of the multinational and the host country. The dimension also includes institutional and technological differences, these being artefacts of culture. Cultural difference include those relating to religion, social structures, values and beliefs and approaches to managing. It can also include nationalism and xenophobia. Hofstede's cultural dimensions have been used in the ethics literature (Vitell, Nwachukwu and Barnes 1993) and these influence our perception of what constitutes differences between cultures. However, classifications such as Hofstede' s fail to capture the richness of differences between cultures. For instance, to describe New Guinea as a collectivist culture tells us little about the tribal affiliations of the people and the responsibilities associated with the wontok system. Also, countries differ widely in their views as to what constitutes acceptable human rights, attitudes towards racial or religious groups, and what represents a bribe or even a fair day's work. To complicate matters, the primary identification in many countries is not with the country but with a tribe, racial or regional grouping.

Technological differences are those related to the means of production and also the levels of technological sophistication. Many labour saving devices and new products may cause considerable social dislocation when introduced into societies that are unprepared for them. Such social dislocation may spring back upon companies and may be expressed in terms which question a company's ethical standards.

Institutional differences relate to the existence and effectiveness of organisations charged with the governance of the country. Examples are those relating to banking, commercial law enforcement, justice, policing and the maintenance of law and order. These are all necessary to support economic activity. But many countries operate with few effective institutions. Residents in those countries get by with informal means of collective protection and recognition of property rights. Such arrangements may not support a sophisticated industrial economy but may be adequate for subsistence and small business economies. An extreme case of institutional failure is that of failed states of which there are a distressingly large number around the world. In such countries there is no rule of law and most of the organs of state have ceased to function.

This dimension is significant because the greater the cultural dissonance, the greater the potential for ethical problems to arise. Cultures vary significantly in relation to ethics including the concept of what is right and wrong. Almost inevitably, situations will arise where there is conflict between the two ethical systems.

The second dimension is visibility. Many multinationals produce goods and services which are unseen by the majority of the population. Examples are the provision and maintenance of capital equipment such printing machinery or aircraft engines. Consultancy work is generally also a low profile activity. However the archetypical high profile firm is McDonalds which must maintain a highly visible presence to do business. Consumer products and media firms and retailers also have a visible profile. The activities of mining companies lead to a considerable visual presence, at least to those in the nearby community. The significance of this dimension is that ethical failures of high profile firms are highly visible and may be quickly publicised by those who monitor such breaches.

Description of ethical risk typology

The four alternatives generated by the matrix identifies the extent of ethical risk faced by multinationals and also suggests the course of action which firms which may adopt to manage their ethical risk profile.

Quadrant 1 is characterised by low cultural dissonance and low visibility of presence. This quadrant indicates a low likelihood of problems arising from international operations. A typical example would be an American capital goods firm, for instance an aircraft navigation systems manufacturer, establishing a plant in the UK or Canada. The firm operates in similar cultural and legal systems and it is unlikely that those not operating in the aerospace industry have ever heard of the firm.

Under these conditions, the ethical problems firms encounter overseas are similar to those they experience in their country of domicile. As a result, firms may approach ethical problems in much the same way as they do at home. Codes of ethics may be drawn up concerning hiring and firing, bribery, supervisory standards, and standards of expected behaviour with confidence that they will be applicable in the host country as well as the home country.

The risk for multinationals is that because they perceive low risk in their environment, they ignore potential sources of ethical conflict. No two countries are exactly the same; legal systems, expectations, attitudes and management practices vary and managers should always be aware that adaptations must be made to suit the local environment.

Quadrant 2 represents low cultural dissonance but high visibility. An example of firms in this quadrant is American consumer products firms operating in Europe. Foreign owned media may also exacerbate tensions as foreigners may perceive it to be lowering standards, diluting culture or undermining traditional values. Eurodisney and McDonalds in France are examples of firms represented by this quadrant. In each case, the firm has been targeted by activists concerned about the impact of McDonalds upon French culture, and a McDonalds restaurant has even been ransacked.

In contrast to quadrant 1, any ethical breaches by visible firms are likely to receive wide publicity. As such firms value their brand image, breaches are costly in terms of goodwill and reputation. Firms in this quadrant live in glasshouses. Managers must have a firm understanding of what constitutes ethical standards and make a conscious and concerted efforts at applying and monitoring them. Such ethical standards should be acceptable to both the home and host countries.

A problem for firms in this quadrant is that in the current environment, there is often a convergence of ethical and political protest. Managers may become complacent as they perceive that any cultural differences are superficial and may be ignored. But the presence of foreigners may exacerbate potential or emergent tensions. Emotionality and nationalism often take an unpredictable course and politicians may draw upon such forces for political gain. In many cases accusations are non-specific but other protesters are more focussed and well organised. In France and the UK, protesters against McDonalds and GM crop researchers take actions which invite companies to sue them in a attempt to attract wider publicity. Other protests may be more brutal. A firm which specialised in animal testing had to close operations in the UK as employees and their families were threatened with physical violence (Anonymous, 2002).

Many potential problems which arise from a company' s visibility may be countered by developing positive and pre-emptive public relations. McDonalds for instance provides charitable donations, operates Ronald McDonald house and employs people with disabilities. Other firms may sponsor football teams or sporting events.

Many multi nationals may limit the extent of protest by adopting the multi-domestic form and acting as a local company. In this way both management and response to ethical issues is local. This itself generates risk as local management may apply ethical principles which are at variance to those desired by the head office.

If protests appear to be politically motivated one of the best options may be to let the protests take their course. Individual issues may be addressed through PR activity but protest is a fundamental freedom in many societies. Unfounded or frivolous protests soon wear thin and overreaction may be counter productive. McDonalds has been riding out protests for years with no apparent ill effect.

Prudent managers of any company with a high visibility will always be conscious of the company' s image. A positive image emerges from inside companies; from applying sound ethical principles in day-to-day management, through constantly stressing the importance of codes of conduct and by monitoring how products are received and public reaction to them. PR spin and insincere palliatives are no substitute for honesty and truthfulness. Provided they are perceived as being ethical, firms are in a strong position when attacks are made against their integrity.

Quadrant 3 covers high cultural dissonance and high visibility. High cultural dissonance has the potential to generate significant ethical problems and high visibility the potential to bring them to a wider audience. Firms operating in this quadrant provide many widely quoted examples of ethical failure such as Shell in Nigeria, Nestle and infant formulae in Africa and mining operations in developing countries. Home countries of western multinationals are expected to apply the same standard of ethical conduct overseas as they would at home. But custom and practice in host countries is often at variance with home values. Difficulties also arise from the nature of the host culture. Many developing countries are complex societies where the relationships and tensions between groups are hard to unravel. As business people are not readily accepted into societies where protests may originate, intelligence is difficult to come by.

De George' s (1993) principles of doing business in developing countries unwittingly illustrate how problems relevant to this quadrant may arise. His principle to do more good than harm infers that if firms provide a net benefit to society then they are acting ethically. But those who experience " harm" are highly unlikely to take comfort from the " greater good" . It is protests by many " harmed" groups which receive wide publicity and pose considerable ethical dilemma for companies involved. The case of mining illustrates this point. Mining despoils land, but within a very small area. Although mining may generate net wealth for a country, those whose land is despoiled are often so incensed at their loss that they take up arms and close mines, as happened in Bougainville. The division of royalties between the central government and the local people can exacerbate the problem.

Shell in Nigeria provides an example of a firm facing the conditions described in this quadrant. In a case widely quoted in both the business and ethics literature, Shell pays its share of oil royalties to the Nigerian government but very little money trickles down to the local people. The civil unrest fuelled by local people' s discontent is contributing to institutional and social degeneration with the consequence that Shell is contemplating restricting activities to offshore operations.

Mining companies in Indonesia operate under an uncertain legal and institutional framework and clashes between companies and the local populace are common. Indonesia is struggling to develop a coherent system of laws and the move to decentralise government has led to power vacuums in the provinces. The presence of foreigners often generates resentment. The complex system of land tenure leads to uncertainty over ownership of minerals or oil. Social tensions may be aggravated by ethnic or religious differences between the central government which provides authority to mine and the local people who must bear the cost in environmental damage and who often see little economic benefit.

For many western multinationals in developing countries, variations on these problems must be regularly faced. For mining companies the risks are high as developing mines is a capital intensive business and represents a fixed investment. In contrast, manufacturers often cluster in areas of known and controlled risk in order to provide mutual support and where law enforcement bodies (if they exist) can establish a presence.

High visibility may take many forms. One recent, and unusual, example has been the use of Caterpillar bulldozers and heavy equipment by the Israeli army to clear housing and buildings in the West Bank and Gaza strip (Anonymous, 2004). Caterpillar, in common with most earthmoving manufacturers, cast the name and logo of the company in a prominent place on their equipment. When bought by military authorities it is painted over but it still remains highly visible, as can be seen on many news broadcasts. A senior official of the Human Right Commission has written to Caterpillar asking them not to supply such equipment to the Israeli army. Caterpillar has responded that it cannot police how its equipment is used once it is sold. This case highlights how ethical issues may emerge from unexpected quarters.

Firms operating under conditions described in this quadrant need to actively manage their ethical risk. Ethical issues need to be a high priority for top management and the structure of the company should reflect their importance. Linkages with the local community are a vital source of information. To the extent that it is possible, risks should be identified and steps taken to minimise them. Day to day operations should be in accordance with a clearly understood code of ethics which binds all employees. A standing high-powered committee should be ready to be called together as soon as it appears that there is an ethical problem.

In many cases, ethical issues are brought to wider attention not from those in the host countries but from constituents in home countries concerned about certain aspect of the multinational' s operations. The well-known case of Nike provides a good example. Protests against the practices of Nike' s subcontractors in Indonesia originated in the US, and it is the US constituents to which Nike addresses its response.

Quadrant 4 carries similar ethical risks arising from cultural dissonance but the visibility of the firm is lower. This makes it a less attractive target for those who wish to make high profile protests and probably reduces the extent of external surveillance. But situations may change very rapidly. Firms may be caught up in general protests against foreigners. Any transgressions against their codes of conduct or ethical standards will soon be identified and given wide publicity. A low public profile may make them targets for bribes or extortion attempts by organised crime syndicates.

Resentment may occur at the official level if politicians, sometimes under pressure from restive populations or political groups, act against investor' s interests. Additionally firms may fall foul of changing laws which are not in their interest. One Pacific example of sudden and unexpected (at least by business people) political shifts is the attempted coup in Fiji, which had long lasting effect upon the business environment.

Western investment in China is provides a good example of firms in this quadrant. Often factories are owned by foreigners but the facility may have a local name and blend in with other local factories. Local management provide the public face of the operation. But a low profile does not imply that such investment may be not cause resentment. Firms are often caught unawares by sudden political shifts which come to them as a

surprise but which have been brewing for some time. The Chinese saying "Same bed different dreams" in relation to joint ventures points to tensions which lie below the surface. For instance the Chinese expect technology transfer but the main incentive for the foreign investor is to take advantage of low wages.

Companies may anticipate challenges by being aware of the emerging political streams of thought. In Fiji's case, the existence of two antagonistic races with a poor history of coexistence should have alerted business people that political trouble was likely to erupt. One factor making the reading of the political environment more difficult for firms has been the wave of downsizing over the last twenty years. This has seen management layers reduced and, of particular relevance to multinationals, often the position of country manager has been merged into other positions. This often leaves monitoring conditions in host countries subject to a manager' s interests rather than seen as being a necessity.

Firms operating under these conditions should maintain a program of extensive environmental monitoring. The structural implications should be same as for Box 3 but the lower visibility should reduce the urgency of many issues. But firms cannot afford to be relaxed and they need heightened levels of awareness of ethical issues compared to companies in Quadrant 1.

Conclusion

This paper sought to clarify the conditions which place multinationals at heightened risk of ethical transgression. In many cases, ethical problems arise from unexpected quarters, but there is little reason for multinationals to be unprepared. The paper suggests that when operating in radically different cultures, particularly if they have a high visibility, multinationals should take active steps to manage their ethical risk, just as they manage any other form of environmental risk. Leaving such an issue to chance, or to respond on an ad hoc basis, will lead to ill-considered and inappropriate responses which may exacerbate an already difficult and tense situation. The framework would also be of use to researchers in that it provides structure to what is basically a " soft" and difficult to define subject. It identifies that all environments do not represent the same level of ethical risk and indicates why this may be the case. This permits more focussed research and a greater appreciation of the factors which lead to heightened risk.

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