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# The Moral Dilemmas of Global Business

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## Abstract

Since the 1970s, the rise of global capitalism posed new ethical dilemmas for Western multinational corporations (MNCs), when it became apparent that they could profit from lower labor, environmental and human rights standards in developing countries. Academic reflection on the matter led to the development of the international business ethics field, which seeks to answer a key question: how should a company behave when the standards followed in the host country are lower than those followed in the home country? This chapter will fulfill three goals. Firstly, it will present the new moral dilemmas that economic globalization and technological change are posing to multinational corporations. Secondly, it will introduce a number of answers developed by practitioners in civil society, government and business. Finally, it will review a number of theoretical answers developed by normative researchers by adapting traditional moral theories such as utilitarianism, kantian deontology and virtue ethics. The chapter will conclude that traditional moral theories have mostly failed at providing guidance for a number of new cross-cultural moral dilemmas in the global economy.

**Keywords:** globalization, business ethics, cross-cultural, normative

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## 1. Introduction

*“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?” [1].*

Since the 1970s, globalization, deregulation and technological change triggered a rapid expansion of multinational corporations (MNCs) to every corner of the planet. By the year 2000, some 63,000 multinational companies with more than 690,000 foreign affiliates accounted for 25% of world production [2]. These “new Leviathans” became increasingly powerful and

nation states lost their capacity to regulate them [3, 4]. Corporations took advantage of regulatory arbitrage, relocating to low tax jurisdictions and lax regulations on labor and environment. Multinationals structured global value chains by relocating purchase, sales, support and product development activities to locations where they could be done better, faster or cheaper [5].

In domestic business environments, national laws and traditions establish a shared ethical framework on what businesses can and cannot do. A French company operating in France knows that it must comply with well-established labor, environmental and governance rules backed by reliable enforcement mechanisms. However, in its overseas operations, the company often faces substandard regulatory frameworks and weak enforcement mechanisms, which present the opportunity of obtaining benefits through practices that would be unacceptable at home. Many dilemmas arise about the moral legitimacy of capturing such benefits.

In this chapter, I review the challenges that economic globalization and technological change are posing to multinational corporations (MNCs).

First, I will present the new set of moral dilemmas that arise in labor standards, marketing practices, environment, corruption and human rights, as companies operate across diverse cultural and legal frameworks. Second, I will review the answers that governments, corporations and civil society actors have developed to assist managers in international decision making. Third, I will review how business ethicists have adapted moral frameworks such as libertarianism, utilitarianism, deontology and virtue ethics to address the specific challenges of global business.

## 2. The moral dilemmas of globalization

### 2.1. Labor standards

In the 1960s and 1970s, companies in developed economies began to relocate production facilities and contracting in emerging countries to cut labor costs [6]. Offshoring raised the number moral dilemmas in the issue of sweatshops [7–10]. Some argue that sweatshops violate duties of justice because the company offers lower pay and working conditions to employees in the host country for the same kind of work. Others believe that sweatshops ought to be encouraged because they are a necessary first step for economic development in emerging countries [11].

Child labor is an especially critical issue in such debates. Managers from a Western multinational would not even think about hiring children in their home country since it would be both illegal and offensive to the moral sense of the community. In some emerging economies, however, child labor is common and even essential for the subsistence of the child. Does this make hiring children morally acceptable?

Other dilemmas involve differences in worker safety standards. The SS United States was one of the most luxurious cruise ships of the 1950s. In the 1990s, the company decided to have it refurbished which required removing asbestos from the vessel. Conducting the task under US

strict worker safety norms had a cost of \$100 million. The company decided to outsource the job in Turkey, where the cost was only \$2 million. Since finally the Turkish authorities would not allow it for fear that workers would get cancer, the ship was towed to the Russian port of Sevastopol, where asbestos were removed for even less, thanks to even lower standards in worker safety.

## **2.2. Environmental standards**

Technological progress triggered exponential growth in human ability to alter the environment. While this has countless benefits, it also raises a number of dilemmas about the use of natural resources in societies with poor environmental regulations [12].

Texaco was accused of making irreversible damage to the Ecuador rainforest because of the use of low standards in the 1970s and 1980s. A similar case happened in southern Argentina's shale gas field of Vaca Muerta. Protests have arisen against the activities of oil companies YPF and Chevron for using allegedly low environmental standards in fracking [13].

In the late 1990s, the Finnish company Botnia planned the construction of a pulp mill in the city of Fray Bentos (Uruguay), on the shores of the Uruguay River near the border with Argentina. The project was heavily resisted by environmental advocacy groups. Botnia was accused of making extra profits by following lower environmental standards than in the home country.

Another frequent international environmental dilemma is related to toxic waste. It is estimated that a considerable part of China's arable land is polluted with lead, zinc and other heavy metals exported from developed economies. Old computers that are discarded in the United States usually end up in China, where the cost of disposal is 90% lower [14]. Some emerging economies have sought to attract foreign direct investment by lowering environmental standards, in a phenomenon known as "race to the bottom" and the creation of countries that work as "pollution havens".

## **2.3. Human rights**

Corporations sometimes face dilemmas linked to operations in countries with governments accused of violating human rights.

A high-profile case was IBM scandal of doing business with the Nazis. In the 1930s and 1940s, IBM provided Hollerith punch cards to the Third Reich, which were used in the operational management of extermination camps [15].

In the 1970s, Polaroid stopped selling equipment to the government in apartheid South Africa when it learned that cameras were used to make IDs for the surveillance of dissidents. In 1993, Levi Strauss and Co. canceled contracts in China due to the systematic violation of human rights perpetrated by the government.

More recently, Google accepted the Chinese government's request to censor keywords like Tiananmen Square and Dalai Lama in its search engine. The CEO Eric Schmidt stated: "I think

it is arrogant to enter a country where we are starting our operations and tell the country how to govern itself" [16].

## 2.4. Cultural diversity

Principles of international law hold that corporations ought to respect the customs and culture of the communities where they operate [17]. Traditional values can be lost to the homogenizing trends introduced by globally integrated production processes and product promotion. Some amount of change is inevitable and certain local practices may not deserve protection if they violate important minimum global norms. However, when should a norm be respected because of cultural diversity considerations and when should it be ignored because it violates a global minimum?

A paradigmatic case occurs with gender equality. It is frequent that anti-discrimination standards clash with traditional customs or religious practice. Western corporations, which typically promote gender equality at home, often find themselves operating in societies intolerant against women. In Saudi Arabia, for example, gender separation is almost total and women are forbidden by law to practice many professions.

While companies usually justify discriminatory practices out of respect for local traditions, these arguments can be problematic: "As in Saudi Arabia today, South Africa maintained a system where a broad segment of society was discriminated against in all walks of life and under the authority of men without any fear of being considered responsible for their actions. The only difference was that the victims in South Africa were black; In Saudi Arabia, are women" [18].

In some cases, softer ways of discrimination exist. While Mexico does not have formal restrictions against women in the labor market, a widespread macho culture often operates as a glass ceiling [19]. Corporations face an unwritten rule that holds that women should not be in charge of a male team. Using the gender equality standard of the home country (not considering gender as relevant for defining team leadership) could be costly for the company, as employees may not perceive a female boss as a legitimate authority. However, respecting local traditions and denying promotion to a talented executive solely because of gender considerations would seem a violation of the principle of equal opportunity.

Sometimes, cultural diversity dilemmas manifest themselves in marketing decisions. Developed countries usually have strict regulations against dangerous substances such as tobacco. As change in customer preferences and health laws generated a decline in cigarette consumption in developed economies, tobacco companies shifted their attention and marketing dollars to emerging markets with different regulatory standards.

For example, US tobacco executives had to decide how to market tobacco in Egypt, where the minimum legal age to buy cigarettes is 14. Should the company use the home standard (abstain from marketing tobacco to people under 18) or the host standard? Is the 14-year-old threshold from Egypt below some global minimum or the result of cultural preferences about the age at which people should be responsible for choosing whether to smoke or not?

## 2.5. Corruption

Corruption is a concept that agglomerates practices ranging from multi-million dollar payments to high government officials to a few dollars bribe to a low-level bureaucrat. It is estimated that over \$1 trillion are paid in bribes annually, which squanders public resources and deprives millions of food, education and other government services to which they are entitled.

Bribery in foreign operations was not always considered morally wrong. Some even saw it as a normal operating expense when doing business in emerging economies. German corporate law, while severely punishing bribery at home, considered foreign bribes as tax deductible expenses [20]. Attitudes toward bribery changed in the late 1970s after the US Congress passed the Foreign Corrupt Practices Act which outlawed paying bribes abroad for American companies.

It is beyond doubt that bribing foreign officials to win a contract is immoral. However, less clarity exists in other situations. For example, is it acceptable to bribe a low-level bureaucrat to speed up a procedure he is supposed to do anyway? Small payments are tolerated in some countries and even rationalized by the need to supplement the meager salaries earned by public officials [21, 22]. It is not always clear, however, what should count as a “small payment”. In April 2012, it was reported that Walmart paid more than \$24 million to Mexican officials to speed up permits to open new branches. Payments were made to expedite a process that officials should have executed anyway. Is \$24 million a “small payment” for a company the size of Walmart? [23].

In some cases, cultural differences exist in the appropriate relationship between a company and its stakeholders. Following China’s integration in the global economy, scholars became interested by the ethical status of *guanxi*, informal networks of favor exchange between companies and public officials. Since it is not a specific payment for a particular service, *guanxi* does not fit into the conventional definition of bribery. Advocates of *guanxi* argue that the definition of bribery is based on a Western concept of impartiality that is not necessarily shared by all cultures. Critics contend that *guanxi* is similar to Western mafia practices of “today you scratch my back and tomorrow I will scratch yours”. It is unclear whether these exchanges of favors constitute a form of corruption or whether it is a legitimate way of doing business in the Chinese market [24, 25].

## 3. The response from governments, civil society and corporations

As ethical dilemmas in international business became more widespread and complex, governments, civil society associations and corporations began to develop policies and agreements as a response.

### 3.1. Governments

The response of governments to the new scenario of international business was an attempt to manage the globalization process by creating transnational norms for corporations.



In 1977, the Foreign Corrupt Practices Act was an early example of national regulation with international reach, since it affected the activities of American companies abroad. Enacted in the aftermath of the Enron and Worldcom frauds, the 2002 Sarbanes-Oxley Act established a set of ethical standards to be followed by every firm doing business in the USA. Because of the sheer size of the US economy, American regulators are in position of influencing corporate behavior around the world. Smaller societies, however, are vulnerable. Tight labor or environmental regulations may lead to capital flight to countries with lower standards.

Over the years, there has been growing awareness of the difficulties for nation states to solve a problem that is essentially global. This is why governments have sought regional and global agreements such as the Declaration on International Investment and Multinational Enterprises [26] and the Declaration of Fundamental Principles and Rights at Work [27].

In 1999, UN Secretary General Kofi Annan launched the Global Compact, establishing a set of principles on human rights, labor, environment and corruption taken from commitments made by governments at different UN pacts, such as the Universal Declaration (1948), the Rio Declaration on Environment and Development (1992), the International Labor Organization's Fundamental Principles and Rights at Work (1998) and the UN Convention Against Corruption (2003) [28].

In general, these initiatives only achieved limited results because no body exists with transnational political authority and enforcement capability. The difficulty of finding common intercultural values and the pressures of special interests to keep global economy free of regulation also affected the efficacy of government initiatives to influence corporate behavior [29].

On September 2015, a number of countries adopted the sustainable development goals (SDGs), a set of 17 global goals which cover a broad range of social issues like poverty, hunger, health, education, climate change, gender equality and social justice to be achieved by 2030. The SDGs are likely to become an important source of guidelines for the behavior of multinational corporations in years to come [30].

### 3.2. Civil society

Global civil society actors have had some success in enforcing sanctions on companies engaging in unethical behavior, mostly through activism against abusive practices. Soft law influences corporate behavior, not through legal sanctions, but through awareness campaigns and boycotts [31].

Nike faced international scandal when it was reported that its clothing was manufactured through a network of abusive contractors in Southeast Asia. After a 9-year boycott by the Rainforest Action Network (RAN), in 1998 Mitsubishi agreed to replace wood-based paper with an eco-friendly one [32].

In addition to boycotts triggered by specific situations, the global civil society has developed more formal attempts to create socially responsible standards. The fair trade movement created a fair trade certificate that guarantees that a product was not produced under abusive conditions and that a fair price was paid for raw materials.

Fair trade started in 1986 in the Max Havelaar Foundation in the Netherlands. After a beginning in the coffee industry, it expanded to honey, bananas, tea and orange juice. It gained important traction in 2000 when Starbucks announced the introduction of a blend of fair trade coffee [33].

The Global Reporting Initiative (GRI) was created in 1997 by a project of the Coalition for Environmentally Responsible Economies and the United Nations Environment Program. This non-profit organization developed the most widely used standard for controlling corporate sustainability practices. The GRI framework aims to increase the consistency and comprehensiveness of sustainability reports, requiring companies to present abundant information in terms of corporate strategy, operational profile and management systems, as well as data on 50 performance indicators related to its economic activity and environmental impact.

In 2000, some 50 organizations used GRI principles to report their sustainability performance. The number grew progressively to the present day, in which it is estimated that more than 4000 companies from more than 60 countries use them. Firms participating in the United Nations Global Compact are required to submit reports following GRI guidelines. In return, they have the right to use the Global Compact seal on their products, which establishes them as socially responsible companies to consumers and other stakeholders.

### 3.3. Corporations

While philanthropy and charity were always present in the business world, the idea that corporations have a moral obligation toward stakeholders beyond shareholders is quite recent. Corporate leaders began paying attention to corporate citizenship in the late 1990s, following waves of anti-globalization protests.

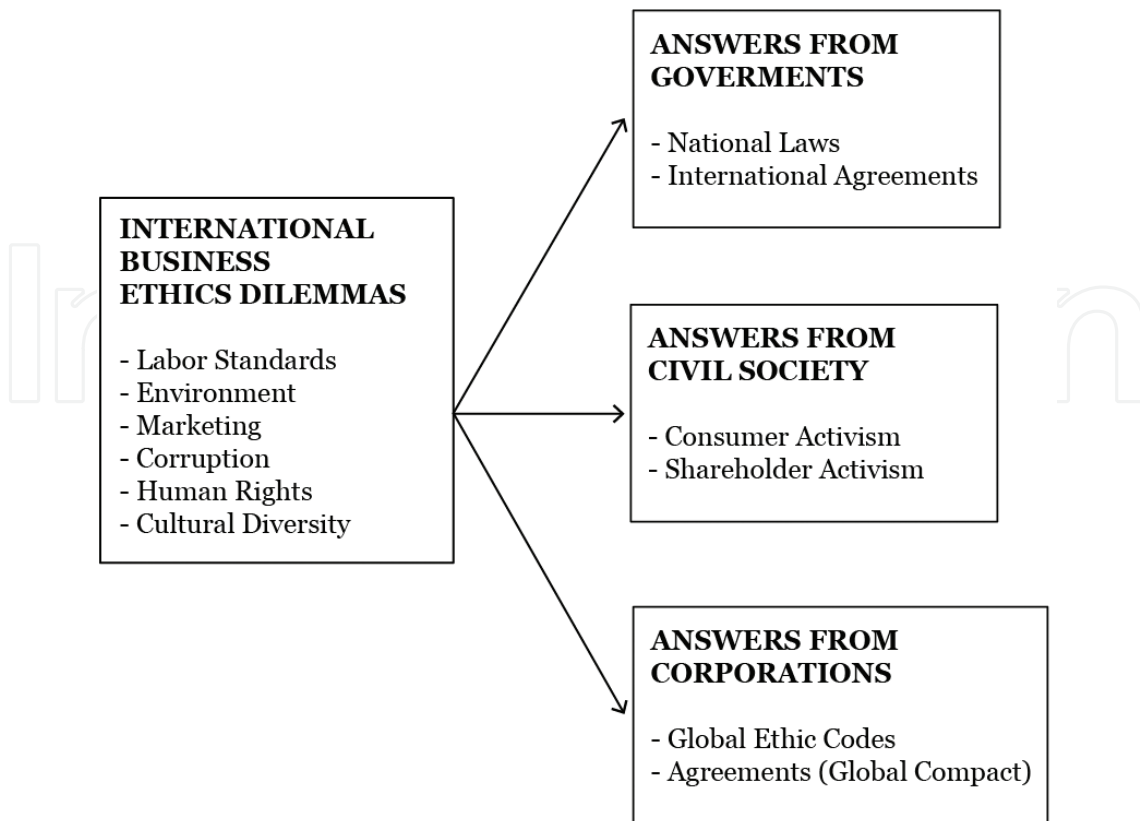
The main response of corporations to the moral challenges of globalization has been the development of global codes of ethics. The majority of individual company codes and industry-wide standards emerged after the mid-1970s. In the US, many came as a response to foreign bribery scandals while others reacted to broadly calls for greater social responsibility.

Codes of conduct help clarify internal policies and procedures, promote a common company identity among a diverse international workforce and communicate standards to external stakeholders. Voluntary codes can help encourage appropriate conduct and reduce pressures for mandatory government action.

Enderle developed a taxonomy of four typical philosophies that guide policy when domestic and foreign standards differ [34].

The Foreign Type adapts the practices of the subsidiaries to the laws and customs of the host country under the notion of “when in Rome, do as the Romans”. The Imperial Type keeps home standards virtually unchanged. In the Interconnected Type, the company does not consider itself as being of a particular nationality but of a certain region, such as the European Union. In its foreign operations, it uses the region’s standards. Finally, Global Type companies do not believe that belonging to a country is relevant for the practice of international business. These companies consider the fact that the parent company is, say, in the USA does not





**Figure 1.** Answers from practitioners to the moral dilemmas of global business. Source: Own Elaboration.

generate any obligation to abide to US standards. An American company could use European standards on environmental issues and other rules for labor issues.

In addition to individual codes of ethics, corporations also developed voluntary agreements on standards for international business. In 1978, a group of US companies adhered to the Sullivan Principles for their operations in South Africa. They agreed not to respect the discriminatory labor laws of apartheid and to put pressure on the South African government for their abolition. The Sullivan Principles were a model for other voluntary codes such as the Caux Round Table, created in 1986 by former executives of multinational corporations in the USA, Europe and Japan.

In 1994, this organization proposed an international code of ethics based on principles of search for the common good and human dignity. It offers behavioral guidelines for consumers, employees, investors, suppliers, competitors and local communities (**Figure 1**) [35].

#### 4. The response from moral theory

Even though philosophers of all time have reflected about the morality of economic activity, business ethics as an academic field only started in the 1960s. As corporations gained global

influence, awareness increased about the risks posed by their activities on the environment, consumers and workers. Bowie argues that the field was born in November 1974, when the first business ethics conference was held at the University of Kansas [36]. In that context, business schools developed their first programs in ethics and social responsibility, generally focused on the study of interactions between laws and business.

In the early 1970s, philosophical ethics entered business schools and concepts such as utilitarianism, deontology and virtue ethics started to be applied to corporate behavior. The pioneers, in general, faced a cold reception in the academy. Colleagues in philosophy departments did not perceive business as a philosophically interesting activity. Colleagues in business schools were skeptical about what a moral philosopher could bring to the moral common sense of executives.

The relevance of business ethics was helped by the publication of John Rawls' *A Theory of Justice* in 1971 [37]. The book introduced distributive justice concerns into mainstream philosophical debate which included moral reflections on the role of multinational corporations [38, 39].

Management scholars started to address these issues in the 1980s with the seminal book *Strategic Management: A Stakeholder Approach* (1984) where Edward Freeman introduced stakeholder theory. This theory emphasized the moral and socio-political dimensions of decision making, in particular the consideration of the rights and interests of the different stakeholders of an organization, and not only the shareholders [40]. This movement was connected to the rise of corporate social responsibility among practitioners.

The deepening of globalization and the international expansion of corporations generated moral dilemmas of increasing complexity. The common sense of executives became insufficient to make complex decisions about gender discrimination in foreign cultures or about drug testing in developing countries.

The first book to offer a systematic treatment of such issues was *The Ethics of International Business* [41] which uses a social contract device to elucidate the rules that a socially responsible multinational should follow. In *Competing with Integrity in International Business*, De George presents 10 moral principles that every company must meet anywhere in the world, including respect for human rights, local cultures and cooperation with government [42].

International business ethics research was deeply influenced by stakeholder theory [43]. This requires answering a series of questions about who the stakeholders are, what interests should be considered, and the nature of the balance to be reached. All this was conceptualized through the Pyramid of Corporate Social Responsibility [44–46].

According to this model, a multinational has four types of global responsibilities toward their stakeholders.

First, to generate economic performance. Companies are expected to produce goods and services on a global scale and to sell them globally for a profit.

Second, they have the responsibility of following the law in countries where they operate.

Third, when the law is not appropriate to guide the ethical behavior, the corporation has an obligation to do what is right. Ethical responsibilities include practices and activities that are expected or prohibited in a society, but are not codified in the law: rules, standards and expectations of what employees, customers, shareholders and the global community regard as fair, equitable and consistent with the protection of stakeholders’ moral rights.

Fourth, corporations have a philanthropic responsibility that reflects a society’s expectation about the involvement of companies in activities that are not required by the law nor generally expected by ethics.

International business ethics investigates the third level of the Corporate Social Responsibility Pyramid: ethical responsibilities that are desirable or prohibited, but are not necessarily codified in law. Theoretical developments for answering this question were based on the adaptation of traditional ethical theories such as libertarianism, utilitarianism, Kantian deontology and virtue ethics to the new challenges posed by globalization (Figure 2).



**Figure 2.** The CSR pyramid illustrates the different levels of corporate responsibility. Source: Carroll (1991).

#### 4.1. Libertarianism

The libertarian perspective only accepts the economic and legal levels of the CSR Pyramid and only considers the shareholder as a valid stakeholder. While it has not been defended as a single theoretical framework in the field of business ethics, the view may be summarized by a famous Milton Friedman's argument in an article published in the New York Times Magazine [47].

According to Friedman, in a democratic society, the majority of citizens determine the laws that govern corporate behavior. Executives are agents of the shareholders and the only common interest that shareholders have is to make money. As an agent, any commitment to anything else than providing returns for shareholders within the rules of the game means that the manager is spending money that is not his, whether that is of the customer (through price increases), the employees (by means of lower wages) or the shareholder (through lower profits). In Friedman's argument, this would constitute a form of taxation without representation because managers are not democratically elected.

From this follows the famous Friedman's libertarian definition on the obligation of business: "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" [48].

The Texaco oil company faced a famous scandal after being accused of several oil spills in Ecuador over decades starting in the 1970s. Critics argued that Texaco ignored oil industry standards by dumping untreated waste directly into rivers and streams. The company replied with a libertarian argument: it had always operated in full compliance with Ecuador law and with the approval of Ecuador government. The problem, from a libertarian perspective, is that when Texaco started its operations in the 1970s, the country was under military rule. After democracy returned, it still was a highly corrupt country and it was unclear that the "rules of the game" really reflected the people's will.

Generally speaking, the libertarian argument assumes that the "rules of the game" are created by democratic governments where the majority of citizens determine the laws that govern corporate behavior. However, many dilemmas in international business ethics arise from the fact that companies operate in non-democratic countries where laws are not the result of popular consent and where enforcement systems are weak.

Holding the government of Ecuador, the sole responsible for the consequences of Texaco's operations merely because Texaco operated lawfully is to set an extraordinarily low standard for the conduct of multinational corporations. It would imply that corporations should not be regarded as morally responsible for any behavior so long as the government in power legally sanctioned the conduct.

#### 4.2. Utilitarianism

Initially developed by Jeremy Bentham and John Stuart Mill and with over 200 years of history, utilitarianism is a durable ethical theory that is also an important foundation for economics and social policy [49, 50]. It was adapted to international business ethics by Gerard Elfstrom [51].

In its simplest form, utilitarianism holds that ethically correct decisions need to comply with the Utility Principle, which prescribes maximizing benefits and minimizing damages to all stakeholders.

Facing a dilemma, the utilitarian moral decision-making process goes as follows [52]:

1. Identify all the relevant alternative actions,
2. List all the stakeholders who will be affected by the alternative courses of action,
3. Assess how the stakeholders will be affected by the alternative actions, computing the balance of benefit to harm for each stakeholder affected by each act,
4. Choose the act which maximizes utility (which results in the greatest total balance of benefit to harm).

Pastin and Hooker [53] use a utilitarian argument against the Foreign Corrupt Practices Act. Maitland [54] presents utilitarian considerations on behalf of sweatshop manufacturing since it tends to benefit citizens of developing societies.

Card and Krueger [55] build on utilitarian thinking when they argue that corporations could raise sweatshop wages to the subsistence level without sacrificing profitability. According to the Utility Principle, this would be the right decision as it tends to improve the situation of workers without harming shareholders. Arguments against the Child Labor Deterrence Act, which sought to prohibit the importation of products made from child labor into the United States, were also made on utilitarian grounds. According to the argument, the law would harm stakeholders such as the owners of the Bangladesh clothing industry (because they would lose the American market) and the children employed in the factories (because they would lose their only source of income) [56].

While we lack space here to review its different varieties, generally speaking, utilitarian perspectives have typically faced three main complications: difficulties for stakeholder identification, difficulties in defining the expected result of different courses of action and lack of consideration for individual rights that might conflict with the Utility Principle.

First, it is not always easy to determine who are the stakeholders affected by a decision, which makes it difficult to measure the balance between benefits and damages. In the case of the Child Labor Deterrence Act, are children the only stakeholder who will be affected if the clothing industries close in Bangladesh? Should the children's families count as a stakeholder too, since they rely on the working children for economic support? Whether one considers or not the family as a stakeholder has an impact in the utilitarian calculation of benefits and harm, and as a consequence, may end justifying a completely different decision.

Second, the morally correct decision depends on the expected result of different courses of action. However, the outcome of each alternative is usually hard to predict. Depending on the empirical assumptions and the probability the decision maker attributes to each scenario, the Utility Principle might suggest diametrically opposed decisions. How are factory owners expected to react to the Child Labor Deterrence Act? Will they close the factories and leave thousands of children out of work? Or will factory owners hire adults (which cost a bit more)



and absorb a small reduction in profits? If more adults have income, will their children go to school and improve their future opportunities through education? Making a moral decision requires answering a number of highly speculative questions about expected outcomes.

Third, when comparing the benefits and costs of a decision, utilitarianism may not properly consider individual rights. This is usually a problem in clinical testing dilemmas. Let us imagine a pharma company that is developing a drug for curing a deadly disease in children. Having the tests done in a country with lower standards could greatly accelerate the release of the drug, potentially saving the life of millions. The cost would probably be a handful of preventable deaths in an emerging country. Some could argue, from an utilitarian point of view, that the benefits of conducting the tests far outweigh their cost. Hence, it would be morally permissible. Critics, however, argue that this utilitarian calculation is unfair toward the subjects in the emerging country. Generally speaking, an important problem of utilitarian thinking is that promoting the greatest good for the greatest number can affect fundamental rights of minorities [57].

#### 4.3. Kantian deontology

Bowie [58] pioneered the introduction of Kantian thinking in business ethics. Building on this work, Evan and Freeman developed a Kantian model for stakeholder management. Bowie [59] made the first comprehensive and systematic effort to apply Kantian ethics in business, in combination with contemporary theories of organization and strategic management.

Kantian morality is based on the premise that humans are autonomous beings that have an intrinsic dignity and universal rights. Kant proposes the categorical imperative as a test for assessing whether the principles upon which an action is based are morally acceptable. Kant offers different formulations of the categorical imperative [60].

The formulation “work only according to a maxim such that you can want at the same time that it becomes universal law” can be applied to bribery. If bribery (secret payments to gain an advantage over others) became a universal behavioral law, then the practice of making secret payments to gain advantages would make no sense. Since they fail the categorical imperative test, bribes are immoral.

The formulation “work as if, through your maxims, you were always a legislative member in a universal kingdom of ends”, translated to business, may mean that organizational structures should treat all people with equal dignity and respect. From this formulation arise obligations such as the consideration of all the interest groups affected by the decisions, the establishment of relations of justice and in cases where it is necessary to benefit one group over another that the decision is not taken with an Utilitarian parameter such as the number of members of each group.

Kantian deontology advises managers to identify the rights of the different groups affected by a decision and to choose a course of action that does not violate any. Because of its non-consequentialist nature, Kantian ethics avoids the problem of the aggregation of benefits and damages that affects utilitarian models.

Pharmaceutical companies must sometimes decide to test new therapeutic methods in societies with weak health regulations. From a utilitarian perspective, the risk of a few deaths in a developing country could be justified if it leads to accelerating the launch of a new therapy with the potential to save millions. From Kantian morality, however, this option would be illegitimate because it does not respect the dignity of the individuals who will be subjected to the tests [61]. Kantian arguments were frequently used to defend the right of employees not to be discriminated against, of consumers not to be deceived and of communities to enjoy a healthy environment.

However, Kantian ethics has also faced a number of criticisms. Different people can come up with different answers regarding the universalization of action maxims. Depending on the assumptions, many alternative formulations of rights could be made between different stakeholders [62]. Some argue that Kantian ethics is too speculative, demanding and unrealistic to apply in organizational contexts. Solomon believes that Kantian concepts are inadequate to address the specific context of business and the particular roles people play in companies: “people do not do ethics that way” [63].

#### 4.4. Virtue ethics

Virtue ethics is a venerable tradition that can be traced back to Plato and Aristotle in the West and to Confucius in the East. Recently, this stream of thought aroused a renewed interest, mostly due to the work of MacIntyre [64]. In the early 1990s, Solomon [65, 66] introduced Aristotelian ethics in the organizational field.

Virtue ethics starts with the idea that the basis for moral judgments is not the isolated individual but the community. A corporation is, above all, a community where managers fulfill roles with specific obligations. In many cases, there are no general rules on how to behave. Dilemmas cannot be solved with the instrumental reason, as if it were the resolution of a technical problem through the application of a universal law to a particular case. It is necessary to resort to practical reason, good judgment, or as Aristotle called it, *phronesis*.

The manager’s ability to make the ethically correct decision depends on his or her character. There are different virtues of character relevant to business, including honesty, courage, generosity, tolerance, integrity and prudence. Virtues are not static character traits that a manager possesses or does not possess. They are enduring traits that are cultivated through experience in the resolution of ethical dilemmas. In every situation where the executive is confronted with an ethically complex decision, virtue ethics suggests identifying what virtue is at stake and then asking what a virtuous person would do.

As the manager acquires this habit of thinking, his character will develop and his habits of ethical decision making will become more successful. To the extent that more members of the corporation go through this process and acquire the virtues of good character, the organization as a whole will tend to the common good [67].

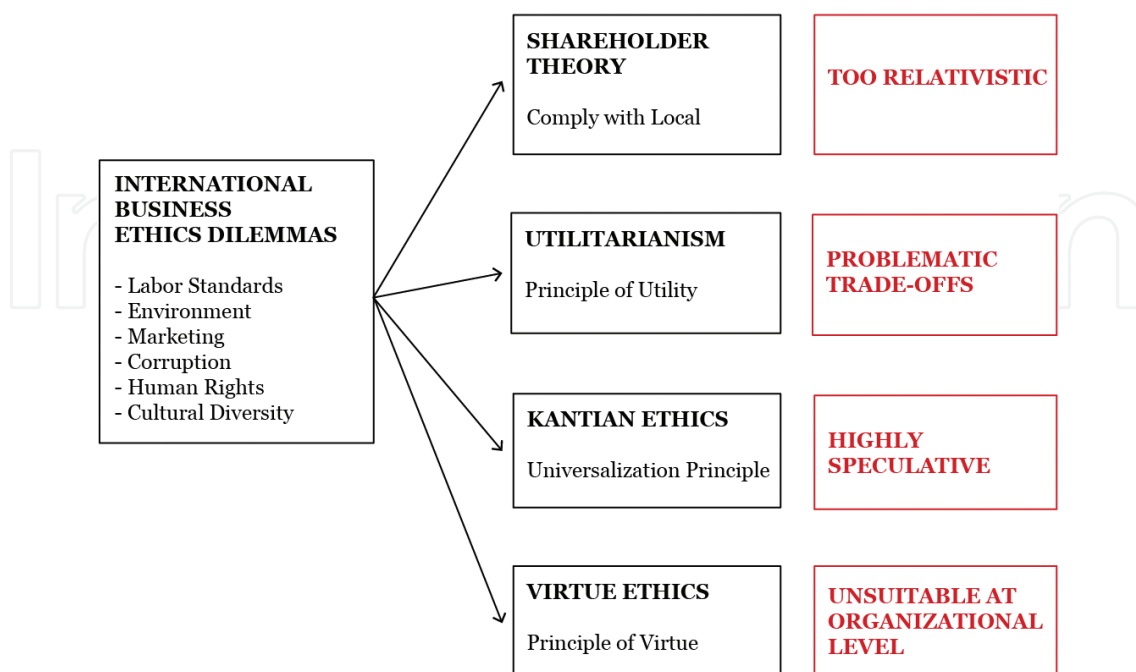
Virtue ethics’ approach seems well adapted to the concrete ethical situations that managers can find in organizations. The theory is able to solve cases where rules seem difficult to apply or when two or more rules suggest courses of action inconsistent with each other. Instead of

generating a discussion about which rule has priority over the others (a debate for which executives, because of their training and interests, are often poorly prepared) virtue ethics diverts attention from the principles to the agent. The key question is not what principle or rule is applicable, but what virtue is at stake and what would a virtuous person do.

Virtue ethics has faced two kinds of criticism. First the situationist critique questions the moral psychology assumptions underlying the model of virtuous man. Virtue ethics assumes that actions are a result of character, and that the development of good character results in better moral decision making. Doris [68], however, notes that character traits are less durable than what this model implies. Evidence indicates that small changes in the environment significantly affect decision making and that decisions depend little on the character of the person and much of the situation in which they are made. If this were true, then it would be false that the development of virtues tends to improve ethical decision making, a basic assumption of virtue ethics.

Second, while the focus on the agent may solve a number of problems of rule-based approaches such as utilitarianism and Kantian ethics, the downside is that it is only applicable to individual managers. Corporations, however, also need moral guidance for the development of global codes of ethics. Utilitarian and Kantian approaches, despite their difficulties, are capable of offering criteria of good corporate behavior on which to build globally applicable rules. Virtue ethics, on the contrary, is unable to provide answers to dilemmas at the level of the corporation in relation to business in society. Solomon argues: “a problem with virtue ethics is that it tends to be provincial and ethnocentric. It thereby requires the language of rights and some sense of utility as a corrective”.

Melé [69] believes that some basic rational principles from Personalist ethics could be used as guidelines for virtuous behavior. Melé proposes two principles: the Personalist Principle,



**Figure 3.** Different answers from traditional ethical theory to dilemmas in international business. Source: Own elaboration.

including respect and love for people, which prescribes respect of workers and consumers, and forbids exploitation, manipulation and deceptive behavior in commercial transactions; the Common Good Principle, which captures the social dimension of human beings, requires that managers and employees do whatever is necessary to contribute to situational needs and goals of an organization.

While Melé's proposal is valuable in trying to introduce some principles into virtue ethics, it is still at an early stage of research. At this point, the principles are too general and abstract. It remains unclear that Melé's proposal could correct the excessively situationalist character of virtue ethics, which makes it unable to provide rules for moral guidance in decision making (**Figure 3**).

## 5. Conclusion

Economic globalization and technological change are posing new ethical challenges to multinational corporations. As companies operate across diverse cultural and legal frameworks, moral dilemmas arise in labor standards, marketing practices, environment, corruption and human rights. In this chapter, I have reviewed the response of governments, corporations and civil society associations to the new moral dilemmas of globalization. Then, I have introduced the answers developed within the academic field of international business ethics.

Velasquez [70] applied all traditional ethical theories to a dilemma faced by a North American multinational doing business in Jamaica during the 1970s. He found that none of the existing theories provided an adequate answer. Theories were too abstract, presented inconsistent choices or made suggestions that were counterintuitive to moral common sense.

Other, more recent, frameworks have arisen during the 1990s, such as Integrative Social Contracts Theory, a contractarian approach to business ethics. Up to this point, however, no theory can provide a fully satisfactory solution for the dilemmas managers have to face. Much progress is to be done in developing better tools for managerial moral decision making in global business.

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