

INTERNATIONAL STRATEGIES AND ETHICS

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ABSTRACT

In this paper, we identify and discuss three different levels of ethics that can be implemented by organisations pursuing global, transnational or multinational strategies. Our main argument is that an organisation's approach to ethics depends on its level of ethics and the type of international strategy adopted. Organisations pursuing global or transnational strategies are likely to regard their approach to ethics as an important strategic decision that needs to be implemented in all subsidiaries around the world. Organisations with multinational strategies are likely to face tension between head-office and subsidiary management if they operate at different levels of ethics.

INTRODUCTION

There is a large literature on the subject of international business and ethics (for example Arthaud-Day, 2005; Buller, Kohls & Anderson, 1997; Falkenberg, 2004; Windsor, 2004) and (almost) every business ethics text has a chapter dealing with international business issues. What has not been explicitly considered in this literature in any detail is the implications for ethics of adopting different international strategies. This paper is the starting point for a more thorough analysis of this aspect of ethics in an international business context. We first provide an overview of three different international strategies before introducing three approaches to ethics that an international organisation might adopt. We then tease out the implications of each of these approaches to ethics with reference to the different international strategies. This analysis is descriptive rather than normative, therefore judgements about how international companies ought to manage their approaches to ethics is outside the scope of the paper.

INTERNATIONAL STRATEGIES

International strategies are concerned with the long-term decisions of organisations that operate across borders. These organisations face more challenging and more complex business decisions than those that operate solely within their domestic markets. For example, selecting geographic markets for international expansion is far more complex than expanding within an organisation's domestic market. Inherent in the choice of international strategy are decisions about responsibility and control.

International markets often have different laws and regulations, different infrastructure requirements, different currencies and exchange rates, different consumer preferences, different political systems and different religious or ethnic norms. As a result, operating internationally involves decisions about whether and to what extent managers need to take these political, social and economic differences into account and to adopt their strategies accordingly.

Organisations can adopt global, transnational or multinational strategies when operating in international markets. Organisations with a global strategy aim to achieve global efficiency by building centralised, global-scale operations (Bartlett, Ghoshal & Birkinshaw 2004). They assume the

presence of a global market segment with similar tastes and preferences and provide customers with standardised products and services in all the countries they operate. Organisations with this global strategic approach operate 'as if the entire world ... were a single entity; it sells the same things in the same way everywhere' (Levitt 1983:92-93). In addition to uniform products and services, organisations with a global strategy pursue a uniform marketing approach and integrate competitive moves throughout the world (Yip 1989). Global companies aim to achieve competitive advantage by exploiting economies of scale and scope and by demanding tight control over product development, procurement and manufacturing. Key strategic decisions are made centrally, usually by worldwide product divisions, and implemented by the overseas operations (Bartlett, Ghoshal & Birkinshaw 2004).

Organisations that adopt a transnational strategy seek to achieve both global efficiency and national responsiveness (Bartlett, Ghoshal & Birkinshaw 2004). Such a strategy requires both global coordination and local responsiveness. The head office needs to decide which key resources and capabilities are best centralised within the home-country to realise global efficiencies, which resources and capabilities should be concentrated (but not necessarily in the home country) and which resources and capabilities may be decentralised on a regional or local basis (Bartlett, Ghoshal & Birkinshaw 2004). Decision-making is a complex process of coordination and cooperation. The challenge for transnational organisations is to develop appropriate coordinating mechanisms between subsidiaries without compromising their freedom to respond to the needs of the local markets (Bartlett, Ghoshal & Birkinshaw 2004).

Organisations that pursue a multinational strategy emphasise the importance of local responsiveness and decentralise their strategic and operating decisions to the subsidiaries in each country (Bartlett, Ghoshal & Birkinshaw 2004). This strategy assumes that consumer needs, industry conditions, government regulations and social norms vary from country to country and that an organisation needs to respond by tailoring products and services to the requirements of the local markets. The decentralisation of strategic and operating decisions gives subsidiaries considerable autonomy to adapt their products and services, but also their marketing strategies and their competitive moves to the

situation of the host country (Yip 1989). Multinational subsidiaries tend to be autonomous and independent from the head office and are run as a portfolio of offshore investments rather than a single international business. Controls are often loose and simple (Bartlett, Ghoshal & Birkinshaw 2004).

BUSINESS ETHICS

Business ethics can be understood to encompass several dimensions: the application of moral values and principles, the reasoning process involved in making moral decisions, and the decisions made by the reasoning process and the resulting behaviours (Buller, Kohls & Anderson 1997). In this paper we are concerned with the reasoning process that international businesses either implicitly or explicitly employ in order to make decisions about their activities.

It is widely agreed that businesses have social responsibilities that go beyond profit maximisation and that ethics is one aspect of the social responsibility of organisations (see, for example, Carroll 1999; Fisher 2004; Garriga & Melé 2004). With relation to large corporations, it has been argued that because of their economic power they should be especially aware of their responsibilities (see for example, Gooderham & Nordhaug 2003). Indeed, it is no longer simply left to organisations to do whatever they like with respect to ethics as stock exchanges and other entities require them to pay attention to this aspect of their operations and to report against guidelines.

The OECD, in identifying the responsibilities of the board of directors, states that boards should adopt high ethical standards and take into account stakeholder interests. In addition, it is the role of the board to monitor all governance practices and modify them when necessary (OECD 2004:24). In 2003, the Australian Stock Exchange (ASX) introduced corporate governance principles and best practice recommendations against which companies are required to report the extent to which they have complied. Two are of particular interest, namely 'Promote ethical and responsible decision-making' and 'Recognise the legitimate interests of stakeholders' (ASX 2003:11).

The advice given by the ASX on how to achieve best practice in these areas includes developing and implementing a code of conduct for the board, management and employees. One of the essential elements of a code of conduct, according to AS8002, is a clear statement of the commitment of the

organisation to 'fair and ethical behaviour' (2003:6) which is understood and followed by everyone within the organisation from the board of directors down through all levels. Given these expectations and requirements, it is clear that an organisation's approach to ethics needs to be grounded in its corporate governance framework (Bonn & Fisher 2005). Given the accepted view that businesses do have a social responsibility to act ethically, we now turn to a consideration of the different approaches organisations can take to ethics.

APPROACHES TO ETHICS

All organisations need to address ethics, however, the way they do so varies. In order to analyse the different approaches to ethics we draw on Lawrence Kohlberg's (1976) theory of cognitive moral development which has been applied to organisations' approaches to ethics (see, for example, Falkenberg 2004; Gooderham & Nordhaug 2003; Trevino & McCabe 1994). While there is debate about Kohlberg's theory and methodology, it nonetheless remains one of the most influential cognitive-structural perspectives on moral development. According to James Rest, '[t]aking all of the research together... one must come to the conclusion that the evidence for a general developmental trend in moral judgement (as measured in the Kohlbergian tradition) is overwhelming' (1986:29).

Kohlberg (1976) identifies three levels of moral judgements which are qualitatively distinct. He argues that progression through the levels represents growth in cognitive moral development. Within each successive level an individual's moral judgements become less susceptible to outside influences, and their conception of what is right shifts from a self-centred conception to a broader understanding of the role of social contracts and principles of justice and rights.

At the preconventional level (Level 1), the perspective is that of the individual concerned about promoting their own interests. Someone reasoning at this level obeys the rules of society in order to avoid physical punishment and to promote self-interest. This level of reasoning has been described as hedonistic.

Individuals who are reasoning at the conventional level (Level II) take a social perspective. They are concerned with social approval; loyalty to persons, groups and authority; and about the welfare of

society more broadly. Individuals are concerned with living up to the expectations of people or groups close to them such as family or work teams and society as a whole. They uphold conventional morality by fulfilling the duties and obligations identified by the group society.

The postconventional level (Level III), which is also referred to as principled reasoning, takes the perspective of the individual, however, unlike the preconventional level, this perspective can be universalised. Someone reasoning at this level respects the rights of others, and upholds absolute values and rights regardless of the opinion of the majority.

One way of understanding the three levels is in terms of the relationship between the individual and society's rules and expectations. At Level I, rules and social expectations are external to, and imposed upon, the individual; at Level II, the individual has identified with or has internalised the rules and expectations of others, especially those of authorities; and at Level III, the individual differentiates himself or herself from the rules and expectations of others and identifies self-chosen principles of justice and rights (Kohlberg 1976).

In an organisational context, the levels are analogous. Kohlberg's framework has been employed by several authors in an organisational context (see, for example, Falkenberg 2004; Gooderham & Nordhaug 2003; Trevino & McCabe 1994). An organisation adopting any one of the three international strategies could be operating at any of the three identified levels. In the following sections we describe each of the three levels in an organisational context. This discussion is very loosely based on Gooderham & Nordhaug 2003 and Trevino & Nelson 2004. It is also important to note that our discussion does not depend upon the truth of Kohlberg's *developmental* theory as we are simply using the descriptions of the reasoning at the various levels of ethics to identify three approaches to ethics that can be identified within organisations.

Level I

At the preconventional level (Level I), the organisation is motivated by self-interest. It looks to the law to guide activities in order to avoid punishment and seeks to exploit any grey areas in order to benefit. Ethics is seen as external to, and a constraint upon, organisational behaviour and might be thought of

as a 'sticks and carrots view' (Falkenberg 2004:18). This approach to ethics is referred to as group egoism (see, for example, Shaw & Barry 2004). In order to decide what to do in a given situation, an organisation operating at this level will decide on the basis of whatever maximises the long-term self-interest of the organisation. Egoism is the guiding principle. Falkenberg (2004:18) argues that reasoning at the preconventional level is 'similar to much of the reasoning used by firms'.

Level II

An organisation operating at the conventional level (Level II) adopts a broader view than self-interest. It takes into account stakeholders' or, more broadly, society's expectations. An organisation operating at this level accepts conventional morality, thus ethical behaviour involves fulfilling the identified duties and obligations of society. Compliance with society's expectations is the guiding principle. Conventional reasoning may provide moral guidance in contexts that have 'adequate background institutions' (Falkenberg, 2004:18), however, this will not always be the case, especially when considering international business activity. In other words, it is not always ethical to 'do in Rome as the Romans do'.

Level III

For an organisation that operates at the postconventional level (Level III), ethics is regarded as an organisational matter. There is a requirement that any moral judgement should be able to be universalised to all similar situations. According to this view, ethical action does not involve identifying the duties and obligations that are relevant, rather, an organisation operating at this level identifies what is right and then does it even if the majority disagrees. Its activity is guided by principles of justice and rights. At this level, ethics becomes integral to organisational activity. Falkenberg (2004:18) claims it is only when organisations operate at this level that business decisions will be 'beneficial and sustainable in the long term'.

According to Kohlberg (1976:33), '[t]he conventional level [Level II] is the level of most adolescents and adults in our society and in other societies. The postconventional level is reached by a minority of adults...'. This is an important point since the approach an organisation takes to ethics is determined

by the people within it, especially top management (see, for example Shaw & Barry 2004; Trevino & Nelson 2004). If the leaders of an organisation are operating at Level II then, necessarily, the organisation will be unable to operate at Level III.

INTERNATIONAL STRATEGIES AND APPROACHES TO ETHICS

In the following sections we consider the three levels of ethics identified above that could be implemented by organisations adopting the three different international strategies – global, transnational and multinational.

Global Strategy

As identified above, a global strategy regards the world as a single entity with the head office integrating activities across its subsidiaries. In a global organisation key strategic decisions are made centrally and since the way organisations deal with ethics is a strategic matter, decisions about how ethics is to be addressed could be made centrally. Of the different international strategies, those organisations that adopt a global strategy exercise most control over their international operations and could therefore be seen to be more accountable for the way their subsidiaries operate. If unethical behaviour is revealed in one location it has the potential to be seen as having been condoned by the organisation since tight control is exercised over every aspect of the operations of subsidiaries.

If a global organisation is operating at the first level of ethics, it will be looking for ways to maximise its self-interest. Such an organisation would be tempted to exploit differences in legal, ethical and cultural expectations across its operations in order to benefit. If criticised, the response would be that no law had been broken in the host country, the organisation's obligation to maximise shareholder value had been fulfilled and, since standards vary from place to place, it is acceptable to take advantage of the situation – in fact a Level I approach to behaviour would require this.

A global organisation is especially vulnerable to the criticism that it exploits national differences since its underlying strategy is that the world is a single entity and subsidiaries are given little autonomy. Implementing different and inconsistent policies relating to, for example, occupational health and safety between the home and host countries, or creating pollution in host countries that would be

illegal in the home country could lead to bad publicity and harm the organisation. Of course, if this outcome was considered likely, then the global organisation motivated by self-interest would modify its behaviour to protect itself. The point to notice is that for this kind of organisation it is an evaluation of harm and benefit that will determine corporate activity – expediency not ethics guides behaviour.

If operating at the second level of ethics, the global organisation would be concerned to identify the duties and obligations it is expected to fulfil. This might be thought of as a ‘follow the leader’ strategy. For the global organisation operating at this level the difficulty will be that the ethical norms and social expectations (the duties and obligations that apply to business activity) in various locations will vary because they are context dependent. Interestingly, a Level II approach to ethics would *require* subsidiaries to identify the duties and obligations relevant to their context and act accordingly, so there is a tension between the underlying strategy of standardisation and the adoption of context specific ethical standards. If a global organisation does adopt context specific ethics, then its only response to critics relating to particular business decisions or activity would be to defend a relativistic approach to ethics. It is beyond the scope of this paper to evaluate relativism, however, it should be noted that this view is rejected by most philosophers (see, for example, De George 2006; Bowie 2004).

One solution would be for the head office to identify the duties and obligations that organisations are expected to fulfil in the home context and have its subsidiaries meet the same standards. This could mean that a higher standard is expected in host countries than is required, nonetheless, this approach could be justified since a global organisation is likely to be perceived as a single entity, and the global strategy implicitly endorses the adoption of the same ethical standards across its operations.

Organisations are not usually criticised for adopting a higher standard than is expected. It is, however, important to notice that this approach is a significant modification to Level II ethics. Also, if the standard expected in the home country was lower than that expected in the host countries, then this approach would not provide a solution.

A global organisation operating at the highest level of ethics would develop its own approach to ethics independently of what other businesses are doing. This kind of organisation is proactive and goes beyond the moral minimum identified by society. It would be concerned about justice, human rights

and universal values. It seems likely that such an organisation would consult widely to identify similarities and differences between subsidiaries in order to identify core values that could form the basis of a unified approach to ethics. The same principles and core values would underlie and inform the organisation's ethical stance in all locations. A distinction between non-negotiable ethical principles and 'rules' that do not have an ethical dimension, such as etiquette, can take account of many cultural differences. Also, in principle-based ethics, the principles can be quite general in nature and how they are applied in particular situations can vary, thereby addressing cultural differences without undermining the overall approach to ethics.

Transnational Strategy

In an organisation that adopts a transnational strategy, head office remains in control overseeing all operations in an attempt to maximise global efficiency combined with national responsiveness. Processes are put in place to allow senior management to intervene in key decisions and there are formalised management structures and systems that influence specific decisions. Arguably, the organisation's approach to ethics would also be overseen by head office. A transnational strategy means that the locations of the various operations have been chosen with a view to maximising efficiencies and responsiveness. Such a strategy might also facilitate taking advantage of, for example, lower environmental regulation or occupational health and safety standards than in other countries, however, this will depend on the organisation's approach to ethics.

An organisation operating at the first level of ethics will, like the global organisation, be looking to take advantage of differences between countries. However, unlike the global organisation, lower employment standards, for example, or less regulated manufacturing processes could determine where particular operations are established in the first place. In other words, the opportunity to benefit from lower ethical standards could mean that self-interest was the guiding principle in deciding where to locate its operations in the first place. The underlying transnational strategy could give rise to situations that many would judge as being unethical, for example, choosing to operate a manufacturing plant in a country that has little or no regulation of pollution or employment standards. The business would have to weigh up the benefits and the potential for damage to its reputation and share value

when making a decision about location. If criticised, it would draw on the same defence as outlined above – they did nothing wrong since they acted within the law and maximised shareholder value. It is egoism and not ethics that guides corporate behaviour across its operations.

At the second level of ethics, the transnational organisation is in much the same position as a global organisation (see discussion above). The structure of the transnational organisation means it still has direct control over its subsidiaries and so must be prepared to justify the policies and procedures adopted across its operations, however, its approach to ethics requires subsidiaries to fulfil their own context specific duties and obligations. If one of its subsidiaries is criticised, head office would use the same defence that the global organisation in the same situation would use – an appeal to relativism.

At the third level of ethics, the transnational business would be indistinguishable from the global business (see above). The transnational organisation would use its control over its subsidiaries to implement the same approach to ethics everywhere. This is because principled reasoning and universalisability guide decisions and behaviour irrespective of the place of operation. As discussed above, this does not rule out the principles being interpreted and applied differently in different contexts.

Multinational Strategy

Organisations that adopt a multinational strategy recognise that their consumers' needs and the broader contexts in which they operate vary to such an extent that subsidiaries tailor products and services for their individual markets. Strategic and operational decisions are decentralised and so these subsidiaries are largely autonomous and independent. The relevant question for our discussion is the implications of this freedom to be self-directing being extended to their approach to ethics. On the one hand, the situation could be viewed as separate entities controlling their own operations and each accountable for both the adoption and consequences of their approach to ethics. On the other hand, since the organisation operates under a single name in various locations, it is not obvious that multiple approaches are justifiable.

If the organisation devolved decisions about ethical expectations and the related policies and procedures to each of its subsidiaries, then within the organisation there could be three different approaches to ethics. One or more of the subsidiaries could be operating at any of the three levels, while the head office could also be operating at any one of the three levels resulting in nine possibilities.

If the head office is operating at Level I, then their view would be that the long-term interests of the organisation should be the focus of decision-making. If this standard was adopted independently by subsidiaries then, depending upon the context, what would satisfy organisational self-interest in one country may not do so in another. This would not be considered problematic, provided the self-interest of that subsidiary has been maximised. In this case there would be consistent decision-making across the organisation. Of course, this does not mean that particular decisions and activities could not be criticised by those who argue that expediency does not result in ethical behaviour. Moreover, even when a multinational strategy is adopted, the view that parent company bears some responsibility for the behaviour of its subsidiaries is likely to carry some weight and suggests that both head office and the subsidiaries would need to take this into account.

If a subsidiary, rather than adopting the head office's Level I approach to ethics, adopted a Level II approach, problems could arise. In a situation where a decision was made that satisfied a local norm, however, it failed to maximise the subsidiary's self-interest, then head office could not condone it. Given that head office has ceded decision-making to its subsidiary it may simply decide that it is up to the subsidiary to decide how to handle ethics and not be concerned about it. From the perspective of the subsidiary, the situation could also be problematic. A subsidiary operating at Level II would be concerned about some of head office's decisions, pointing out that while the activity may be legal it violates the norms of the home country. Again, the underlying strategy of devolving decision-making could be seen to avoid the problem. The subsidiary could simply accept that head office adopts a different approach. It seems unlikely that a subsidiary of an organisation operating at Level I ethics would adopt Level III ethics, but logically it is possible. Such a subsidiary would have real concerns about the decisions made by head office and would want to distance itself from these decisions at the

very least. Because the culture of an organisation is so influential in determining the ethics of an organisation (see, for example, Shaw & Barry 2004; Trevino & Nelson 2004), it is unlikely that a Level I organisation would give rise to a Level III subsidiary.

For a head office operating at Level II, its expectations and responsibilities would be determined by the accepted norms in the context in which it operates, and likewise, it would recognise that its subsidiaries operating in different contexts could well be required to fulfil different expectations and responsibilities. This would not be considered problematic as the duties and obligations of business are context specific and differences would be expected. If, however, a subsidiary was operating at Level I then head office could be concerned. This is because, according to its own standards, the subsidiary could make decisions and engage in activities that violate the duties and expectations of the society in which it is operating. Such activity could not be condoned by the parent company. The head office would need to consider whether its adoption of a multinational strategy prevents it from exercising control over its subsidiaries when it comes to ethics. If it decides not to influence the behaviour of its subsidiary, then it leaves itself open to criticism from those who believe a higher standard than self-interest is required. Since the head office itself agrees with this view, the only defence would be that it would be inappropriate for it to interfere – a not very plausible response. If a subsidiary of the parent company adopted a Level III approach to ethics, then it could view some of head office's decisions as problematic. For the subsidiary, fulfilling the context specific duties and obligations would not be sufficient to meet its ethical standard. In other words, head office could be engaged in behaviour that the subsidiary would condemn as unethical. Such a situation would be deemed untenable by the leaders of the subsidiary in which case they will either leave the organisation or they will be forced to lower their expectations to conform to head office's position.

Finally, if a Level III approach to ethics is adopted by the head office, then the view of ethics promoted would be that of identified principles and core values to be upheld and a requirement that judgements be universalisable. On this view, the same values and principles are applicable everywhere. Even within a multinational strategy, it is difficult to imagine how the parent company could tolerate its subsidiaries adopting a lower ethical standard. To do so would violate its own

principles. The head office would be unable to justify the behaviour of a subsidiary operating according to the principle of maximising self-interest, and nor could it accept different judgements being made in similar situations simply because the accepted norms differ from location to location. When combined with the multinational strategy of allowing subsidiaries to be autonomous, this gives rise to a tension that is at least *prima facie* difficult to reconcile.

CONCLUSION

The above discussion has proposed that an organisation's approach to ethics depends upon the organisation's level of ethics as well as the type of international strategy adopted. The level of ethics prevailing in the organisation raises the question of organisational leadership and, in particular, the role of top management. In organisations that pursue global or transnational strategies, the approach to ethics, as part of an overarching corporate governance framework, can be regarded as an important strategic decision that needs to be implemented in all subsidiaries around the world, similar to decisions relating to marketing or product development. In organisations with multinational strategies and decentralised decision-making, the approach towards ethics, while still being an important strategic decision, may cause tension between top management and subsidiary management if these management groups operate at different levels of ethics. Top management, for example, may recognise the importance of ethics for the reputation and integrity of the organisation and give directives to their subsidiaries as to what is ethically acceptable; however, the subsidiaries might decide not to implement these directives because they disagree with them. The role of top management then is to manage this tension in order to achieve an outcome that protects the long-term reputation and integrity of the organisation.

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