

Chapter 6

Institutional Ethics: The State Regulatory Framework



What Follows Why?

Institutional ethics must provide a framework that enforces moral behavior in business. In the following, we will examine the Prisoner's Dilemma as the fundamental problem of institutional ethics, and introduce the codes of ethics that should enforce ethical behavior in business practice.

Learning Goals

You should be able to explain the national and international Prisoner's Dilemma and to present approaches to overcoming these dilemmas.

6.1 The Ethical Prisoner Dilemma

If all competitors behave morally it creates a fair performance competition from which all parties profit. It has already been established that the economic order has to exhibit moral behavior. If it is advantageous for a company to behave immorally, it may be forced to do so in order to remain competitive. Market advantages can result from unfair competition such as deceptive advertising, libel, etc. At the very least the trust of the consumer in the product is lost. Due to intransparency he will not buy the product from any company. This is a prisoner's dilemma.¹ Even if the company were to behave morally, it does not know how the other companies will behave, and therefore must assume immoral behavior and behave immorally in order to ensure its survival. There is a risk of an unfair predatory competition by means of concealed immoral means. The economic welfare potential cannot be achieved. The problem of ethical imprisonment always arises when no moral rules are enforced. The ethical prisoner dilemma is not just true for companies in competition but also for companies with unethical business cultures and for the employees

¹ See Kirchgässner, Gebhard (1991), pp. 51.

Fig. 6.1 Payment matrix of fair competition in the ethical prisoner dilemma
 *Nash equilibrium is the worst case for all (Nash: No one can unilaterally improve through another strategy)

payment	B behaves morally	B behaves im-morally
A behaves morally	(5, 5)	0, 6
A behaves im-morally	6, 0	1, 1*

themselves. This also applies to the internal competition of employees within the company. Here an employee can gain a career advantage by lying, as has already been shown in the case study “colleagues” (Sect. 2.1.3). Unethical companies cannot realize the collective best case with high productivity if the employees do not behave morally. Like with Enron, the employees compete internally and do not cooperate. The return of teamwork cannot be realized.

The ethical prisoner dilemma for a fair competition is as follows: The worst case for a company manager A is if he behaves morally, but the company manager of another company B does not and the best case for A is if A behaves immorally, but B does not. B is in the same decision-making situation. The result is the combination in which both companies operate unfairly, thus the worst case for all (Nash equilibrium). Without ethical rules, such as law enforcement when the ethical prisoner dilemma arises, a company finds itself in the worst-case situation if it behaves ethically (Fig. 6.1).

In the context of such a distorted situation, companies have the opportunity to approach the government and request a change to the regulatory framework. Unfortunately, such attempts to change regulations are rarely successful. Rather, many companies try to delay ethically motivated regulations for as long as possible. For example, Ford’s self-defeating lobbying delayed Ford’s security measures for 8 years to avoid the additional \$11 of the plastic buffer on the petrol tank. Accident victims were accepted as a liability.² The egg industry, which defends the agonizing mass management of laying hens, is another good example.³ This is due to the fact that the decision-making structure for A and B changes as a result of the company having to bear only a part of the costs of a decision in the case of decisions made at

² See Wörz, M. (1994), p. 22.

³ See Göbel, Elisabeth (2010), p. 183.

Fig. 6.2 Payout matrix; decisions on third parties in the ethical prisoner dilemma
 *Nash equilibrium is equivalent to the worst case for all. The morphological/moral combination is pareto-efficient

payment A/B/third parties	B behaves morally	B behaves immorally
A behaves morally	[1, 1, (0)] **	0, 5
A behaves immorally	5, 0	[3, 3 (-10)] *

the expense of third parties (external effects, see Sect. 5.5.4). The payouts for third parties are therefore listed separately in Fig. 6.2. In the case of the environment, the cost of pollution is borne by the public, whose health and quality of life are adversely affected (negative external effects). In the case of work safety, the company can save costs at the expense of employees. In our examples above, the health risk affected Ford’s customers or laying hens.

An empirical study has shown that managers are only willing to stick to moral standards when they believe their business partners are sticking to them. If this is not so, they are not willing to behave morally, even if they consider the rules to be important and meaningful.⁴ In the case of the prisoner’s dilemma, there is uncertainty about the conduct of the other companies. Even if they all wanted to behave ethically, they could not, because there was then the risk of coming into the worst-case situation. The solution to this problem is:

1. Clarification of A and B on the value of moral behavior, thus increasing the incentive to behave morally.
2. Moral behavior is rewarded by incentives (morality must be worth practicing). An ethical consumer awareness leads to increased sales of ethical products.
3. Binding contracts with sanctions: laws, state control and sanctions in cases of misconduct (ethical order policy).

6.2 Ethical Institutions and Organizations

The significance of an ethical framework has often been discussed. Without an ethical rule, thus laws which are also enforced, an ethical problem arises in which the company comes into the worst-case situation, which is unethical. Of course,

⁴See Blickle, Gerhard (1996), p. 116.

positive incentives such as environmental subsidies can also help escape the ethical prisoner dilemma. After all, the state can counteract unethical behavior by trying to develop social morality and thus shape employees either before they enter the company or create a more ethical environment for the company. Ultimately, all citizens are asked to act ethically in their environment (duty ethics).

Institutions have evolved over time to overcome social dilemma structures, such as the state legal system. Institutions are made up of people who serve people. They regulate interpersonal coexistence, in which they place appropriate incentives, for example laws and penal sanctions in the event of an offense. Ethics, which is concerned with moral institutions, is called institutional ethics, social ethics, or even order ethics.⁵

Insofar as we are not dealing with a dictatorship, institutional ethics derives from collective ethics. All social regulations are developed and implemented by the community. An institution such as the legal system must be morally recognized by society. It is only through compulsion and control that institutions cannot go against the will of the individual. The institutions also shape the individuals who live with them. Together with non-legislative collective ethics (norms) and parents, institutions determine the socialization of individuals. Ultimately, the institutions, such as the legal system, determine the consequences of moral actions and thereby set the incentives to behave in certain ways. If there is no employment law and a prohibition of association, the employee is not only at the mercy of the employer (institutional ethics), but another employer is also hard-pressed to make concessions to his employees as he has to fear competitive disadvantages. Moral behavior is thereby made more difficult. Institutions such as democracy, with all the legal regulations on the division of powers, make it possible to exercise equitable, and thus moral, discourse ethics.

In a study that investigated why people obey laws, it turned out to be crucial for most people that they are convinced that the laws are ethical and legitimate. Furthermore, most people feel a strong commitment to follow laws that address education and protect the environment. Penalties are necessary for a minority, excessive penalties in case of violation of regulations can have a counterproductive effect.⁶

Social moral norms and values emerge in a trial and error process: a cultural evolution. They express what behavior is desired by society because it benefits society and its members. This behavior that a company considers positive is rewarded by social recognition. Conversely, negative and thus societally damaging, behavior is sanctioned by social exclusion or even by the judiciary as a social organization. We refer to people as good when they are positive for others and vice versa. Ultimately, the categorical imperative of Kant expresses exactly this: always act so that your action could be the basis of a general law, or as per the saying “what you do not want done to yourself, do not do to others.” Ultimately, laws are valid for

⁵ See Göbel, Elisabeth (2010), p. 34.

⁶ See Tyler, Tom E. (1990) and Paine, Lynn Sharp (1994), p. 111.

everyone and represent a social rule that should be valid for all. Equality before the law should always apply.⁷

Legitimacy derives from what reason, conscience, and public discourse recognize as justifiable interests. Legitimacy does not necessarily follow legality. Laws can also be immoral, such as the laws on racial segregation in the US and South Africa. Economic activities can be legal but unethical, such as child labor in some countries. Finally, many unethical practices are not punishable, because a court action is often not worthwhile or the injured parties lack the necessary financial resources.

An example of the difference between legality and legitimacy from the company's point of view is the case of the 1991 Salomon Brothers. Four top managers were reported for legally non-conformist behavior at the trading table for government bonds. They had their legal department check whether they were obliged to publish the lapse, and they were not. However later, when the incident came to the public, their silence led to a massive breach of trust that led to an estimated loss of one billion US dollars due to customer or contract losses and higher legal and refinancing costs.⁸

The state regulates the company's dealings with its stakeholders through laws and regulations. Of particular importance are the following:

- (A) Employee protection rights
- (B) Protection of consumers (starting with the general terms and conditions of business, the regulation of prices, the food regulation and the Unfair Competition Law).
- (C) Investor protection (from the Investment Protection Act to the Securities Trading Act)
- (D) Environmental protection legislation (covers waste disposal, noise protection, air pollution, water protection and landscape protection)
- (E) Animal welfare laws and regulations

6.3 Is the State of Law Sufficient?

The economy produces goods for the community to consume and invest in. This is necessary for the survival of the community, but there are also other products that the community needs. These include inner stability, including internal security, low crime rates, a general harmony amongst its members and thus a smooth functioning of societal and economic processes. There are many prerequisites for this to happen, including societal rules and laws and thus institutions and organizations to implement them. These alone are not sufficient, however. Social morality, good behavior and politeness are additional prerequisites for societal processes to run smoothly.

⁷ See also Habermas, Jürgen (1975), p. 72

⁸ See Paine, Lynn Sharp (1994), p. 110.

The state as an organization cannot control, monitor and implement everything. Even if one were to attempt to do so, the expense would be enormous. On the other hand, if social rules were not adhered to by anyone the social system would collapse. Machiavelli had already realized this in his *Discorsi*: “Just as... laws are necessary to maintain manners, good morals are necessary to respect the laws.”⁹ This interconnection also applies to the economy, since the economy is part of the society, but we will address this in more detail later on. Good manners, morality or more generally, behavior in conformance with the community, is mostly transmitted through social education. This basis for behavior is another good needed for the society to survive, and which must be produced by the people themselves. It is not just a question of rules and control. For instance, you cannot make a functioning company out of a prison full of criminals. Even if the criminals are controlled as well as possible, the outcome will be miserable without motivation and morality.

Market failure would occur without these laws. For example, some companies in Germany use the fact that the packaging sizes are no longer regulated by law. Price increases are hidden by a smaller packaging content. The consumer only sees that the packaging costs the same as before. Such packaging tricks are unethical because they change the exchange to the disadvantage of the customer, without informing them about what is actually fraud in the broader sense.¹⁰

Laws are a necessary prerequisite for the functioning of an economic and social system but not sufficient. Without morality it does not work. Laws can be ignored because either control is incomplete or the punishment is not dissuasive. Thus, it becomes worthwhile for long-haul drivers not to comply with legally prescribed rest periods and to accept a fine. And in the construction industry the legal minimum wages are undermined. Laws can be circumvented. Since children’s programs are not allowed to show advertising blocks, the channels broadcast the programs as a “family program.” Laws are inaccurate or leave a great deal of room for interpretation because they must be universal and cannot anticipate every individual case. For example, there are interpretable terms such as “faithfulness and faith,” “carefulness,” or “reasonable compensation.” The Act on the Appropriateness of the Management Board Remuneration (*VorstAG*) merely states that the remuneration of the Management Board should be proportionate to the tasks and performance of the Management Board, the Company’s position and the usual remuneration.

There is, for example, a problem of law enforcement in the economy. Economic deprivation is seldom uncovered in comparison with other illegal acts, and even more rarely punished. In relation to the consequences and the likelihood of being discovered, the penalties for economic crime are far too small. For a long time economic science has been calling for a tightening of economic criminal law. For example, the economist Gary S. Becker claims that the penalties are based on the consequential damages and the probability of discovery. The aim is that the expected value of the sentence is not less than the consequential damages for society. For

⁹Machiavelli, Nicola (1977), p. 64.

¹⁰See Göbel, Elisabeth (2010), pp. 287.

example, if the impact of an action is €1 million and the probability of detection is 10%, the penalty would be €10 million.¹¹

In order to comply with these laws, the acting norms and customs also need their own morality. Furthermore, society, economy and technology are developing, so that laws have yet to be enacted for many immoral acts. An example is the Internet and the mobile phone sector with new possibilities to take advantage of customers. Laws usually end at the borders of a country, which is why regulatory arbitrage occurs. By way of example, shipping companies bypass the safety regulations of their home countries by sailing under the flag of a country without regulations.¹² In general, morality or ethical awareness is the prerequisite for the emergence of laws and jurisprudence. In the case of legislation, the judge is bound to his conscience, as is the judge in case law. There can be no laws and no jurisprudence without morality.

You can also see it reversed. It is not the order that matters, but what people make of it. Here Johann Heinrich Pestalozzi can be cited as a representative of the people who believe that people can be influenced by education: “He has learned that all forms of government are of no use when people are no good”.¹³

Summary

The economy produces consumer goods and capital goods for society. This is vital for society, but there are also other products that society needs. This is above all inner stability, which is to be understood not only as internal security, but above all a low crime rate, in general the harmonization of the citizens and thus the smooth running of social (also economic) processes. For this, there are many prerequisites: above all, social rules, laws and institutions, and the organizations to enforce them, but these prerequisites are not enough. Social morality, good manners or courtesy are further prerequisites for the smooth running of social processes. The institutions and organizations cannot control, monitor and enforce everything. If, on the other hand, no social rules were respected by anyone, the social system would collapse immediately. Where laws and control cease, morality begins. Morality regulates human behavior so as to prevent social harm.

Comprehension Questions

1. Explain the ethical prisoner’s dilemma in fair competition and at the expense of third parties. What are the possible solutions?
2. Why is there a difference between legality and legitimacy?
3. Explain the extent to which morality is necessary for the functioning of a legal system.

¹¹ See Becker, Gary S./Becker, Guity Nashat (1998), pp. 173.

¹² See Göbel, Elisabeth (2010), pp. 289.

¹³ <http://haus-des-verstehens.ch/tagebuch-blog/636-johann-heinrich-pestalozzi-und-rosa-luxemburg.html>

6.4 International Business Ethics

Role-Play Game: Globalization

Manufacture of clothing (or sports shoes) in India or China (child labor, occupational safety regulations).

In the discussion, take the following roles: 1. working child, 2. parents, 3. consumer, 4. foreign producer, 5. national producer, 6. national unemployed. Represent the interests of your roles.

1. Try to use the ethical assessment approaches already presented in chapter
2. Try to use discourse ethics here. After the discussion in the plenum, the audience will try to find an ethical solution to the globalization problem.

Explanation

The game takes only 10 min. There is no role description, because the participants should develop the situation creatively. They should identify with the roles. Here, the lecturer is given the task of probing and provoking a little bit. In the end, whole group is discussing including the audience. The following question should also be discussed: Is there an international economic ethic in the sense of the same ethical ideas?

Numerous ethical violations emerge from the discussion, but no solution can be found. There will not be western labor protection laws in China any time soon, so the competition is unfair. Due to ethical restrictions, western companies have higher costs. If the state does not compensate for these competitive disadvantages by means of tariffs or subsidies, they can only be compensated for by a lower wage or higher productivity.¹⁴

It is clear that in global competition we need a global legal framework that ensures ethical management. However, this is not to be expected in the foreseeable future. There is no supranational state organization, which causes uncertainty about the behavior of others and we again have a moral prisoner's dilemma. How can one get out of the international prisoner's dilemma?

The following solutions are offered, which are presented in more detail below:

1. Transparency and sanctions
2. International quality seal
3. Incentives
4. International Code of Ethics

¹⁴See Göbel, Elisabeth (2010), p. 182 and Bitzer, Tina/Elsen, Dominik/Illner, Elena/Müller, Michael (2015), pp. 280.

Non-Governmental Organizations (NGOs) are for example:

Topic:	NGO
Environment	Greenpeace
Human Rights	Amnesty International
Anti-corruption	Transparency International
Health	World Health Organization (WHO)
Healthy Food	Food Watch, Food and Agriculture Organization
Fair Trade with the Third World	European Fair Trade Organization

Fig. 6.3 Important Non-Governmental Organizations

6.4.1 *Non-Governmental Organizations or Civil Society Groups*

Non-Governmental Organizations (NGOs) are already trying to establish ethics on the international level through appeals to the public. They do not have direct sanction possibilities, but are dependent on the reactions of the public to control the misconduct of groups, for instance by a purchasing boycott.

One possibility would be that an international arbitration system compensates for competition violations through sanctions, as is the basic concept of the General Agreement on Tariffs and Trade (GATT). The non-governmental organizations could be given the function of an international prosecutor. They would follow evidence from competitors or act independently when the suspicion of unethical competition practices is suspected. They would take their complaint before the World Trade Organization on the basis of international agreements to be drawn up for this purpose. The WTO could examine the accusations and, in the case of ethical violations, allow counter-measures to the national states, such as countervailing duties (Fig. 6.3).

6.4.2 *International Quality Seals*

The moral prisoner’s dilemma can be solved if morality is worthwhile. Fairness seals help to offset the distortions of competition as long as the consumers allow themselves to be guided by them. The certification of the Flower Label Program (FLP) label had the purpose of implementing ethical working conditions in the production of cut flowers and was based on the International Code of Conduct (ICC) for cut flower production. It had to be abandoned because of the lack of financial resources. It was no longer possible to carry out an inspection of the measures. The ICC was developed and published in 1998 by the non-governmental organizations, trade unions, producers and trade. The Code of Conduct provides ethical working, social and environmental criteria. The basis for this are the UN human rights instruments, the relevant conventions of the International Labor Organization (ILO) and

environmental standards. For 20,000 workers in cut-flower plantations in Africa, Asia and Latin America, FlowerLabel Program had achieved fixed employment contracts, maternity protection, occupational health and safety. Among other things, pesticides prohibited in Europe were prevented from being used in non-regulated developing countries.¹⁵

Fairness seals can also be issued by Civil Society Groups. For example, Fairtrade or TransFair seals for goods, e.g. coffee imported at a fair price, or Rugmark for carpets produced without child labor. Ecological companies developed the Demeter logo for organic food.¹⁶ It is important for such quality seals to be credible through neutral institutions such as NGOs.

The Clean Clothes Campaign (CCC) works to achieve better working conditions in the production of clothing in countries where labor is cheap. The “Code of Labour Practices for the Apparel Industry Including Sportswear” is based on the ILO. Companies are called upon to mandate compliance companies to monitor compliance with the Code. The CCC is a network in which 22 nationwide working organizations, or associations have joined together to form an organization. The campaigns of the organization show that many companies do not meet the requirements.¹⁷

6.4.3 *Incentives to Overcome the International Prisoner’s Dilemma*

An ethical awareness among consumers or investors causes an ethical behavior of the companies through the market. Ethical management is rewarded. In the meantime, there are many incentives for companies to ethically standardize their corporate policies. For example, there were 174 investment funds in Germany in 2008, which only invested according to specific ethical criteria, such as no arms business, no child labor or forced labor, ecologically sustainable business, and promotion of renewable energies.¹⁸ The funds are supported in their investment policy by specialized research and rating agencies. Violations are registered to create a negative selection. In addition, the companies are assessed according to ethical criteria and ranked in order from which the investment preferences can then be derived. Possible

¹⁵ See Weißmann, Norbert (2000), p. 123 and http://www.fian.de/online/index.php?option=com_content&view=article&id=407:blumenguetesiegel-flower-label-program-flp-vor-dem-aus&catid=56:pressemitteilungen&Itemid=59

¹⁶ See Göbel, Elisabeth (2010), p. 182 and 184.

¹⁷ See <http://www.cleanclothes.org/resources/ccc/corporate-accountability/the-ccc-model-code> and <http://www.cleanclothes.org> and <http://www.saubere-kleidung.de/index.php/wer-wir-sind/25-wir/28-die-traegerorganisationen>

¹⁸ See Göbel, Elisabeth (2010), p. 315.

aggregate endnotes or individual company-specific evaluations are possible for all criteria.¹⁹

The purchasing companies are particularly important here. For example, C & A and the German Otto trading group demanded proof from the Triumph textile company that neither children nor forced laborers were employed in the production. The works council, together with the trade union, was then able to enforce a further self-imposed commitment of the management, which had refused to do so for many years. A monitoring group, consisting of employers and employees, was set up to investigate infringements. According to the opinion of the works council, the fear of negative headlines had a strong binding effect for company management.²⁰ Levi Strauss & Co. (Jeans), on the other hand, ceases business relationships with countries where systematic human rights violations take place (for example, China).²¹

6.4.4 *International Ethical Codes*

Multinational companies have economic power that exceeds that of many states. They have a great influence on their national governments through their economic importance and lobbying. Because they are multinational they can move their activities internationally and evade part of the state control.

The OECD Guidelines for Multinational Enterprises were adopted by the 42 Governments of the participating states at the meeting of the OECD Council on 25 May 2011 at ministerial level.²² They include honest information to the public about business activities, environmental protection, concerns for consumer interests, duty of care with respect to the supply chain, adherence to human rights and ILO core labor standards,²³ combating corruption, etc.

The Global Compact was adopted in 2000 under the leadership of the UN Secretariat of the United Nations and is intended to provide an international framework for a voluntary ethical commitment in business. Ten principles have been developed in the fields of human rights, labor standards, environmental protection and the fight against corruption, which constitute an international consensus.²⁴ More than 9000 companies signed the Global Compact worldwide.²⁵ They are obliged to report on the implementation of the principles every year. Violations of these principles may be reported to the UN Secretariat by third parties, as in the case of Nike

¹⁹ See Hoffmann, Johannes/Reisch, Lucia/A./Scherhorn, Gerhard (1998), p. 3.

²⁰ See Jensen, Annette (2003), pp. 18 and Wieland, Josef, (1999), p. 22.

²¹ See Haas, Robert D. (1994), p. 2.

²² See OECD (2011), OECD-Leitsätze für multinationale Unternehmen, OECD Publishing. <http://dx.doi.org/https://doi.org/10.1787/9789264122352-de> (4.04.2013).

²³ See <http://www.ilo.org/berlin/lang--de/index.htm> (4.04.2013) and Simma, Bruno/Heinemann, Andreas (1999), p. 413.

²⁴ See <http://www.unglobalcompact.org/Languages/german/index.html> (4.04.2013).

²⁵ See <https://www.unglobalcompact.org/what-is-gc/participants>

by an American labor activist. Nike had claimed in an information brochure that its working conditions in Indonesia and Vietnam had improved significantly, but this was not correct. The activist sued Nike. Nike sustained heavy image damage and had to pay \$1.5 million in an out-of-court settlement to the Fair Labor Association.²⁶

In 2011, a sustainability code (German Sustainability Code) was developed in Germany that includes 20 environmental, social and corporate management criteria and is to be reported annually. It is implemented by more than 40 German companies from Allianz AG to Deutsche Telekom to VW. The EU Commission wants it to be binding on European companies with a staff of 500 or more. This scheme would cover 18,000 of the nearly 40,000 larger companies. So far approx. 2500 European companies have published sustainability reports.²⁷

Environmental compatibility and working conditions can be reviewed and tested by the companies on the basis of predefined standards by many officially approved experts. The environmental criterion (EC Eco Audit) described by the EU Commission or the SA 8000 Standard, which defines the ethical guidelines for working conditions, are applicable. In order to limit conflicts of interest caused by the payment of the experts by the audited companies, the SA 8000 initiative is based on the control of the experts through non-profit organizations that can object to the certification of a production site or even against the approval of an expert or a certification company. Companies that wish to be certified according to the SA 8000 are committed to healthy working conditions, no child labor, the admission of trade unions, fair working hours and no discrimination.²⁸

Global guidelines require that there is an internationally common understanding of ethics. It must apply to all people, businesses and states, which is controversial. So-called cultural relativism sees the ethical norms as varied internationally and rejects a global prescription as paternalism. On the one hand, international corporations would have to adapt to the customs of the respective countries, including child labor and reduced safety and environmental standards. On the other hand, the so-called ethnocentrism sees its own norms and values as internationally superior and tries to transfer them to other countries. The universalism does not provide any values for this, but instead presumes globally valid values, e.g. human rights or the norm of an intact environment.²⁹

The definition of uniform social and environmental standards as in the OECD Code is regarded by many emerging and developing countries as “value imperialism.”³⁰ Ultimately, the Declaration of Human Rights from 1948 came under the leadership of the Western States, which strongly emphasize individualism and in

²⁶ See Göbel, Elisabeth (2010), pp. 302 and 312.

²⁷ See <http://www.nachhaltigkeitsrat.de/deutscher-nachhaltigkeitskodex> (7.10.2013) and F.A.Z. from 17.04.2013.

²⁸ See <http://www.sa-intl.org/index.cfm?fuseaction=Page.ViewPage&PageID=937> (7.10.2013) and Gilbert, Dirk, Ulrich (2001), p. 128, 132 and 138.

²⁹ See Kreikebaum, Hartmut/Behnam, Michael/Gilbert, Dirk Ulrich (2001), pp. 112.

³⁰ See Scherer, Andreas Georg (1997), p. 11, G. p. 307.

which collectivism and religion have a relatively minor significance.³¹ Meanwhile, however, there are also human rights organizations in the newly industrializing and developing countries that claim human rights.³²

As already indicated, the need for uniform ethical economic norms is to avoid distortions in competition. If there are no uniform regulatory frameworks, different ethical standards can lead to an adaptation to the lower standards. For example, the United States suffered competitive disadvantages in 1997 due to the unilateral introduction of the “Foreign Corrupt Practices Act,” which have led to losses in billions after calculations. In Germany, however, bribes were tax-deductible as “useful expenses” until a few years ago.³³

As long as global ethics benefit people abroad, little can be said against them. However, there will always be borderline cases where the cultural peculiarities and other constraints contradict the enforcement of ethical values, e.g. a prohibition of child labor. Here, people in non Western countries can be harmed by the guidelines. For example, if the survival of a family depends on child labor. If a foreign society is based on collectivism as there is no social welfare system, there are other duties for the individual. There is a stronger collective responsibility. In this case, a case-by-case analysis must take place, and the individualization and anonymization of the Western industrialized countries are certainly leading to considerable problems so that an ultimate freedom of the individual should not be the only universal goal. Individualization is also a consequence of the market economy. This tendency seems to be increasing in all countries that integrate with this system into the global division of labor. Nonetheless, the values of human rights and the environment should be universal ethical goals, because they are of benefit to people, regardless of cultural differences.

Summary

Morality as the behavior demanded by society can differ culturally, which is why companies acting on an international level are also confronted with different ethical expectations. With technological advances (Internet, satellite television, etc.), globalization of the economy, as well as a globalization of values and social movements has taken place. The increased importance of public relations is also reflected in the fact that many international corporations now publish social and environmental reports.

Comprehension Questions

1. What are the difficulties of international ethics?
2. What solutions are there to enforce ethics on the international level?
3. Describe the problems faced by Western companies when they produce or compete with emerging markets.

³¹ See Göbel, Elisabeth (2010), pp. 308.

³² See Göbel, Elisabeth (2010), pp. 309.

³³ See Noll, Bernd (2002), p. 184.

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