

# The Value-Added Approach to Business Ethics\*

## Ethical Reflections on the Challenges Facing International Businesses in Developing Areas

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### *Der Value-Added-Ansatz. Ethische Reflexionen zu den Herausforderungen transnationaler Unternehmen in Entwicklungsländern*

*Der vorliegende Artikel untersucht die Herausforderungen international tätiger Unternehmen in Entwicklungsländern, indem eine alternative Sicht in Bezug auf Entwicklung, Unternehmensstrategie und ethische Fragen herausgearbeitet wird. Für diesen Zweck wird eine institutionelle entwicklungstheoretische Perspektive eingenommen und die Bedeutung von „assets“ jenseits von Kostenminimierungsstrategien unterstrichen. Es werden zwei ethisch-orientierte Ansätze gegenübergestellt: eine auf Benchmarks bezogene Lesart von Unternehmensstrategien einerseits und der hier vertretene „Value-Added Ansatz“ andererseits. Der Artikel verdeutlicht, wie international tätige Unternehmen einen über einzelwirtschaftliche Aspekte hinausgehenden Beitrag in Entwicklungsländern leisten können, indem im besonderen Maße auf die Bedeutung von Human-, Sozial- und natürlichem Kapital eingegangen wird.*

*key words:* international business, business and development, poverty reduction, business ethics, asset development, value-added

### 1. Introduction

We now live in a world where the lives of all peoples are inextricably inter-connected. We have been brought closer to each other through modern systems of transportation and telecommunication. Commercially the links between people grow in number and complexity. Elements in the products we use, the clothes we wear, and the food we eat may come from quite diverse places from all over the earth. The volume of trade between countries has greatly increased. We are inter-connected in other ways as well. A disease like AIDS begins in one part of the world and within a short span of years it has spread throughout the globe. How humans utilize natural resources in certain parts of the world may well affect those in other parts. Particles from insecticides used in the tropics eventually appear in rain and snow of arctic areas. Pollution caused by industry and vehicles in urbanized areas ends up disturbing the earth's atmosphere in ways that affect all humans. We have become inter-connected in still other ways. Hu-

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\* The research on which this essay is in part based was made possible by a grant from the Social Sciences and Humanities Research Council in Canada.

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mans have migrated all over the earth. Vast numbers of people have moved from rural to urban areas, from continent to continent, in the process bringing with them parts of their varied cultures and traditions. Religiously humans are now more inter-mixed than ever. Christians and Muslim, especially, as well as Hindus, Buddhists, Sikhs, and Jews are now found all over the world.

Although humans enter the twenty first century more inter-connected than ever, we remain different in many ways. We remain deeply influenced by different cultural traditions. Even though there may well be common features among them, we follow multiple different ethics. Although some languages have become more widely used, we speak in diverse languages. We have different tastes in clothes, food, and recreation even though certain styles have gained greatly in popularity.

Most decisively, humans differ, often markedly, in their basic life chances. In some parts of the world people can expect to live much shorter lives than in other parts. In the economically developing areas of the world, humans are much more likely to face illness and hunger, to experience poverty and material deprivation, to receive less education and fewer opportunities. As humans have become more interconnected, the differences in wealth and income levels have remained. In many areas they have increased. Worldwide we have enough resources so that all humans could live well-nourished, well-clothed and housed, and well-educated lives. Yet billions of humans suffer from poverty (Forstater 2002, chp 2).

What are the responsibilities of internationally inter-connected businesses in a world like this? International businesses serve to transfer more resources and greater wealth between the economically developed and the economically developing areas of the world than do either charitable associations or formal government aid programs. What are the responsibilities of international businesses in a world that has become more globally interconnected and yet remains culturally diverse and deeply divided between affluent and impoverished areas?<sup>1</sup>

This is not a question that can be ignored or avoided. While fairer trading relations offer the opportunities to foster economic development and reduce poverty in the developing world, the current patterns of trade have aggravated these conditions in many impoverished areas (Oxfam 2002). The situation of the developing areas directly and indirectly impinges on the economically more developed world. Economic and political instability of these areas affects all humans. As in the Asian crisis of the late 1990's, economic downturns in particular countries may spread to other countries. Economic instability in particular areas has occasioned protests, uprisings, and insurgencies that in turn have affected or draw in countries from around the world. In particular, internationally connected businesses have to find ways of managing a wide

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<sup>1</sup> Through out this essay I refer to international businesses or more precisely internationally connected businesses rather than multinational enterprises. The latter terms focuses on especially large enterprises and their subsidiaries in developing areas. It tend to exclude from consideration thousands of small and medium foreign-owned enterprises operating in developing counties as well as firms that have been developed indigenously in the areas and that are selling on international markets. International businesses include all these enterprises as well as the complex supply chains that connect businesses in the industrialized world with quite varied suppliers in developing areas.

range of exigencies associated with establishing business operations in areas that are often culturally diverse and subject to social unrest.

*Realistically what are the options for international businesses?*

Businesses from the affluent developed countries could decide to divest and withdraw from developing areas, especially from those areas either governed by corrupt and oppressive regimes or subject to high degrees of civil unrest. Many people in developed countries have argued for responses like this. They do so because in part they do not like the fact that low skilled jobs that once had been performed in factories in Europe, Canada, or the United States are now being performed in east or south Asia or Latin America or Africa. They protest against the ways internationally connected businesses seem to impose their own organizational cultures on other peoples. They object more specifically to the ways some of these businesses sometimes in alliance with local elites have blatantly exploited the humans and natural resources of developing areas. Many people view the especially large international businesses as imperialistic powers, able to utilize their wealth and influence to dominate underdeveloped areas where they operate (Barlow and Clark 1999; Chua 2003; Klein 2000; Korten 1996).

Although divestment can and has served at times as a useful tactic in some settings (Cf. Sethi and Williams 2000), as a general and strategic response to the current world situation, this option seems flawed for several reasons. One, most internationally connected businesses are not about to disconnect because they do not see this response as being in their interest. As a result this response seems unrealistic. Two, more importantly, for the most part people within developing areas who work for these businesses do not want them to divest and withdraw. These businesses are viewed at once as sources of jobs that pay better than many alternatives, as sources of tax revenues, and as avenues for learning about new and useful technologies (cf. UNCTAD 2002, Oxfam 2002). Three, in spite of the very ambiguous impact of these firms in developing areas, those areas within the developing world in which these businesses operate are economically generally much better situated than those that are less connected. The most economically isolated areas are for the most part the most impoverished areas of the world (Group of Lisbon 1995; LeGrain 2002). To be sure, economic integration does not by itself guarantee effective economic development. International economic connections have in places aggravated inequalities, over-exploited resources, and occasioned economic deprivations (Davis 2001; Oxfam 2002, p 32) Nonetheless, lack of economic ties has not benefited the least developed countries. Severe poverty has doubled in these countries in the past two decades (UNCTAD 2002).

Aside from certain settings where divestment may serve temporarily as a useful tactic, the fundamental question facing internationally connected businesses in developing areas is not whether or not they should operate in these areas but *how* should conduct their business in these developing areas (OXFAM 2002).

## 2. Three Fundamental Questions

The question of how international businesses should conduct themselves in developing areas can be re-phrased as three different sorts of questions. *One*, what are the

most helpful and effective ways of gauging and promoting sustainable economic development? What responsibilities do international businesses have respect to this objective? *Two*, with respect to business strategy, what orientation ought businesses pursue with respect to their own operations in these areas? *Three*, with respect to the ethics of firms, what are the social responsibilities of firms and how should these be gauged?

For the purpose of discussion, I have represented typical responses to these questions in the following table. The responses to the separate questions may or may not be connected. I argue the second set of responses, listed under alternative B, operate to reinforce each other. I discuss these alternatives at greater length in the remainder of this essay.

## 2.1 Questions regarding economic development

How we think about the responsibilities of international businesses in developing countries is influenced by our assumptions about how to identify and foster economic development in these areas. These areas experience extensive poverty. Over one billion people live on less than \$1 (US) a day. Twice that number live on less than \$2 per day. Low income is clearly a major characteristic of many developing areas. How then can these incomes be raised in sustainable ways? If international businesses can make a difference, then at what sort of objectives should they be aiming? These areas suffer from more than low incomes. They suffer as well from under-developed social and physical infrastructures, from huge indebtedness, from poorly developed patterns of local commerce, from lack of access to reasonable-priced credit, and from an over-dependence on primary commodities. Given these circumstances, in what ways are international businesses most likely to contribute to the economic development of these areas?

Questions	Alternatives A	Alternatives B
(1) <i>Assumptions regarding Economic Development</i>	Neo-Liberal view: Economic development gauged by GNP per by capita and fostered by trade liberalization and foreign investment	Institutional View: Economic development gauged by capacity building, institutional developments, and local commerce
(2) <i>Assumptions regarding Business strategy</i>	Pursue Competitive Advantage through cost Minimization	Foster asset development
(3) <i>Assumptions regarding the role of ethics</i>	Criticize and reform business practices using standardized benchmarks and social investments	Criticize and reform business practices in relation to models of value-added practices and just exchanges

*Table 1: Typical Responses to basic challenges facing international businesses in developing areas.*

One response to these questions is to focus on policies aimed at raising the average income level of developing areas. From this perspective, levels of economic development are primarily identified by the overall levels of economic activity -- the gross national product -- calculated on a per capita basis. Correspondingly, whatever policies raise the overall levels of economic activity are to be encouraged. It is assumed that for under-developed countries to grow they will need to make their overall economies more attractive to investments especially from developed countries. Finally, it is assumed developing countries can attract this kind of investment by reducing government expenditures as well as taxes, by liberalizing trade relations, and reducing state corruption (Stiglitz 2002).

This neo-liberal view has been criticized for several reasons. This view gauges development excessively in relation to national income levels. It fails to examine the way overall levels of developments may foster increased inequality between regions, occupational groupings, and social classes. As a result national levels of income may increase while the number of impoverished households does not dramatically change. This view focuses excessively on income and neglects the extent to which sustained development requires the establishment and maintenance of social, physical, and economic infrastructures. Additionally, the neo-liberal view tends to concentrate on means of attracting large foreign investments, which has indeed frequently played an important role for some developing areas, but often fails to examine factors that either encourage or discourage multiple small investments from domestic sources (Chosodovsky 1997). The neo-liberal view seeks to impose on developing countries market conditions quite different than those that accompanied early industrialisation in the currently developed countries. They seek to create market conditions encumbered with few public constraints. In contrast, beginning in the nineteenth century industrializing countries instituted various policies that created a social minimum, managed the risks associated with markets, redistributed wealth through progressive income and inheritance taxes, and limited the powers of economic conglomerates. As modern markets were developed so were public pensions, social insurance programs, labour laws, effective tax regimes, well-funded public education, and effective property law (Chua 2003, chapter 12).

A contrasting view of economic development focuses on economic *capacity building*. Economic capacity in turn can be viewed in relation both, one, to *capabilities* of people within an given area to realize basic economic objectives and, two, degree to which the pursuit of these objectives is supported by corresponding *institutional and infrastructural* arrangements. The United Nations Development Program measures the development of basic human capabilities in relation to the following: (1) the capacity to nourish, shelter, and cloth people, (2) the capacity to avoid high rates of morbidity and mortality, (3) the capacity to provide educational opportunities, (4) the capacity to participate in community life, and (5) the capacity to live with self-respect and the esteem of others. The ends pursued by these capabilities correspond broadly with the basic human goods set forth in the natural law tradition: namely, the preservation of life, the birth and raising of children, the acquisition and transmission of knowledge, and sociability. As we look at development in relation to capabilities, we remain interested in raising income levels but we focus immediately on developing those skills and



competencies that enable people to realize these objectives. Correspondingly, areas and countries are judged to be economically more or less developed to the degree that these capabilities are more or less fully cultivated among the people living in these territories (cf. Sen 1999; Nussbaum 2000; see also Nussbaum's article in the last issue of the *zfwu*).

There is an institutional argument that complements the focus on the capabilities of individuals. According to this line of analysis, countries are more likely to experience economic development to the degree that they have been able to establish reliable and versatile political and economic institutions. Strong, effective, bureaucratically organized government administrations have played a decisive role in the development of countries like South Korea, Singapore, and Taiwan (Wade 1990; Maxfield and Schneider 1997; Evans 1996; Khan and Sundaram 2000). Countries are likewise more likely to experience sustained economic development in setting where local economic institutions – especially those that facilitate local commerce, local credit, and local sourcing – are also effectively developed. In order for countries to develop economically, people living in these areas, either as individuals or organizations, must find ways to be able to expand what they spend for market purchases. Market liberalization policies that effectively reduce family incomes, by lowering wages, reducing social welfare, inflating prices, and/or raising real costs for basic educational and health care services, are likely to have a depressing impact on the possibilities for economic growth (Stiglitz 2002; Chossudovsky 1997; UNCTAD 2002).

From capacity building perspective, raising income levels remains a central objective. However, this objective is gauged not primarily in relation to average per capita incomes but rather in relation to the incomes of those households who are the most impoverished (UNCTAD 2002). Furthermore, it is assumed that this objective is most likely to be realized not only by raising overall national income levels but more decisively by acting to increase the capabilities of these households and to strengthen those institutions and infrastructures that help to cultivate and expand these capabilities. This approach also recognizes that each economic area is at its own particular stage of economic development. A policy that may work effectively in one culture for an area that has already developed certain infrastructures and capacities may prove ineffective in less well-developed areas influenced by different cultural traditions. Large corporate conglomerates allied with the government fostered Korea's development while Taiwan's economy grew through the efforts of multiple small and medium firms operating on their own. One set of policies cannot be invoked as normative for all settings. If various social and economic institutions are integral to facilitating economic development, then it is important to foster the development of these institutions in ways that are both historically and culturally sensitive.

As we will see, this approach to questions about development nicely complements the asset development approach to business strategy. Both view alternative strategies and practices in terms of whether they protect and enhance basic assets, in the one case, of the firms and their constituencies and in the other case, of the population generally viewed. Correspondingly as firms organize themselves to protect and develop their assets, they are also more likely to act in ways that respect and enhance the capabilities of the constituencies with which they interact.

## 2.2 Questions regarding business strategies

International businesses are not social welfare organizations. They are expected to pursue what is in their own best interest. There are, however, various ways in which businesses can identify their best interests. Should they primarily be seeking to increase shareholder value on a quarterly basis or expand market share? In developing areas especially, what strategies make best business sense? For heuristic purposes, we can draw a contrast between two quite different approaches. The first aims to advance business interests through cost minimization strategies. The second in contrast seeks to further a business' interests through asset development. Both seek to augment the economic well-being of firms. The first strategy, typically, seeks to augment current profits by keeping expenses minimal. Working in developing areas meets this objective by offering low labour and maintenance costs and available and inexpensive resources. The second approach to strategy seeks to augment a firm's overall assets over the longer term. Developing areas meet this objective through the potential markets as well as their extensive human and natural resources (Santora 2000). In the following paragraphs we analyze these contrasting approaches in greater detail.

Many have argued that international businesses should pursue their own business interests through *cost minimization* strategies. It is assumed that their best interests can approximately be identified either with efforts to maximize shareholder value or at least maintain their market share. If they operate in this manner, they will, it is argued, make the most effective use of their financial, natural, productive, human, and social capital. As they operate in economically developing areas, these businesses seek to keep themselves competitive by minimizing expenses, by using resources efficiently, and by building workable and mutually beneficial links with responsible governments. Many different examples of this strategy might be cited. Many firms in the textile, apparel, and toy businesses, like Liz Clairborne or Nike, for example, have worked with local suppliers in developing countries to establish work places where their products could be manufactured and assembled inexpensively while still paying local labourers at current local rates. Many resource extraction firms have invested in developing areas, because diverse mineral resources are found in these locales. While trying to maintain the tacit support of local politicians and community groups and act legally, they seek to manage operations in ways that allow for the greatest return on their investment over the time while these operations are active. In the best case scenario, internationally connected firms such as these have established safe and environmentally responsible operations that pay workers decent wages and that in turn make reasonable tax payments. To be sure in practice many firms have in varying degrees ways not lived up to these expectations. They have underpaid and overworked their employees, operated with unsafe or unhealthy working conditions, ravaged environments, and bribed local officials. In principle, however, cost minimization strategies call for businesses to operate legally and responsibly in ways that minimize their expenses. This strategy is widely defended as a means for encouraging investments in developing countries, for fostering business enterprises that are indeed competitive, for bringing the resources of modern technologies to developing areas, for avoiding the inefficiencies associated with state managed enterprises (Porter 1990).

This strategy has also been criticized from several perspectives. One, as firms seek to minimize costs in developing areas, they tend disproportionately to exploit their situations to their own advantage. For example, in practice many such firms have exploited workers through low wages, unsafe working conditions, forced labour arrangements, and excessive working hours (Sklair 1989). Such firms often either violate environmental standards or seek to get by with as little compliance as they can. As a condition of their initial investment, they frequently arrange to pay disproportionately low taxes and/or manage their internal transfer pricing practices to reduce or avoid taxes. In many areas, these internationally connected firms exist within enclaves little related to the larger economy of the areas in which they operate (cf Klein 2000). Two, the cost minimization model ignores the excessive power which especially large businesses can draw upon to serve their own ends. The model naively assumes that market forces respond primarily to costs and demands. The model greatly underestimates the barriers which small and medium enterprises within developing countries face as they seek to compete with these large and wealthy international businesses. The latter typically possess huge head starts in terms of access to capital markets, technological resources, and contacts for marketing their products. Large enterprises are typically better placed to influence the decisions of governments and international tribunals adjudicating trade disputes.

The cost minimization model for how internationally connected businesses ought to operate in developing areas has its defenders and its opponents (see Friedman 2000; Barlow/ Clark 1999). The former have been well represented among economic theorists, defenders of structural adjustment policies, and the executives of many international businesses. The latter have been well-represented not only by the critics of globalization but also by those who have sought to foster ways of conducting international businesses practices so that they genuinely help developing areas to develop. Advocates of corporate social responsibility as well as those involved in the initiative associated with Business Partners for Development have criticized the cost minimization model because it assumes too great an isolation of businesses from the societies in which they operate. They have sought to identify alternative models for business practices in developing areas.

The alternative approach to business strategy in developing areas argues that international businesses should primarily seek to develop their own assets and those of their immediate stakeholders. I refer to this an *asset development approach*. From this perspective, businesses are expected to invest in developing areas in ways that *add to their own long-term value*. Rather than attempting above all else to minimize expenses, businesses should seek to seek above all to protect their investments and render them as productive as possible over time. There are number of correlates of this shift in focus from cost minimization to asset development. In so far firms are influenced by this approach, they are likely to spend greater amounts in installing appropriate technology. They are likely as well to cultivate the skill development of their labour forces. They are more likely to organize their labour forces in ways that render them more productive. They are more likely to work with local supply chains and hence foster greater social presence with local businesses. Firms following this strategy are more likely to explore ways of marketing their products locally. Michael Santoro has compared the



practices of international firms in China in so far as they have followed either cost-minimization or asset development approaches. He found that the former, which were represented especially by firms using low skills to manufacture for export, paid lower wages and operated with poorer working conditions. In contrast, the latter, represented by firms who also sought to manufacture for local markets, typically paid higher wages, provided better working conditions, invested more in local infra-structures, and installed more modern technology in their plants (Santoro 2000).

It is possible to view the assets of firms in broader or more limited terms. The value of firms ought to be understood broadly to include much more than what might narrowly count as property, namely, financial assets and productive capacity embodied in building, machines, and properties. The value of firms -- their overall assets -- is also represented by the skills and competencies of their work forces -- their human capital -- as well as the good will, trust, and interconnectedness cultivated between firms and those with whom they regularly interact as employees, suppliers, customers, public officials, local community groups, creditors, investors and others -- *their social capital*. The value of firms is affected as well by their reliable access to natural resources required and/or taken for granted as bases for their operations -- their natural capital. Natural capital includes not only the access to resources directly used in the productive process, like mineral, grains, and fibers but also access to common resources such as potable water, healthy air, and useable land. Re-stated in slightly different terms, the overall value of firms is thus the sum of their financial, productive, human, social, and natural capital. Consequently, as firms aim at enhancing their value, they can be expected in varying degrees, to protect and develop these several sources of economic value in ways that enhance their overall assets, gauged broadly (Bird 2001).

As an approach to business practices in developing areas, the asset development strategy provides a broad orientation in terms of which specific questions can be raised and answered about how individual enterprises ought to be most effectively developed and managed. In so far as businesses adopt this perspective, they are then likely to consider various questions related to marketing, investment decisions, financing, human resources, and community relations in terms of whether and to what degree alternatives are more likely to protect and develop their overall assets over time.

We can explore the significance of this approach by reviewing briefly several examples. A small independent foreign petroleum company faced severe security risk in Colombia. Its wells and productive sites were widely dispersed. The costs for hiring security guards under these circumstances were likely to be excessive. Correspondingly, as a business decision the firm decided to make a series of local investments to strengthen its economic connections with people in the surrounding area. They hired local groups to maintain roads. They sold at cost excess natural gas to help generate local electrical power. They helped re-organize the local school system and shared use of buses. As a result of these and other local investments, they gained the trust and confidence of local community and thereby greatly augmented the social capital with which they were working. They also successfully but indirectly addressed their security problems (Moser/ Bird 2003).

Shell has extracted billions of dollars worth of oil from the Niger Delta since it began operations there in the late 1950's. The people of the Delta remain almost as improv-

erished today. Throughout its operation, Shell for the most part followed responsible business guidelines, paid reasonable wages, offered thousands of Nigerians opportunities for advancement, paid generous royalties to the central government, and invested in local community programs. For most of this period, Shell burned 85% of the associated natural gas produced by extracting oil. It invested little in local businesses in the delta region. From an asset development perspective, how might Shell have acted differently? From the current perspective, what kinds of additional investments might Shell have undertaken in the past in order to augment in the present both their assets and those of their neighbours in the Niger Delta? Recognizing that these proposed alternatives would not necessarily be easily instituted, it is still interesting to consider how Shell might have attempted together with other local businesses to utilize the flared gas to generate and distribute electricity not only for the Delta but for larger areas of Nigeria and its neighbouring countries. As it was, significant portions of natural capital were wasted and potential social capital, developed through these collaborations, was not developed. Likewise, it is useful to think about ways Shell might have invested in local businesses, which they would help to initiate, to foster a number of economically valued developments, such constructing and maintaining roads, pumping and distributing fresh water, and establishing and expanding local systems of credit, all of which would at the same time provide services required for Shell's operations and benefit the larger local community. If Shell would have made these investments, they would probably had somewhat lower earnings and paid somewhat smaller royalties to the central government. However, at the same Shell probably would have significantly augmented their social capital, reduced at least marginally their security threats, and added at least minimally to the economic well-being of their neighbours (Bird 2003a).

In the late 1980's the Body Shop began to buy some of its supplies from several primary producer groups in the developing world. By the turn of the century they had contracted on an on-going basis to purchase both supplies and craft items from approximately 40 different producer groups in economically developing areas. They did not only check to make sure these groups operated in keeping with defined guidelines of the Ethical Trading Initiative with respect to wages and working conditions, they also worked with these groups so that latter had developed relevant marketing, accounting, human resource, and production skills. In small but significant ways they invested in these producer groups both so they would reliably supply the Body Shop with good quality products but could also market their products successfully to other customers. In the process, the Body Shop greatly added to their own assets by building effective and just supply relations and by so reinforcing their market image as a caring and innovative business (Bird 2003b).

### 2.3 Questions regarding fitting ethical approaches

What is the role or calling of ethics with respect to business practices? Is the purpose of ethics primarily to keep business people in line, that is, to police them? Or is the primary calling of ethics to inspire and motivate, to find ways to move business people to think beyond the bottom line? Many believe that the job of ethics is to ride herd on business people. Business people, it is regularly assumed, narrowly aim at their own

personal and organizational interests (Jackall 1986). So we bring in ethics to expose and limit this self-aggrandizing greed. Alternatively, we may hope to modify or sublimate this pursuit of self-interest by challenging business people to entertain certain ideals and civic projects. We seem to assume that it becomes acceptable for business people to pursue their ordinary business goals if in addition they also champion various social projects, whether these take the form of philanthropy, affirmative action, or improved environmental practices. These are two widely shared views of ethics in relation to business: ethics viewed as a means of policing and ethics as a call for social contribution. It is, of course, possible to adopt a bit of both views.

It is possible as well to adopt a third view in which the practice of ethics is much more integrally related to business as the everyday mind-set by which people identify their interests (what is good for them) and address the problems and decisions they face. Accordingly, ethics calls us to live responsibly taking into account the impact of our choices on others as well as ourselves. From this perspective ethics concerns not only and not primarily conduct that is regarded as exceptional, either because it is questionable or it is exemplary, but rather the everyday practice by which we set our basic objectives, we take account of the claims and interests of others, and we justify these decisions to ourselves and others (Bird 1996).

In keeping with the policing role of ethics, many have, therefore, argued that businesses operating in the developing areas ought to comply with internationally recognized *benchmarks* for responsible business practices. In recent years a number of such standards have been developed by organizations such as the CAUX roundtable, the OECD, the International Standards Organization, AccountAbility, and interfaith corporate responsibility associations in Canada, the United States and Britain (see Donaldson/ Dunfee 1999; Sethi/ Williams 2000; Williams 2000). These standards differ mostly in degree of specificity and the particular concerns that are assigned greatest prominence. These standards are expected to function in two complementary ways: One, as points of reference which businesses can adopt as guidelines for wherever they operate and, two, as checklists by which external groups can monitor business practices. For the most part, these benchmarks have functioned to call attention to ethically questionable practices. They have been invoked to point to environmental abuses, to champion the right of workers to organize, to criticize indentured labour schemes, and to protest against use of children as labourers.<sup>2</sup>

Many morally concerned people have championed benchmarks like these as ways of holding businesses more accountable. They have lobbied for businesses to adopt these standards as part of their operating policies. They have called for investors and/or customers to boycott particular firms that have been proven to violate these standards in excessive ways. They have sought to persuade export-lending banks to utilize these

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<sup>2</sup> The proposed ISO standards for socially responsible business practices differ slightly from others. These standards focus not on concrete business practices but on the management systems for invoking and monitoring socially responsible business conduct.

kinds of benchmarks as screens for determining to which internationally oriented businesses they might extend credit (Williams 2001)<sup>3</sup>.

Nonetheless, it is possible to raise a number of questions about this approach. For the most part those who adopt this approach assume that there are universally valid standards for business practices. In taking this position, it can be argued that these people may be guilty of seeking to impose particular north Atlantic standards on people with quite different moral and cultural traditions. For example, what counts as acceptable or unacceptable work for children differs considerably. It varies between agricultural areas, where children regularly help with work assignments, and other areas. It varies between areas with well-established public schools and those without such institutions. It varies between settings where children work alongside of parents and settings where they do not. It varies between less and more economically developed areas (Akabayashi/ Psacharopoulos 1999; Basu 1999; Moehling 1999; Bessell 1999). Because of their own commitment to certain child labour standards, a number of groups campaigned against the purchase of soccer balls in which children usually working alongside other family members helped with some of the work involved in their manufacture. As a result of these protests, local manufacturers in Pakistan changed the site for stitching soccer balls from cottages and households to larger factories. Also as a result, a number of women lost their primary source of income. A number of households were less well off (Khan 2002).

As an exclusive ethical guide for morally responsible business practices, the benchmarking approach can also be criticized for focusing disproportionately on questionable practices. What may well get lost to sight in the process are considerations about overall outcomes of the business process. It can be argued, for example, that the most important contributions of businesses in developing countries include both developing job and training opportunities and fostering the overall economic development of these areas. These are morally valuable benefits. Hence, it can be argued that the benchmarking approach represents a too-narrow or too-thin view of morally relevant considerations.

The bench marking approach to ethics complements the cost minimization approach to business strategy. When the latter is viewed as major economic rationale for business strategy in developing areas, the former in turn seems appealing as a moral corrective. If we assume that businesses will operate best in developing areas by seeking their competitive advantage through cost minimization practices, then we can correspondingly attempt to limit the morally questionable aspects of these practices by seeking to persuade businesses themselves as well as public regulatory bodies to adopt particular benchmarks.

In terms of ethics, how then should internationally businesses conduct themselves in developing areas? Our answer here parallels the answer to questions about business strategy and economic development. Businesses should operate in ways that add fit-

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<sup>3</sup> As a complement to the benchmarking approach to ethics, many people have called upon businesses to become involved in social improvements. Businesses have been challenged to take up various social causes, from the sponsorship of cultural and sporting events, to the commitment to help develop local infrastructures.

ting value to the constituencies with whom they interact as part of their operations. It is by means of these very interactions -- with employees, customers, suppliers, creditors, investors, neighbours, public officials, and community groups -- that businesses do whatever they do. They constitute themselves by means of these interactions. Ethically, then the first responsibility of businesses is to conduct themselves in ways that not only benefit their businesses as a whole -- that is, promote what I have described as the good of their organizations, broadly understood -- but also benefit in fitting ways the constituencies without which they would be unable to do operate (Bird 2001). Businesses are socially imbedded in societies. Businesses affect societies in multiple ways as a concomitant of how they interact with their constituencies. In turn societies impinge upon businesses in multiple ways through the same interactions. International businesses then ought to operate in developing areas to enhance the value or good of their several constituencies in ways that are just and fitting, given the contribution and risks that these constituencies face as a result of these interactions. Briefly stated, businesses ought to operate in these areas in ways that *add value and are just*.

Businesses will add value both to themselves and to their constituencies to the extent that their interactions with the latter are *just*. What does that mean? Under the rubric of "commutative justice," moral philosophers have argued that parties involved in just interactions ought to participate in these interactions voluntarily and fully informed of what can be expected in terms of outcomes and processes. These criteria represent minimal expectations. However, by themselves, they are inadequate. They overlook a number of factors that may render interactions unjust pursued only in these terms. For example, voluntary and otherwise informed interactions can become unjust if one party can exercise much greater power, if the processes of bargaining and agenda setting for negotiation privilege particular parties, and if freedom to pursue alternatives is much greater for some than others. A reasonable account of just interactions requires a fuller statement. Minimally, just interactions are those that meet following criteria.

- a) Parties involved participate voluntarily. They are fully and reliably informed. They can well represent and bargain for their interests.
- b) The benefits parties obtain are proportionate to the contributions they make, the lost opportunities they forgo, and the risks they face.
- c) Due consideration is given both, one, for the way various public goods -- such, as reliable social infrastructures, historical precedents, and/or civic peace -- make these interactions possible and, two, for the responsibilities of parties involved to support these public goods.
- d) Efforts of any one party excessively to dominate these interactions are limited in effective ways either by procedural guidelines, expectations of transparency, and/or third party facilitators.

The *value-added approach* to ethics differs from the benchmarking approach in several ways. Attention shifts from vigilantly policing businesses for violations of basic standards towards a consideration of the ways businesses can be expected to contribute to the well-being of their several constituencies as part of on-going interactions. Vigilance is still called for. However, primary attention shifts to exploring imaginatively



how businesses can operate so that, while they maintain or enhance their value, their several constituencies do so as well and their relations with these constituencies remain interactive and reciprocal. Moral focus about question of compliance with standards about right and wrong conduct is augmented by concerns about the good and goods that can and ought to be fostered and achieved.

This shift in attention is illustrated by the way two different retailers in the international apparel business managed their relations with a single workshop in southern Africa. The first firm hired an external group to monitor the labour practice of the supplier. They sought to enforce compliance with their code through external monitoring and public reporting. However, the external monitoring group was not able to develop a working relation with the supplier. In frustration the retailer eventually broke off the contract with the supplier. A second retailer adopted a different strategy. In response to the requests from the supplier, they agreed to allow the local firm to utilize its own internal monitoring processes developed in collaboration with a union representing the workers. The monitoring process was viewed as internal activity that allowed for organizational learning and re-commitment to organizational objectives. No public reports were to be issued. This arrangement produced much more satisfactory results, which pleased both the management and the union. The focus had shifted from external policing to internal coaching, appreciation, and learning.

The application of the Sullivan Principles by more than a hundred US firms working in South Africa in seventies and eighties represents another example of a value-added approach. Initially the principles were set forth as very general ideals by which firms committed themselves to work to realize a set of objectives related to improving the conditions of Black workers. Firms were monitored privately and received feedback on their performance. There were no public disclosures. Firms agreed to work progressively over time to realize higher standards. Over time the principles were gradually altered to become more specific and more demanding. In practice by endorsing the Sullivan Principles, firms worked gradually to empower their own Black workers and to take steps to improve their living conditions through various civic measures (Sethi/ Williams 2001).

This shift in focus has several immediate implications for how we proceed to evaluate business practices in developing countries. With respect to employees, for example, we are interested in a variety of questions related not only to adequate remuneration and acceptable working conditions but also to skill development, career opportunities, and the capacity of workers to exercise discretion over the pace and approach to their tasks. With respect to suppliers, we become especially interested in the degree that firms use local suppliers in ways that further develop local economic and social infrastructures. From this perspective, businesses are called upon to make social investments in the communities in which they operate not strictly out of a sense of philanthropy. Rather such contributions represent a fair exchange to these areas in return for the social dislocations firms' occasion and the social infrastructures to which these communities contribute. Overall, if firms are going to interact with host areas justly, then the benefits they derive from their operations should be balanced with benefits that they areas in turn enjoy.

*The value-added or just practice approach to business ethics complements the capacity building approach to development and the asset-building approach to business strategy.* Each adopts a pragmatic yet teleological approach in relation to certain valued goods. In so far as international businesses adopt these approaches, we believe that they will operate in ways that are at once good for business, good for the development of these areas, and good for their constituencies.

Correspondingly, as international businesses operate in developing areas, they can be expected to review to what degree they add to, maintain, or diminish the overall assets of those communities. Are they adding value or not? And in what ways are they adding? All of the following questions are relevant. In what ways have they added to the *human capital* of their own and their suppliers' work forces? Do workers have opportunities to learn and enhance useable skills? In what ways have they added to or undermined the sum of *social capital* in these developing areas? Have they worked to foster trust and social cooperation? Have they acted to strengthen or weaken economic and social interconnections among these people? In what ways have international businesses added to the *productive capital* of these communities? Have they added to the capacity of these communities to use human and natural resources more productively? Have they worked to transfer relevant technologies? To what extent and in what ways have these firms added to the *financial capital* of these developing areas? Have they responsibly paid taxes and royalties? Do they offer workers and suppliers reasonable wages and prices? Have they explored how they might guard against the tendency for monetary wealth to end in the hands of local elites leaving the poor as impoverished as before? Finally, to what extent and in what ways have these international firms acted to preserve or augment the *natural capital* of these areas? Have they worked to make it possible to utilize given natural resources more effectively? Have they worked to reduce wasteful use of these resources? Have they attempted to make their operations sustainable? In so far as they may have engaged in using up non-renewable natural resources, have they worked to balance this reduction with efforts to increase other assets proportionately?

When we examine the activities of particular international businesses in developing areas, it is fitting to examine their practices through these economical, strategical, and ethical lenses. Are the exchanges with their constituents just? Overall have they added value? Many international businesses have significantly added to the overall assets of developing areas. They have helped to reduce poverty. They helped developing areas develop their capacities. They have added value. These are real possibilities. They are also real challenges (Forstater 2002; Prahalad/ Hammond 2002).

### **3. A Fourth Question: How Should International Businesses Interact with Governments in Developing Countries?**

As they operate in developing areas, international businesses necessarily interact with national and local governments. These interactions in turn decisively affect social and economic impact of these firms. At the outset, we can identify two contrasting forms of interactions, both of which seem morally questionable. One, international can become too closely linked with these governments, either because government officials develop relationships that allow them to extract excessive rents and royalties or be-

cause business executives offer extra payments in exchange for special privileges. These kinds of corrupt practices are indeed widespread. In contrast, two, businesses have sought excessively to reduce or minimize their working relationships with these governments. An excessively distant relationship can assume several different expressions. Firms have, for example, used clever accounting practices to reduce their taxes. They have attempted to operate in their own enclaves. They have lobbied both to reduce government regulations and to augment their own governing powers. As extreme examples, businesses such as the British East India Company or the Japanese Southern Manchurian Railroad, completely ignored established governments and assumed instead their own large governing powers (Litvin 2003).

To the degree that international businesses develop excessively close relationships with governments, they are more likely to engage in or tolerate corrupt practices. To the degree they develop excessively distant relationships, they are likely to function in ways that further weaken already weak governments.

What sort of guidelines might international businesses invoke to avoid these extremes and operate in ways that are contextually responsible? How can firms develop relationships with governments what Peter Evans as referred to as responsible relationships of “Embedded autonomy” that cultivate effective synergies that avoid these polar opposites? (Evans 1996) Phrased more succinctly, by what kind of political ethic should these firms guide their interactions with governments in developing areas? How firms address this question affects in turn the approaches they put into practice to questions already considered regarding development, strategy and ethics. Hence, this question needs to be considered even if we do not have space in this essay for a full discussion.<sup>4</sup>

Briefly, I think it is useful in a preliminary way to address this question by distinguishing three different kinds of ethical responsibilities of international firms with regard to their host governments. *One*, firms share several basic duties as organizational citizens. As a condition of operating in given national polities, they have duties to obey local laws, to pay fair taxes, to avoid direct involvement in partisan politics, to accept or offer no bribes, and to respect basic civil and political rights (ICHRP 2002). *Two*, as organized entities operating within given legal systems, international business have several obligations as firms that engage in contractual relations with others. They are obligated to honour the stipulations of these contractual relations. In terms of standards of just exchanges, they are further called upon both to protect the interest of their own constituencies and to respect the autonomy and interests of their contractual partners, especially when these include governmental bodies. As contractual partners with governmental agencies, international firms possess an additional less easily defined obligation actively to monitor the activities of their government partner, and occasionally lobby for what seem fitting changes in their relationship. *Three*, international firms additionally share a varying set of what might be best described as civic responsibilities. In so far as these firms benefit from the public goods of the larger social order, including both social peace as well as infrastructural resources, they are correspondingly called upon both to support and not deplete these public goods.

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<sup>4</sup> I consider this question at much greater length in another, as yet unpublished essay (Bird 2003c).

#### 4. Wrongs, Shortfalls, Mistakes and Organizational Learning

No matter what kinds of codes have been adopted, what sorts of training programs have been established, what forms of monitoring have been instituted, what laws have been enacted, and/or what kinds of moral leadership has been exerted, in practice firms and their constituencies will engage in practices that result in wrongs, ethical shortfalls, and hurtful mistakes. Ethical initiatives often make a difference. Nonetheless, morally reprehensible actions do occur. It is important to be realistic. A fundamental question concerns the difference between the appropriate responses to these moral wrongs by governments and other external actors like industrial associations and the appropriate responses by businesses themselves. It can be argued that governments are especially called upon to police firms for wrongs and mistakes that violate laws and contracts. In contrast, it is the special responsibility of firms to learn from these wrongs, shortfalls, and mistakes.

Many firms seek to be good corporate citizens in keeping with current assumptions but find themselves mired in compromises. These assume myriad forms. Firms seeking to be socially responsible discover they must interact with self-serving or inexperienced government officials. They face international decline in price for their products. They must lay-off thousands in an area of high-unemployment. They find themselves in the midst of aggravated social conflicts. Their shareholders shy away from investing in areas they regard as excessive risks. Zealous NGOs target them for real abuses that they find it hard to avoid. Doing business in developing areas exposes businesses to many real and serious troubles. Faced with these and many other difficulties as they operate in developing areas, well-intentioned managers do not always readily figure how to act responsibly. They unthinkingly follow models that worked in other countries but are inappropriate where they are. They misjudge the complexities of their setting. They expect too much or too little. They overlook existing resources. They narrowly seek an immediate advantage. They confuse their own career aspirations with the good of their organization (Jackall 1988). They deal with symptoms rather than underlying causes. In spite of genuinely good intentions, they do not quite get it right. What seems to matter most is the degree to which those who manage international businesses in developing areas are ready not only to seek to act responsibly but also to *learn* from their wrongs and mistakes.

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