
Ethics in International Business

By Lothar Katz

Just between you and me: did you cheat on last year's tax return? Maybe "pretty it up" a little in your favor? No? Yes? Is that illegal? You bet! Is it unethical?

Not everyone seems to think that it is. The United States Internal Revenue Service estimates that 17% of the American taxpayers cheat. According to a recent survey, more than thirty million Americans consider it acceptable to make incorrect statements on their tax forms. Apparently, the lines are blurred quickly when it comes to determining proper ethical conduct. As the tax example shows, what is technically illegal may not necessarily be considered unethical. The inverse argument fares no better. One but needs to look at debates over abortion rights or death penalty to realize that a large number of people do not believe that being legal automatically makes something ethical.

This topic gets even more complicated when looking at international business practices. What may be ethically acceptable to few in one country might be widely supported in another. To revisit our tax example, it is believed that far more than half of Italy's taxpayers submit incomplete or untruthful forms.

Yet, in cross-cultural business interactions, there is a strong need for finding or establishing common ground between the parties. When trying to establish agreement and identify potential issues, it may help to categorize the before-mentioned differences. Three possible constellations warrant our consideration:

a. A practice that is widely considered ethical within both cultures.

An example could be paying an intermediary between two parties. We will assume that both sides know the arrangement. No real issue exists here. Fortunately, many such practices exist in international business, providing plenty of common ground for cooperation and collaboration.

b. A practice that is widely considered unethical within both cultures.

An example might be corrupting officials or company representatives by offering them significant personal benefits in exchange for their support. Assuming the practice is also illegal, which is usually the case, the issue here is not so much one of ethics, but one of enforcement.

Take China, for instance: while a majority of the Chinese believes that corruption is wrong and while the country's leaders have attempted to curb it, the practice continues to be a significant factor in everyday business. The only resort for foreign companies trying to resolve such issues is to seek the help of local authorities, their own government, and of organizations such as the WTO or Transparency International.

c. A practice that is widely considered ethical within one culture, but not within the other.

This is the field where cultural tensions most often mount. Examples are numerous and can go both ways: Chinese and South Korean businesspeople will view attempts to renegotiate a contract perfectly acceptable even after they signed it – Americans will likely cry foul. Japanese companies will find it very unethical if a U.S. partner terminates a co-

operation agreement because they found a more promising alternative – most Americans see no issue with that. American companies usually have no problem with simultaneously cooperating and competing with the same business partner– many Asians and Latin Americans, as well as quite a few Europeans, will consider that unethical. Americans will refuse paying a government official a small bribe – many people in the Middle East (and elsewhere) may view that perfectly acceptable.

This last example may bother some a lot. After all, did I not I, under point b, list corruption as an issue both sides should work to eliminate? Correct - but that was about officials receiving significant personal benefits. In the “small bribe” case, think of customs or immigration officers expecting an insignificant sum for their services. To them, such payments come with the job and help increase their otherwise (in the Middle East) dismal salaries. Most members of their own cultures will find nothing wrong with that expectation, viewing it comparable to tipping a waiter in the United States.

To resolve these and other ethical disagreements, the party taking issue needs to recognize that it may be facing a cultural difference rather than intentionally unethical behavior. That gives them two options, either to tolerate or comply with the other side’s practices, or to work with them by bringing the concern out in the open and then trying to resolve it together.

Nations and cultures are never unethical. People, maybe. However, more often than not it “lies in the eyes of the beholder” whether a practice is ethical. Rather than taking the high moral ground, you will be better off understanding what is going on and taking appropriate action to reconcile positions.

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A seasoned former executive of Texas Instruments, a Fortune 500 company, he regularly interacted with employees, customers, outsourcing partners, and third parties in more than 25 countries around the world. These included many parts of Asia, e.g., China, India, and Japan. Originally from Germany, he has lived and worked both in the United States and in Europe.