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## Universal business ethics: A challenge to multinational companies

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### Abstract

Ethic is a code of conduct put forward by society that is accepted by all rational adult individual beyond the boundary of country or culture or religion. Thus, ethics is universal, not relative. What is good and bad, what is right and wrong in one country or culture is also the same accepted by other countries or cultures as good or bad, right and wrong act. The same true with business ethics. Business ethics is universal, not relative. What is wrong and right, good or bad in one country is accepted as wrong and right, good or bad in other countries. Fraud is bad and that is applicable to all beyond cultures or countries. Thus, multinational companies must find common ethical ground that is accepted by all rational agent and business practitioners around the globe.

**Keywords:** Universal ethics, universal business ethics, descriptive and normative ethics

### Introduction

Discussing ethics is always relevant because it is about how human relates himself/herself to other fellow human, society, and environment. Thus, ethics concerns the human code of conduct on how he/she relates himself/herself to others, society and environment. Such relationship includes business transactions. In this case, how business will relate and treat their customers, their society and environment. It is their social responsibility. Thus, business cannot ignore the importance of code of conduct that regulates their behavior in dealing with their customer, society and environment. Such code of conduct is not only related to local or national business but also international business particularly multinational companies.

The paper will put forward the foundation of such universal business ethics. The argument is that if morality is universal, it cannot be that business ethics is not universal. Therefore, the challenge of multinational companies is to find a common ethical ground in their business practices around the globe. Stealing or cheating cannot be considered "good" in one country and it is bad for other countries or killing cannot be considered good in one country and other countries are considered bad. Fraud cannot be called "good" in one culture and it is bad in other culture.

### What is ethics?

The writer uses the term ethics and morality interchangeably. Morality means the same thing with ethics. Morality (from Latin *moralitas* "manner, character, proper behavior") refers to a *code of conduct*, by which human beings regulate their lives, their actions in dealing with others and the environment around him. Theoretical interest in morality arises from the distinct sorts of questions that might be asked about this code of conduct (Anscombe, 1958) [2]. As a code of conduct, ethics covers the whole human lives and his surroundings which include the relationship of man and his /her fellow man, his society, other sentient being, and his natural environment. The question of what is right and wrong, what is good and bad will always be the code to be adhered to by all moral agents in relation to those four areas. Answering such question, one might try to describe what kind of practical rules that govern human life and his/her relationship with his fellow man, society, sentient being and his environment. Such inquiry may lead to a descriptive sense of morality which is an attempt to understand the actual practices of different groups, society and individuals.

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Descriptive morality may be defined as a code of conduct endorsed and adhered to by a society, group or-much less frequently-individual. Moral codes in this sense will, therefore, differ both from society to society, within societies, and amongst individuals (Hume, 1975) [9]. In such scenario morality is relative. Because of its relativity, the "ought to or should" of its application cannot be applied everywhere beyond certain group and even among individuals and thus no common standards to be followed. The "ought to" or "should" is becoming relative. Such "ought to or should" is applied only to a certain group or culture or individual. Thus, there is no consistency of moral rules applied to all rational being in a society. Historically speaking, different moral rules were held to apply to slave and free men and women in societies in which slave owning was permitted.

Living in such kind of morality, people can raise question on the validity of those codes of conduct. People would like to be in harmony with other people, society and not to be misunderstood and would like to be in harmony with his environment. Therefore, the question here is what people ought to use as guidance in their conduct when they are relating to his/her fellow men, society and his environment. The result of such question constitutes the meaning of morality in its normative sense.

Normative morality may be defined as a code of conduct that would be accepted by *all rational people under certain idealized conditions*. In simpler terms, "morality" is the set of correct moral principles, which, though they probably will never be universally adopted, ought to be adopted (Frankena, 1973) [4]. Thus, the job of moral philosophy is to firstly formulate a set of principles with which all rational agents ought to comply, and secondly, to explain why this system ought to be adopted. There is considerable philosophical disagreement as to what this universal system of morality would look like. Within this understanding, there must be universal principle or code of conduct which can be accepted by all rational agents. In that sense, one act can be judged right or wrong or good or bad if it is accepted by all rational moral beings. Thus, the application is beyond culture or group or individual. This concept, even though many disagree with it, can bring some harmony and common understanding to the application of some ethical principles.

The question on the objectivity may be raised. The question would be how objective those conducts are as guide for human conducts or are they just expressions of human feelings of human beings? Such question would lead to the question the universal validity of those codes of conducts. Such universality must be the base of universal ethics, in the sense that what is practiced by a certain group or individuals must be accepted by all rational and moral being under the same circumstance if it is to be considered moral. Therefore, its question on the objectivity will be depending on its acceptance by all rational agents everywhere across the border.

### **Business Ethics**

Ethics is the field of philosophy that studies systems, norms, and values that distinguish between what is good and bad or right and wrong in doing business. The field of business ethics focuses on examining conduct and policies and promoting appropriate conduct and policies within the context of commercial enterprise, both at the individual and

the organizational level. Consequently, a central question of business ethics is "How do businesses determine what is appropriate or ethical conduct for any given commercial task?" Business ethics covers all levels of business activity, including the obligations and responsibilities of businesses to customers, employees, other businesses, national and multinational governments, and the environment (Velasquez, 1998) [16].

Clearly business ethics is a specialized study of moral right and wrong in doing a business. The scope covers all the operation of business. It focuses on moral standards as they apply to business policy, institutions (corporations) and individuals. Thus, issues covered by business ethics are *systemic, corporate, and individual*. Systemic issue in business ethics are ethical questions rose about the economic, political, legal and social system within which the business operates. This include question about the morality of capitalism or of the laws, regulations, industrial structures and social practices within the country operates. While corporate issues in business ethics are ethical questions about morality of the activities, policies, practices of an individual company. In relation to individual issues, business ethics are ethical questions raised about an individual behavior within a company. This includes the morality of a decision, actions or character of an individual who is doing business. Those issues must be evaluated ethically if their system, corporate practices and policies and individual activities observe ethical standards.

Since issues covered by business ethics are systemic, corporate and individual, thus the application of business ethics is corporations and individuals. Corporation and individuals are morally responsible for any moral violations in the corporation. Therefore, a corporation may be called immoral if members of the organization collectively, freely and knowingly pursue immoral objectives. Corporate organizations and their acts depend on choices and actions of human individuals. Thus, individuals are seen as primary bearers of moral duties and responsibilities. Individuals are responsible for what the corporation does. However, human acts are also influenced by corporate policies, structure and practices. Thus, moral responsibilities are on corporation and individuals and they are to be blamed.

The application of business ethics is beyond domestic corporations and individuals, it also applies to multinational corporations. Multinational corporations should also apply moral standards. The issues to be covered are the same as domestic corporations such as systemic, corporate and individuals. Thus, they must determine which systems are ethically appropriate for all countries around the globe and for the business owner. The choice here is: will the business practices favor the host country or its owner's interest. However, bear in mind that the question of ethics is not a matter of favor or not favor; it is a matter of right and wrong, good or bad for any parties in the transactions. Thus, ethical balance between economic need and interest of the business owner and the interest of the host country and society are taken into considerations. After identifying the demand of the host country, they can determine whether to go along with the many conflicting and morally questionable demand or risk losing their investment. Within those conflicting circumstances, investors may choose either morality or their business interest. Such choices are with certain consequences. Prioritizing business interest means ignoring the moral issues for the sake of short term profit,

but it means losing customers in the long run. Prioritizing moral issues means doing what is good and avoiding what is bad, doing what is right and avoiding what is wrong in doing business related to customer, society and environment or in other words, its social responsibility can improve the image of the company, even if short term profit is reduced. The challenge would be how to strike the balance between the parties that one would not be sacrifice for the sake of one.

Discussing on the ethical aspect of business, naturally it will tell us that the center of business attention is not merely profit but also its corporate social responsibilities. Its social responsibilities require business to see its purpose beyond profit which is its concern to the society, to the customers and environment. Thus, the real purpose of business is service for the society, for the customers, for the environment and lastly making profit for the owner. Profits come after doing a good service to the customers, society and environment. Keeping balance between its social responsibilities and profit will lead to ethical business. Thus, the modern idea of business is against the view of Friedman, the father of Capitalism. Milton Friedman (1912) advocates the classical theory of business, which essentially holds that businesses should be solely devoted to increasing profits as long as they engage in open and free competition devoid of fraud. Managers and employees, then, have a responsibility to serve the company they work for by striving to make money for it. The very act of seeking profits is, according to Friedman, a moral act. An extreme example relates his point: If a person invested all his or her savings into a venture and then the company gave away the money to the homeless, would that be ethical? No, proffers the classical theory, because the investor gave the money to the company in good faith for earning a profit (Freeman, 1991) <sup>[5]</sup>.

Clearly Friedman looked at profit as the sole objective of business. He argued that corporate officers have no obligation to support such social causes as hiring hard-core employed to reduce poverty or reducing pollution beyond mandated by law. Their sole task is to maximize profits for the company subject to the limits of law and rules of the game that ensure open and free competition without deception and fraud (Hooker, 2003) <sup>[8]</sup>. For Friedman, if it operates within the bound of law, no deception and fraud, it is alright. Social concern and environment are not going to be the concern and to limit the movement of business. For Friedman, capital and free market is the rule of the game and profit is the reason for its existence. Following his logic would be ignoring corporate social responsibilities. Ignoring corporate social responsibilities would lead to bankruptcy.

### **Business Ethic is not against Business**

Some argued that in the perfectly competitive free market, the pursuit of profit will by itself ensure that the members of the society are served in the most socially beneficial ways. They further argue that corporate managers have no right to do anything other than maximize profit. They have no rights to spend other people's money on social welfare projects. Business owners can spend their money in a way they want, since it is their money. If they contribute money to social development, it must be with the eye to increasing profit. By doing so, the company's image improves and attract more customers and make more money. Such argument assumes that any steps taken to increase profits will necessarily be

socially beneficial for people. That is the main idea of capitalist Milton Friedman as cited by Hooker (2003) <sup>[8]</sup>.

Looking for profit and ignoring social responsibility is self-interest. Self-interest is the main motivation of going into business and making profit as it has been emphasized by Friedman. Such attitude is nothing new. It has been long argued that human beings act from self-interest. It has long been the dominant view in psychology and in much of Western thought. For example, Thomas Hobbes, the seventeenth century philosopher, believed that human beings always acted from self-interest. On one occasion Hobbes was seen giving money to a beggar. When asked why, he explained that he was trying to relieve his own discomfort at seeing the beggar in need (Andre & Velasquez, 2011). Doing good toward others is just an instrument to achieve his own interest.

Ethics as traditionally conceived is supposed to override self-interest: if we have a moral obligation to do something, we ought to do it even when it's not in our own interests to do so. It makes no sense, however, to tell people that they ought to act contrary to self-interest if they can act only in terms of self-interest. Moreover, an important traditional element in ethical decision-making is an impartial consideration of the interests of others. *The moral point of view goes beyond self-interest to a standpoint that takes everyone's interests into account.* It is not only the interest of business owners but interest of everyone. Ethics, then, assumes that self-interest is not the basis for all human behavior, although some philosophers, e.g., Hobbes, have tried to base ethics on self-interest. Their efforts, however, have not been widely accepted. While egoism may be a strong motivator of human behavior, ethics traditionally assumes that human beings are also capable of acting from a concern for others that is not derived from a concern for their own welfare (Velasquez, 2011).

Other group also argued that to be ethical is enough to obey the law. In their mind, ethics and law are the same. It is true that some laws require behaviors that is the same as the behavior required by moral standards such as laws that prohibits murder, rape, theft, fraud and so on. In such case, law coincides with moral laws. However, laws and morality do not always coincide. Some laws have nothing to do with morality and even violate moral values. What is moral is not always legal and what is legal is not always moral. In this case, business is not enough just to follow the law but also moral considerations.

Since ethics is to govern all voluntary human activities, and since business is a voluntary human activity, thus, business ethics should also govern the business. No business exists *without ethics*. Business bankrupts if business does not adhere to moral standards. What will happen if cheating, stealing, fraud, bribery is allowed? Cheating, stealing, fraud has been contributing to the bankruptcy of several big businesses. We still remember the story of ENRON and WORLCOM. Year 2002 we saw an unprecedented number of corporate scandals: Enron, Tyco, and Global Crossing. In many ways, WorldCom is just another case of failed corporate governance, accounting abuses, and outright greed. Regarding financial reporting, WorldCom used a liberal interpretation of accounting rules when preparing financial statements. To make it appear that profits were increasing, WorldCom would write down in one quarter millions of dollars in assets it acquired while, at the same time, it "included in this charge against earnings the cost of

company expenses expected in the future. The result was bigger losses in the current quarter but smaller ones in future quarters, so that its profit picture would seem to be improving (Moberg, 2002) <sup>[14]</sup>. Enron's (2001) nontransparent financial statement did not clearly depict its operations and finances with shareholders and analysts. In addition, its complex business model and unethical practices required that the company use accounting limitations to misrepresent earnings and modify the balance sheet to portray a favorable depiction of its performance. The Enron scandal grew out of a steady accumulation of habits and values and actions that began years before and finally spiraled out of control. The primary motivations for Enron's accounting and financial transactions seem to have been to keep reported income and reported cash flow up, asset values inflated, and liabilities books (Wikipedia, the free encyclopedia). Those two examples clearly tell us that ethical business conduct contributes to profits and unethical business contributes to bankruptcy. If the business is doing good and honest service to customer, people will patronize the product and service and profit will come.

Business is service to the humanity. If business is so, it must be conducted in ethical manner. If the purpose is noble, then the way how it is done must be noble too. Business that conducts its transaction ethically will stay long in the business and can increase shareholder value in return. Let me quote the statement of CEO Dan Amos (2009) of AFLAC, A Pay for Performance Company:

We are proud to have been included in the Ethisphere's list of the World's Most Ethical Companies for two years. We are uplifted to see that the Reputation Institute judged Aflac to be the most respected company in the global insurance industry in 2008. We have earned several "best places to work" honors as well. The independent validations have been inspirational, and we are equally proud to have further demonstrated that a company may increase shareholder value returns at the same time it earns a desirable image as an ethical business practice leader.

### **Ethic is Universal.**

Universal morality argues that some system of ethics, or a universal ethic, applied universally that is, for "all similarly situated individuals" regardless of culture, race, sex, religion, nationality, gender or other distinguishing feature (Kant, and Herbert James 1981) <sup>[10]</sup>. Moral universalism is opposed to moral nihilism and moral relativism.

Universal morality is always contrary to moral relativism. If the relativism morality claims that morality is individual and cultural dependence, but universal morality is not individual and cultural independent, it applies to all rational human beings and beyond culture. The application of the universal morality would be: if an action is right or wrong for others, it is also right or wrong for us" "If something is rights for you and if it is wrong for you, then it is right or wrong for me". Within this concept, all rational being has the same concept of what is good and bad, right and wrong and thus it is easier to judge other people's behavior and other culture (Abun, 2010) <sup>[11]</sup>

Universal morality is taken from its normative sense of morality. When morality is taken from its normative sense, then it is possible that morality in its normative sense has never been put forward by any society or group or individuals. All rational adult individual adult has the capability to know what is good and bad, what is right and

wrong. Such kind of morality is known to all because all rational adult individual has the reason and conscience to know what is good and bad, right and wrong. Thus, judging behavior is based on natural law. Natural law is as strong as and binding as physical law such as gravity and energy (Hauser, 2006) <sup>[7]</sup>. Each person has the capacity to know what is good and bad, right and wrong.

Natural law does not depend on our interpretation or feelings, but they exist independently. Rape is wrong regardless the intention and outcome behind it. It does not matter how angry we are, it is inherently wrong. Rape cannot be argued as right and wrong depend on certain circumstances or cultural aspects. The truth is that rape is wrong. The truth cannot have it both ways, truth can only be one. Truth has and never will change. Our opinion is not the truth; our status does not give us the truth, truth is the truth and exist independently. Morality must be based on absolute truth, not relative truth. Relative truth will tell us that an act is relative to the context, situation, culture and the person. It comes down to two opinions. A person may judge rape as wrong or immoral, but others may judge it as moral and a person cannot impose a moral judgment on others. Thus, how are they going to reconcile? It is only when they admit that there is a natural law, one which is above opinion and beliefs, one which is unchanging, can they claim that an action morally right or wrong (Abun, 2010) <sup>[11]</sup>.

According to Universalists, morals are inherent in the law of nature, the nature of humanity. They regard actions as inherently or inarguably moral or immoral. It does not need another person to tell someone that certain act is immoral or moral because from the act alone can be judged whether it is immoral or moral and all adult rational moral agent know whether it is moral or immoral. Moral Universalists might be, for example, judge slavery, death penalty or rape to be absolutely and inarguably immoral regardless of the beliefs and goals of a culture that engage in this practice. Thus, an action can be judged either good or bad, right or wrong, it cannot be both ways, regardless of the circumstances in which they occur.

The advantages of universal morality are that it assures us of certainty, security, harmony and protection. The position of one or a group embodies that truth. Within these moral standards, all persons, society beyond boundaries of culture can be one and judge actions against humanity as immoral. Thus, all people across culture can condemn certain act if it is moral or immoral. Morality which is based on natural law is not determined by outside forces, but it is coming from within a person (LaFollette, 1991) <sup>[11]</sup>.

Thus, when we talk about universal morality, then it means we have a moral system that applies to all advanced civilizations in the universe. They are basic principles that would apply to every individual member and every subgroup of every rational agent and advanced civilization in the universe.

### **Business Ethics is Universal**

Follow the argument of universal morality that morality is beyond boundaries, morality is applied to all rational agents, and thus we can say the same to business ethics. The principles of right and wrong and good and bad cannot be just applied to a certain culture, race, religion or individual but it is applied to all. The understanding of good and bad, right and wrong cannot be just applicable to one place, to a certain person or culture but it inherent in human nature

through reason and conscience that all adult person is capable of understanding of what good, bad, right and wrong are. The application of those concepts is for all human act including business transactions. Thus, business practices must follow a certain common business ethics principle. Universal business ethic is an attempt to formulate common business ethic principles that are acceptable by all rational agents and applied to all countries beyond religion, culture, and race.

There are universal moral values that are applied everywhere in human relationships beyond culture, group, religion and individuals. These universal moral values are applied in business transactions. Lying, cheating, bribing, unfairness, injustice, dishonesty is immoral. Whether or not they are observed or enforced, these values hold good everywhere including in business transactions (Machan, 1999) <sup>[13]</sup>.

Thus, the primary ethical concerns of businesses fell into four categories: equity, rights, honesty, and the exercise of corporate power, each of which is addressed below (Harvard Business Review, 1986) <sup>[6]</sup>. Equity is referring to general fairness which includes transactions that benefit both parties, not only for one party. Beyond that, fairness refers to the effect of business transaction outside of the parties involved which include society and environment. The ethical question here is: is the transaction fair to parties, the society and the environment?

The same true with the theory of rights. The theory of rights covers entitlements of business partner, customers, communities, and other parties as established by laws, court rulings, and social conventions. Rights generally protect these various parties from activities by businesses that can limit their freedom and safety. While honesty, the broadest category, refers to the truthfulness and integrity of businesses' actions and policies, including corporate conduct as well as employee conducts done in the name of the company. Furthermore, issues of honesty pertain to advertising content, financial procedures, bribes and gifts, fraud, and wastefulness. In addition, honesty also includes employee obligations, such as not disclosing confidential information to a company's competitors.

The key issue surrounding exercise of corporate power is whether companies ethically can fund and support certain political action committees whose efforts may benefit their businesses but cause social harm. This category also covers worker, product, and environmental safety concerns and raises questions about employers' responsibilities for workplace equipment that may cause injuries after prolonged use, products that may harm consumers, and conduct and products that may contaminate the environment.

The challenge for multinational companies is how to formulate universal business ethics that are acceptable by all beyond country, religion, culture, gender, race or ethnicity. Just like universal morality, business must have common moral principles that should be applied everywhere. By holding a common universal moral principle, business practices or transactions can avoid practices that are harmful to parties, society and environment. Beyond that, business transactions can be easier and faster.

### Conclusion

Ethics is a code of conduct put forward by society that is accepted by all rational being beyond the boundary of

country, culture, religion, race and groups or individual. The concept of what good and bad is beyond culture, country, religion or groups. Thus, ethics is universal, not relative. What is good in one country or culture, it must be accepted as the same in other countries. The acceptance is not depending on the rules of the society but by reason and conscience inherent in the person. It is believed that all rational adult individual has the capability to define and understand what good and bad is. Stealing is bad or killing is bad. They are bad not because someone told me that they are bad, but I understand that they are bad by my own reason and conscience.

Such ethics is not only applied in ordinary human relations, but it must be applied in business transaction which is called business ethics. Business ethics is a specialized study of moral right and wrong in doing a business. The scope covers all the operation of business. It covers its business policy, corporation and individual. In that case, issues to be addressed are systemic issues, corporate and individual issues. Those issues are not only in the local business level, but it also includes international business or multinational corporations. The concept of good and bad, right and wrong that are applied in the local business must be applied in the international business too. Thus, business ethics is universal, just like ethics. The challenge of multinational companies is to apply the same code of conduct across the border. Fraud cannot be good Africa, but it is bad in America or vice versa.

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