5. See, among other sources, Alexander Filatov, "Unethical Business Behavior In Post-Communist Russia: Origins and Trends," *Business Ethics Quarterly*, Vol. 4, No. 1 (January 1994), pp. 11–15.
6. A somewhat similar analysis yields greater obligations to U.S. multinationals than to indigenous firms in less developed countries. See Richard T. De George, *Competing With Integrity in International Business*, New York: Oxford University Press, 1993.

Values in Tension: Ethics Away from Home

THOMAS DONALDSON

When we leave home and cross our nation's boundaries, moral clarity often blurs. Without a backdrop of shared attitudes, and without familiar laws and judicial procedures that define standards of ethical conduct, certainty is elusive. Should a company invest in a foreign country where civil and political rights are violated? Should a company go along with a host country's discriminatory employment practices? If companies in developed countries shift facilities to developing nations that lack strict environmental and health regulations, or if those companies choose to fill management and other top-level positions in a host nation with people from the home country, whose standards should prevail?

Even the best-informed, best-intentioned executives must rethink their assumptions about business practice in foreign settings. What works in a company's home country can fail in a country with different standards of ethical conduct. Such difficulties are unavoidable for businesspeople who live and work abroad.

But how can managers resolve the problems? What are the principles that can help them work through the maze of cultural differences and establish codes of conduct for globally ethical business practice? How can companies answer the toughest question in global business ethics: What happens when a host country's ethical standards seem lower than the home country's?

COMPETING ANSWERS

One answer is as old as philosophical discourse. According to cultural relativism, no culture's ethics are better than any other's; therefore there are no international rights and wrongs. If the people of Indonesia tolerate the bribery of their public officials, so what? Their attitude is no better or worse than that of people in Denmark or Singapore who refuse to offer or accept bribes. Likewise, if Belgians fail to find insider trading morally repugnant, who cares? Not enforcing insider-trading laws is no more or less ethical than enforcing such laws.

The cultural relativist's creed—When in Rome, do as the Romans do—is tempting, especially when failing to do as the locals do means forfeiting business opportunities. The inadequacy of cultural relativism, however, becomes apparent when the practices in question are more damaging than petty bribery or insider trading.

In the late 1980s, some European tanneries and pharmaceutical companies were looking for cheap waste-dumping sites. They approached virtually every country on Africa's west coast from Morocco to the Congo. Nigeria agreed to take highly toxic polychlorinated biphenyls. Unprotected local workers, wearing thongs and shorts, unloaded barrels of PCBs and placed them near a residential area. Neither the residents nor the workers knew that the barrels contained toxic waste.

We may denounce governments that permit such abuses, but many countries are unable to police transnational corporations adequately even if they want to. And in many countries, the combination of ineffective enforcement and inadequate regulations leads to behavior by unscrupulous companies that is clearly wrong. A few years ago, for example, a group of investors became interested in restoring the SS United States, once a luxurious ocean liner. Before the actual restoration could begin, the ship had to be stripped of its asbestos lining. A bid from a U.S. company, based on U.S. standards for asbestos removal, priced the job at more than $100 million. A company in the Ukranian city of Sevastopol offered to do the work for less than $2 million. In October 1993, the ship was towed to Sevastopol.

A cultural relativist would have no problem with that outcome, but I do. A country has the right to establish its own health and safety regulations, but in the case described above, the standards and the terms of the contract could not possibly have protected workers in Sevastopol from known health risks. Even if the contract met Ukranian standards, ethical businesspeople must object. Cultural relativism is morally blind. There are fundamental values that cross cultures, and companies must uphold them. . . .

At the other end of the spectrum from cultural relativism is ethical imperialism, which directs people to do everywhere exactly as they do at home. Again, an understandably appealing approach but one that is clearly inadequate. Consider the large U.S. computer-products company that in 1993 introduced a course on sexual harassment in its Saudi Arabian facility. Under the banner of global consistency, instructors used the same approach to train Saudi Arabian managers that they had used with U.S. managers: the participants were asked to discuss a case in which a manager makes sexually explicit remarks to a new female employee over drinks in a bar. The instructors failed to consider how the exercise would work in a culture with strict conventions governing relationships between men and women. As a result, the training sessions were ludicrous. They baffled and offended the Saudi participants, and the message to avoid coercion and sexual discrimination was lost.

The theory behind ethical imperialism is absolutism, which is based on three problematic principles. Absolutists believe that there is a single list of truths, that they can be expressed only with one set of concepts, and that they call for exactly the same behavior around the world.

The first claim clashes with many people's belief that different cultural traditions must be respected. In some cultures, loyalty to a community—family, organization, or society—is the foundation of all ethical behavior. The Japanese, for example, define business ethics in terms of loyalty to their companies, their business networks, and their nation. Americans place a higher

Reprinted by permission of *Harvard Business Review*, "Values in Tension: Ethics Away from ... Donaldson (Sept./Oct. 1996, 48–62). Copyright 1996 by the Harvard Busivalue on liberty than on loyalty; the U.S. tradition of rights emphasizes equality, fairness, and individual freedom. It is hard to conclude that truth lies on one side or the other, but an absolutist would have us select just one.

The second problem with absolutism is the presumption that people must express moral truth using only one set of concepts. For instance, some absolutists insist that the language of basic rights provide the framework for any discussion of ethics. That means, though, that entire cultural traditions must be ignored. The notion of a right evolved with the rise of democracy in post-Renaissance Europe and the United States, but the term is not found in either Confucian or Buddhist traditions. We all learn ethics in the context of our particular cultures, and the power in the principles is deeply tied to the way in which they are expressed. Internationally accepted lists of moral principles, such as the United Nations' Universal Declaration of Human Rights, draw on many cultural and religious traditions. As philosopher Michael Walzer has noted, "There is no Esperanto of global ethics."

The third problem with absolutism is the belief in a global standard of ethical behavior. Context must shape ethical practice. Very low wages, for example, may be considered unethical in rich, advanced countries, but developing nations may be acting ethically if they encourage investment and improve living standards by accepting low wages. Likewise, when people are malnourished or starving, a government may be wise to use more fertilizer in order to improve crop yields, even though that means settling for relatively high levels of thermal water pollution.

When cultures have different standards of ethical behavior—and different ways of handling unethical behavior—a company that takes an absolutist approach may find itself making a disastrous mistake. When a manager at a large U.S. specialty-products company in China caught an employee stealing, she followed the company's practice and turned the employee over to the provincial authorities, who executed him. Managers cannot operate in another culture without being aware of that culture's attitudes toward ethics.

If companies can neither adopt a host country's ethics nor extend the home country's standards, what is the answer? Even the traditional litmus test—What would people think of your actions if they were written up on the front page of the newspaper?—is an unreliable guide, for there is no international consensus on standards of business conduct.

BALANCING THE EXTREMES: THREE GUIDING PRINCIPLES

Companies must help managers distinguish between practices that are merely different and those that are wrong. For relativists, nothing is sacred and nothing is wrong. For absolutists, many things that are different are wrong. Neither extreme illuminates the real world of business decision making. The answer lies somewhere in between.

When it comes to shaping ethical behavior, companies must be guided by three principles.

- Respect for core human values, which determine the absolute moral threshold for all business activities.
- Respect for local traditions.

Consider those principles in action. In Japan, people doing business together often exchange gifts—sometimes expensive ones—in keeping with long-standing Japanese tradition. When U.S. and European companies started doing a lot of business in Japan, many Western businesspeople thought that the practice of gift giving might be wrong rather than simply different. To them, accepting a gift felt like accepting a bribe. As Western companies have become more familiar with Japanese traditions, however, most have come to tolerate the practice and to set different limits on gift giving in Japan than they do elsewhere.

Respecting differences is a crucial ethical practice. Research shows that management ethics differ among cultures; respecting those differences means recognizing that some cultures have obvious weaknesses—as well as hidden strengths. Managers in Hong Kong, for example, have a higher tolerance for some forms of bribery than their Western counterparts, but they have a much lower tolerance for the failure to acknowledge a subordinate's work. In some parts of the Far East, stealing credit from a subordinate is nearly an unpardonable sin.

People often equate respect for local traditions with cultural relativism. That is incorrect. Some practices are clearly wrong. Union Carbide's tragic experience in Bhopal, India, provides one example. The company's executives seriously underestimated how much on-site management involvement was needed at the Bhopal plant to compensate for the country's poor infrastructure and regulatory capabilities. In the aftermath of the disastrous gas leak, the lesson is clear: companies using sophisticated technology in a developing country must evaluate that country's ability to oversee its safe use. Since the incident at Bhopal, Union Carbide has become a leader in advising companies on using hazardous technologies safely in developing countries.

Some activities are wrong no matter where they take place. But some practices that are unethical in one setting may be acceptable in another. For instance, the chemical EDB, a soil fungicide, is banned for use in the United States. In hot climates, however, it quickly becomes harmless through exposure to intense solar radiation and high soil temperatures. As long as the chemical is monitored, companies may be able to use EDB ethically in certain parts of the world.

DEFINING THE ETHICAL THRESHOLD: CORE VALUES

Few ethical questions are easy for managers to answer. But there are some hard truths that must guide managers' actions, a set of what I call core human values, which define minimum ethical standards for all companies.[1] The right to good health and the right to economic advancement and an improved standard of living are two core human values. Another is what Westerners call the Golden Rule, which is recognizable in every major religious and ethical tradition around the world. In Book 15 of his Analects, for instance, Confucius counsels people to maintain reciprocity, or not to do to others what they do not want done to themselves.

Although no single list would satisfy every scholar, I believe it is possible to and philosophers around the world. To be broadly relevant, these values must include elements found in both Western and non-Western cultural and religious traditions. Consider the examples of values in Exhibit 12.1, "What Do These Values Have in Common?"

At first glance, the values expressed in the two lists seem quite different. Nonetheless, in the spirit of what philosopher John Rawls calls overlapping consensus, one can see that the seemingly divergent values converge at key points. Despite important differences between Western and non-Western cultural and religious traditions, both express shared attitudes about what it means to be human. First, individuals must not treat others simply as tools; in other words, they must recognize a person's value as a human being. Next, individuals and communities must treat people in ways that respect people's basic rights. Finally, members of a community must work together to support and improve the institutions on which the community depends. I call those three values *respect for human dignity, respect for basic rights, and good citizenship.*

Those values must be the starting point for all companies as they formulate and evaluate standards of ethical conduct at home and abroad. But they are only a starting point. Companies need much more specific guidelines, and the first step to developing those is to translate the core human values into core values for business. What does it mean, for example, for a company to respect human dignity? How can a company be a good citizen?

I believe that companies can respect human dignity by creating and sustaining a corporate culture in which employees, customers, and suppliers are treated not as means to an end but as people whose intrinsic value must be acknowledged, and by producing safe products and services in a safe workplace. Companies can respect basic rights by acting in ways that support and protect the individual rights of employees, customers, and surrounding communities, and by avoiding relationships that violate human beings' rights to health, education, safety, and an adequate standard of living. And companies can be good citizens by supporting essential social institutions, such as the economic system and the education system, and by working with host governments and other organizations to protect the environment.

The core values establish a moral compass for business practice. They can help companies identify practices that are acceptable and those that are intolerable—even if the practices are compatible with a host country's norms and laws. Dumping pollutants near people's homes and accepting inadequate standards for handling hazardous materials are two examples of actions that violate core values.

EXHIBIT 12.1. What Do These Values Have in Common?

Non-Western	Western
Kyosei (Japanese): Living and working together for the common good.	Individual liberty
Dharma (Hindu): The fulfillment of inherited duty.	Egalitarianism
Santutthi (Buddhist): The importance of limited desires.	Political participation
Zakat (Muslim):	Human Rights

Similarly, if employing children prevents them from receiving a basic education, the practice is intolerable. Lying about product specifications in the act of selling may not affect human lives directly, but it too is intolerable because it violates the trust that is needed to sustain a corporate culture in which customers are respected.

Sometimes it is not a company's actions but those of a supplier or customer that pose problems. Take the case of the Tan family, a large supplier for Levi Strauss. The Tans were allegedly forcing 1,200 Chinese and Filipino women to work 74 hours per week in guarded compounds on the Mariana Islands. In 1992, after repeated warnings to the Tans, Levi Strauss broke off business relations with them.

CREATING AN ETHICAL CORPORATE CULTURE

The core values for business that I have enumerated can help companies begin to exercise ethical judgment and think about how to operate ethically in foreign cultures, but they are not specific enough to guide managers through actual ethical dilemmas. Levi Strauss relied on a written code of conduct when figuring out how to deal with the Tan family. The company's Global Sourcing and Operating Guidelines, formerly called the Business Partner Terms of Engagement, state that Levi Strauss will "seek to identify and utilize business partners who aspire as individuals and in the conduct of all their businesses to a set of ethical standards not incompatible with our own." Whenever intolerable business situations arise, managers should be guided by precise statements that spell out the behavior and operating practices that the company demands.

Ninety percent of all Fortune 500 companies have codes of conduct, and 70% have statements of vision and values. In Europe and the Far East, the percentages are lower but are increasing rapidly. Does that mean that most companies have what they need? Hardly. Even though most large U.S. companies have both statements of values and codes of conduct, many might be better off if they didn't. Too many companies don't do anything with the documents; they simply paste them on the wall to impress employees, customers, suppliers, and the public. As a result, the senior managers who drafted the statements lose credibility by proclaiming values and not living up to them. Companies such as Johnson & Johnson, Levi Strauss, Motorola, Texas Instruments, and Lockheed Martin, however, do a great deal to make the words meaningful. Johnson & Johnson, for example, has become well known for its Credo Challenge sessions, in which managers discuss ethics in the context of their current business problems and are invited to criticize the company's credo and make suggestions for changes. The participants' ideas are passed on to the company's senior managers. Lockheed Martin has created an innovative site on the World Wide Web and on its local network that gives employees, customers, and suppliers access to the company's ethical code and the chance to voice complaints.

Codes of conduct must provide clear direction about ethical behavior when the temptation to behave unethically is strongest. The pronouncement in a code of conduct that bribery is unacceptable is useless unless ac-

Motorola's values are stated very simply as "How we will always act: [with] constant respect for people [and] uncompromising integrity." The company's code of conduct, however, is explicit about actual business practice. With respect to bribery, for example, the code states that the "funds and assets of Motorola shall not be used, directly or indirectly, for illegal payments of any kind." It is unambiguous about what sort of payment is illegal: "the payment of a bribe to a public official or the kickback of funds to an employee of a customer. . . ." The code goes on to prescribe specific procedures for handling commissions to intermediaries, issuing sales invoices, and disclosing confidential information in a sales transaction—all situations in which employees might have an opportunity to accept or offer bribes.

Codes of conduct must be explicit to be useful, but they must also leave room for a manager to use his or her judgment in situations requiring cultural sensitivity. Host-country employees shouldn't be forced to adopt all home-country values and renounce their own. Again, Motorola's code is exemplary. First, it gives clear direction: "Employees of Motorola will respect the laws, customs, and traditions of each country in which they operate, but will, at the same time, engage in no course of conduct which, even if legal, customary, and accepted in any such country, could be deemed to be in violation of the accepted business ethics of Motorola or the laws of the United States relating to business ethics." After laying down such absolutes, Motorola's code then makes clear when individual judgment will be necessary. For example, employees may sometimes accept certain kinds of small gifts "in rare circumstances, where the refusal to accept a gift" would injure Motorola's "legitimate business interests." Under certain circumstances, such gifts "may be accepted so long as the gift inures to the benefit of Motorola" and not "to the benefit of the Motorola employee."

Striking the appropriate balance between providing clear direction and leaving room for individual judgment makes crafting corporate values statements and ethics codes one of the hardest tasks that executives confront. The words are only a start. A company's leaders need to refer often to their organization's credo and code and must themselves be credible, committed, and consistent. If senior managers act as though ethics don't matter, the rest of the company's employees won't think they do, either.

CONFLICTS OF DEVELOPMENT AND CONFLICTS OF TRADITION

Managers living and working abroad who are not prepared to grapple with moral ambiguity and tension should pack their bags and come home. The view that all business practices can be categorized as either ethical or unethical is too simple. As Einstein is reported to have said, "Things should be as simple as possible—but no simpler." Many business practices that are considered unethical in one setting may be ethical in another. Such activities are neither black nor white but exist in what Thomas Dunfee and I have called moral free space.[2] In this gray zone, there are no tight prescriptions for a company's behavior. Managers must chart their own courses—as long as they do not violate core human values.

company once the child has completed a certain level in school. The companies honor this commitment even when other applicants are more qualified than an employee's child. The perk is extremely valuable in a country where jobs are hard to find, and it reflects the Indian culture's belief that the West has gone too far in allowing economic opportunities to break up families. Not surprisingly, the perk is among the most cherished by employees, but in most Western countries, it would be branded unacceptable nepotism. In the United States, for example, the ethical principle of equal opportunity holds that jobs should go to the applicants with the best qualifications. If a U.S. company made such promises to its employees, it would violate regulations established by the Equal Employment Opportunity Commission. Given this difference in ethical attitudes, how should U.S. managers react to Indian nepotism? Should they condemn the Indian companies, refusing to accept them as partners or supplies until they agree to clean up their act?

Despite the obvious tension between nepotism and principles of equal opportunity, I cannot condemn the practice for Indians. In a country, such as India, that emphasizes clan and family relationships and has catastrophic levels of unemployment, the practice must be viewed in moral free space. The decision to allow a special perk for employees and their children is not necessarily wrong—at least for members of that country.

How can managers discover the limits of moral free space? That is, how can they learn to distinguish a value in tension with their own from one that is intolerable? Helping managers develop good ethical judgment requires companies to be clear about their core values and codes of conduct. But even the most explicit set of guidelines cannot always provide answers. That is especially true in the thorniest ethical dilemmas, in which the host country's ethical standards not only are different but also seem lower than the home country's. Managers must recognize that when countries have different ethical standards, there are two types of conflict that commonly arise. Each type requires its own line of reasoning.

In the first type of conflict, which I call a *conflict of relative development*, ethical standards conflict because of the countries' different levels of economic development. As mentioned before, developing countries may accept wage rates that seem inhumane to more advanced countries in order to attract investment. As economic conditions in a developing country improve, the incidence of that sort of conflict usually decreases. The second type of conflict is a *conflict of cultural tradition*. For example, Saudi Arabia, unlike most other countries, does not allow women to serve as corporate managers. Instead, women may work in only a few professions, such as education and health care. The prohibition stems from strongly held religious and cultural beliefs; any increase in the country's level of economic development, which is already quite high, is not likely to change the rules.

To resolve a conflict of relative development, a manager must ask the following question: Would the practice be acceptable at home if my country were in a similar stage of economic development? Consider the difference between wage and safety standards in the United States and in Angola, where citizens accept lower standards on both counts. If a U.S. oil company is hiring Angolans to work on an offshore Angolan oil rig, can the company pay them lower wages than it pays U.S. workers in the Gulf of Mexico? Rea-

Consider, too, differences in regulatory environments. In the 1980s, the government of India fought hard to be able to import Ciba-Geigy's Entero Vioform, a drug known to be enormously effective in fighting dysentery but one that had been banned in the United States because some users experienced side effects. Although dysentery was not a big problem in the United States, in India, poor public sanitation was contributing to epidemic levels of the disease. Was it unethical to make the drug available in India after it had been banned in the United States? On the contrary, rational people should consider it unethical not to do so. Apply our test: Would the United States, at an earlier stage of development, have used this drug despite its side effects? The answer is clearly yes.

But there are many instances when the answer to similar questions is no. Sometimes a host country's standards are inadequate at any level of economic development. If a country's pollution standards are so low that working on an oil rig would considerably increase a person's risk of developing cancer, foreign oil companies must refuse to do business there. Likewise, if the dangerous side effects of a drug treatment outweigh its benefits, managers should not accept health standards that ignore the risks.

When relative economic conditions do not drive tensions, there is a more objective test for resolving ethical problems. Managers should deem a practice permissible only if they can answer no to both of the following questions: Is it possible to conduct business successfully in the host country without undertaking the practice? and Is the practice a violation of a core human value? Japanese gift giving is a perfect example of a conflict of cultural tradition. Most experienced businesspeople, Japanese and non-Japanese alike, would agree that doing business in Japan would be virtually impossible without adopting the practice. Does gift giving violate a core human value? I cannot identify one that it violates. As a result, gift giving may be permissible for foreign companies in Japan even if it conflicts with ethical attitudes at home. In fact, that conclusion is widely accepted, even by companies such as Texas Instruments and IBM, which are outspoken against bribery.

Does it follow that all nonmonetary gifts are acceptable or that bribes are generally acceptable in countries where they are common? Not at all. . . . What makes the routine practice of gift giving acceptable in Japan are the limits in its scope and intention. When gift giving moves outside those limits, it soon collides with core human values. For example, when Carl Kotchian, president of Lockheed in the 1970s, carried suitcases full of cash to Japanese politicians, he went beyond the norms established by Japanese tradition. That incident galvanized opinion in the United States Congress and helped lead to passage of the Foreign Corrupt Practices Act. Likewise, Roh Tae Woo went beyond the norms established by Korean cultural tradition when he accepted $635.4 million in bribes as president of the Republic of Korea between 1988 and 1993.

GUIDELINES FOR ETHICAL LEADERSHIP

Learning to spot intolerable practices and to exercise good judgment when ethical conflicts arise requires practice. Creating a company culture that re-

Treat corporate values and formal standards of conduct as absolutes. Whatever ethical standards a company chooses, it cannot waver on its principles either at home or abroad. Consider what has become part of company lore at Motorola. Around 1950, a senior executive was negotiating with officials of a South American government on a $10 million sale that would have increased the company's annual net profits by nearly 25%. As the negotiations neared completion, however, the executive walked away from the deal because the officials were asking for $1 million for "fees." CEO Robert Galvin not only supported the executive's decision but also made it clear that Motorola would neither accept the sale on any terms nor do business with those government officials again. Retold over the decades, this story demonstrating Galvin's resolve has helped cement a culture of ethics of thousands of employees at Motorola.

Design and implement conditions of engagement for suppliers and customers. Will your company do business with any customer or supplier? What if a customer or supplier uses child labor? What if it has strong links with organized crime? What if it pressures your company to break a host country's laws? Such issues are best not left for spur-of-the-moment decisions. Some companies have realized that. Sears, for instance, has developed a policy of not contracting production to companies that use prison labor or infringe on workers' rights to health and safety. And BankAmerica has specified as a condition for many of its loans to developing countries that environmental standards and human rights must be observed.

Allow foreign business units to help formulate ethical standards and interpret ethical issues. The French pharmaceutical company Rhône-Poulenc Rorer has allowed foreign subsidiaries to augment lists of corporate ethical principles with their own suggestions. Texas Instruments has paid special attention to issues of international business ethics by creating the Global Business Practices Council, which is made up of managers from countries in which the company operates. With the overarching intent to create a "global ethics strategy, locally deployed," the council's mandate is to provide ethics education and create local processes that will help managers in the company's foreign business units resolve ethical conflicts.

In host countries, support efforts to decrease institutional corruption. Individual managers will not be able to wipe out corruption in a host country, no matter how many bribes they turn down. When a host country's tax system, import and export procedures, and procurement practices favor unethical players, companies must take action.

Many companies have begun to participate in reforming host-country institutions. General Electric, for example, has taken a strong stand in India, using the media to make repeated condemnations of bribery in business and government. General Electric and others have found, however, that a single company usually cannot drive out entrenched corruption. Transparency International, an organization based in Germany, has been effective in helping coalitions of companies, government officials, and others work to reform bribery-ridden bureaucracies in Russia, Bangladesh, and elsewhere.

Exercise moral imagination. Using moral imagination means resolving tensions responsibly and creatively. Coca-Cola, for instance, has consistently turned down requests for bribes from Egyptian officials but has managed to gain political support and public trust by sponsoring a project to plant fruit

1990s that two of its suppliers in Bangladesh were employing children under the age of 14—a practice that violated the company's principles but was tolerated in Bangladesh. Forcing the suppliers to fire the children would not have ensured that the children received an education, and it would have caused serious hardship for the families depending on the children's wages. In a creative arrangement, the suppliers agreed to pay the children's regular wages while they attended school and to offer each child a job at age 14. Levi Strauss, in turn, agreed to pay the children's tuition and provide books and uniforms. That arrangement allowed Levi Strauss to uphold its principles and provide long-term benefits to its host country.

Many people think of values as soft; to some they are usually unspoken. A South Seas island society uses the word *mokita,* which means, "the truth that everybody knows but nobody speaks." However difficult they are to articulate, values affect how we all behave. In a global business environment, values in tension are the rule rather than the exception. Without a company's commitment, statements of values and codes of ethics end up as empty platitudes that provide managers with no foundation for behaving ethically. Employees need and deserve more, and responsible members of the global business community can set examples for others to follow. The dark consequences of incidents such as Union Carbide's disaster in Bhopal remind us how high the stakes can be.

Notes

1. In other writings, Thomas W. Dunfee and I have used the term *hypernorm* instead of *core human value.*
2. Thomas Donaldson and Thomas W. Dunfee, "Toward a Unified Conception of Business Ethics: Integrative Social Contracts Theory," *Academy of Management Review,* April 1994; and "Integrative Social Contracts Theory: A Communication Conception of Economic Ethics," *Economics and Philosophy,* spring 1995.

PART 5

Contemporary Business Themes

INTRODUCTION

Previous parts in this book have treated broad concepts and broad categories of business ethics issues. Because each historical period is confronted by a swarm of unique challenges, those issues also require attention. In Part 5 we look closely at contemporary issues of marketing, the environment, and leadership.

CHAPTER 13: MARKETING

What are the ethics of selling? We are daily bombarded by brochures, TV commercials, direct-mail solicitations, unsolicited phone calls, and the threat that our Internet activities may be monitored. But what kind of selling behavior, if any, steps over the ethical line? Also, consider what is being sold. Is it acceptable to sell products that are potentially harmful? Of course, automobiles are known to be some of the most harmful products, and yet we usually regard their utility as outweighing the disadvantages of their risk. But what happens when potential harm is not counterbalanced by substantial utility or when the harm falls upon a particular, vulnerable group of people? Is it acceptable to claim that "Sugar Beanies" (the name of an imaginary breakfast cereal) is the "fun part of a nutritious breakfast?" Is it ethical to make this claim even when over half of the weight of the cereal is sugar and when nutrition experts agree that too much sugar is harming today's children?

In their case study, "Fingerhut's Price Strategy," Lee Fennel, Gretchen Kalsow, and June West explore the case of a catalog merchandiser who targets the bottom one-third of America's economic strata. Fingerhut "bundles" the extension of credit with the sale of its goods. Often, Fingerhut is the only firm

The default rate at Grameen Bank, a microfinance pioneer in Bangladesh, is less than 1.5 percent among 2,500,000 customers. The lessons are clear. Through persistent effort and the provision of world-class quality, private-sector businesses can create mutual trust and responsibility between their companies and BOP customers. Trust is difficult to build after 50 years of suspicion and prejudice based on little evidence and strong stereotyping.

BENEFITS TO THE PRIVATE SECTOR

We have identified the immediate benefits of treating the poor as consumers as well as the poverty alleviation process that will result as businesses focus on the BOP. It is clear that the consumers (the poor) benefit, but do the private-sector businesses benefit as well? The BOP market potential is huge: 4 to 5 billion underserved people and an economy of more than $13 trillion PPP. The needs of the poor are many. The case for growth opportunity in the BOP markets is easy to make. However, to participate in these markets, the private sector must learn to innovate. Traditional products, services, and management processes will not work.

Notes

1. Helen Cha, Polly Cline, Lilly Liu, Carrie Meek, and Michelle Villagomez. "Direct Selling and Economic Empowerment in Brazil: The Case of Avon." Edited by Anuradha Dayal-Gulati, Kellogg School of Management, 2003.
2. Syed Firdaus Ashraf. "Worms Found in Chocolate Packet." *rediff.com*, October 3, 2003.
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7. http://www.bimbo.com

The Great Non-Debate over International Sweatshops

IAN MAITLAND

In recent years there has been a dramatic growth in the contracting out of production by companies in the industrialized countries to suppliers in developing countries. This globalization of production has led to an emerging international division of labor in footwear and apparel in which companies like Nike and Reebok concentrate on product design and marketing but

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rely on a network of contractors in Indonesia, China, Central America, etc., to build shoes or sew shirts according to exact specifications and deliver a high quality good according to precise delivery schedules. As Nike's vice president for Asia has put it, "We don't know the first thing about manufacturing. We are marketers and designers."

The contracting arrangements have drawn intense fire from critics—usually labor and human rights activists. These "critics" (as I will refer to them) have charged that the companies are (by proxy) exploiting workers in the plants (which I will call "international sweatshops") of their suppliers. Specifically the companies stand accused of chasing cheap labor around the globe, failing to pay their workers living wages, using child labor, turning a blind eye to abuses of human rights, being complicit with repressive regimes in denying workers the right to join unions and failing to enforce minimum labor standards in the workplace, and so on.

The campaign against international sweatshops has largely unfolded on television and, to a lesser extent, in the print media. What seems like no more than a handful of critics has mounted an aggressive, media-savvy campaign which has put the publicity-shy retail giants on the defensive. The critics have orchestrated a series of sensational "disclosures" on prime time television exposing the terrible pay and working conditions in factories making jeans for Levi's or sneakers for Nike or Pocahontas shirts for Disney. One of the principal scourges of the companies has been Charles Kernaghan who runs the National Labor Coalition (NLC), a labor human rights group involving 25 unions. It was Kernaghan who, in 1996, broke the news before a Congressional committee that Kathie Lee Gifford's clothing line was being made by 13- and 14-year-olds working 20 hour days in factories in Honduras. Kernaghan also arranged for teenage workers from sweatshops in Central America to testify before Congressional committees about abusive labor practices. At one of these hearings, one of the workers held up a Liz Claiborne cotton sweater identical to ones she had sewn since she was a 13-year-old working 12 hours a day. According to a news report "[t]his image, accusations of oppressive conditions at the factory and the Claiborne logo played well on that evening's network news." The result has been a circus-like atmosphere—as in Roman circus where Christians were thrown to lions.

Kernaghan has shrewdly targeted the companies carefully cultivated public images. He has explained: "Their image is everything. They live and die by their image. That gives you a certain power over them." As a result, he says, "these companies are sitting ducks. They have no leg to stand on. That's why it's possible for a tiny group like us to take on a giant like Wal-Mart. You can't defend paying someone 31 cents an hour in Honduras. . . ."[1] Apparently most of the companies agree with Kernaghan. Not a single company has tried to mount a serious defense of its contracting practices. They have judged that they cannot win a war of soundbites with the critics. Instead of making a fight of it, the companies have sued for peace in order to protect their principal asset—their image.

Major U.S. retailers have responded by adopting codes of conduct on human and labor rights in their international operations. Levi-Strauss, Nike, Sears, J.C. Penney, Wal-Mart, Home Depot, and Philips Van-Heusen now have such codes. As Lance Compa notes, such codes are the result of a blend of with the 'bottom line' considerations related to brand name, company image, and other intangibles that make for core value to the firm."[2] Peter Jacobi, President of Global Sourcing for Levi-Strauss has advised: "If your company owns a popular brand, protect this priceless asset at all costs. Highly visible companies have any number of reasons to conduct their business not just responsibly but also in ways that cannot be portrayed as unfair, illegal, or unethical. This sets an extremely high standard since it must be applied to both company owned businesses and contractors. . . ."[3] And according to another Levi-Strauss spokesman, "In many respects, we're protecting our single largest asset: our brand image and corporate reputation."[4] Nike recently published the results of a generally favorable review of its international operations conducted by former American Ambassador Andrew Young.

Recently, a truce of sorts between the critics and the companies was announced on the White House lawn with President Clinton and Kathie Lee Gifford in attendance. A presidential task force, including representatives of labor unions, human rights groups and apparel companies like L.L. Bean and Nike, has come up with a set of voluntary standards which, it hopes, will be embraced by the entire industry. Companies that comply with the code will be entitled to use a "No Sweat" label.

OBJECTIVES OF THIS PAPER

In this confrontation between the companies and their critics, neither side seems to have judged it to be in its interest to seriously engage the issue at the heart of this controversy, namely: What are appropriate wages and labor standards in international sweatshops? As we have seen, the companies have treated the charges about sweatshops as a public relations problem to be managed so as to minimize harm to their public images. The critics have apparently judged that the best way to keep public indignation at the boiling point is to oversimplify the issue and treat it as a morality play featuring heartless exploiters and victimized third world workers. The result has been a great non-debate over international sweatshops. Paradoxically, if peace breaks out between the two sides, the chances that the debate will be seriously joined may recede still further. Indeed, there exists a real risk (I argue) that any such truce may be a collusive one that will come at the expense of the very third world workers it is supposed to help.

This paper takes up the issue of what are appropriate wages and labor standards in international sweatshops. Critics charge that the present arrangements are exploitative. I proceed by examining the specific charges of exploitation from the standpoints of both (a) their factual and (b) their ethical sufficiency. However, in the absence of any well-established consensus among business ethicists (or other thoughtful observers), I simultaneously use the investigation of sweatshops as a setting for trying to adjudicate between competing views about what those standards should be. My examination will pay particular attention to (but will not be limited to) labor conditions at the plants of Nike's suppliers in Indonesia. I have not personally visited any international sweatshops, and so my conclusions are based entirely on secondary analysis of the voluminous published record on the topic.

WHAT ARE ETHICALLY APPROPRIATE LABOR STANDARDS IN INTERNATIONAL SWEATSHOPS?

What are ethically acceptable or appropriate levels of wages and labor standards in international sweatshops? The following three possibilities just about run the gamut of standards or principles that have been seriously proposed to regulate such policies.

1. *Home-country standards:* It might be argued (and in rare case has been) that international corporations have an ethical duty to pay the same wages and provide the same labor standards regardless of where they operate. However, the view that home-country standards should apply in host-countries is rejected by most business ethicists and (officially at least) by the critics of international sweatshops. Thus, Thomas Donaldson argues that "[by] arbitrarily establishing U.S. wage levels as the benchmark for fairness one eliminates the role of the international market in establishing salary levels, and this in turn eliminates the incentive U.S. corporations have to hire foreign workers."[5] Richard De George makes much the same argument: If there were a rule that said that "that American MNCs [multinational corporations] that wish to be ethical must pay the same wages abroad as they do at home, . . . [then] MNCs would have little incentive to move their manufacturing abroad; and if they did move abroad they would disrupt the local labor market with artificially high wages that bore no relation to the local standard or cost of living."[6]
2. *"Living wage" standard:* It has been proposed that an international corporation should, at a minimum, pay a "living wage." Thus De George says that corporations should pay a living wage "even when this is not paid by local firms."[7] However, it is hard to pin down what this means operationally. According to De George, a living wage should "allow the worker to live in dignity as a human being." In order to respect the human rights of its workers, he says, a corporation must pay "at least subsistence wages and as much above that as workers and their dependents need to live with reasonable dignity, given the general state of development of the society."[8] As we shall see, the living wage standard has become a rallying cry of the critics of international sweatshops. Apparently, De George believes that it is preferable for a corporation to provide no job at all than to offer one that pays less than a living wage. . . .
3. *Classical liberal standard:* Finally, there is what I will call the classical liberal standard. According to this standard a practice (wage or labor practice) is ethically acceptable if it is freely chosen by informed workers. For example, in a recent report the World Bank invoked this standard in connection with workplace safety. It said: "The appropriate level is therefore that at which the costs are commensurate with the value that informed workers place on improved working conditions and reduced risk."[9] Most business ethicists reject this standard on the grounds that there is some sort of market failure or the "background conditions" are lacking for markets to work effectively. Thus for Donaldson full (or near-full) employment is a prerequisite if workers are to make sound choices regarding workplace safety:

> The average level of unemployment in the developing countries today exceeds 40 percent, a figure that has frustrated the application of neoclassical economic principles to the international economy on a score of issues. With full employment, and all other things being equal, market forces will encourage workers to make trade-offs between job opportunities using safety as a variable. But with massive unemployment, market forces in developing countries drive the unemployed to the jobs they are lucky enough to land, regardless of the safety.[10]

Apparently there are other forces, like Islamic fundamentalism and the global debt "bomb" that rule out reliance on market solutions, but Donaldson does not explain their relevance.[11] De George, too, believes that the necessary conditions are lacking for market forces to operate benignly. Without what he calls "background institutions" to protect the workers and the resources of the developing country (e.g., enforceable minimum wages) and/or greater equality of bargaining power exploitation is the most likely result.[12] "if American MNCs pay workers very low wages . . . they clearly have the opportunity to make significant profits."[13] De George goes on to make the interesting observation that "competition has developed among multinationals themselves, so that the profit margin has been driven down" and developing countries "can play one company against another."[14] But apparently that is not enough to rehabilitate market forces in his eyes.

THE CASE AGAINST INTERNATIONAL SWEATSHOPS

To many of their critics, international sweatshops exemplify the way in which the greater openness of the world economy is hurting workers. . . . Globalization means a transition from (more or less) regulated domestic economies to an unregulated world economy. The superior mobility of capital, and the essentially fixed, immobile nature of world labor, means a fundamental shift in bargaining power in favor of large international corporations. Their global reach permits them to shift production almost costlessly from one location to another. As a consequence, instead of being able to exercise some degree of control over companies operating within their borders, governments are now locked in a bidding war with one another to attract and retain the business of large multinational companies.

The critics allege that international companies are using the threat of withdrawal or withholding investment to pressure and workers to grant concessions. "Today [multinational companies] choose between workers in developing countries that compete against each other to depress wages to attract foreign investment." The result is a race for the bottom—a "destructive downward bidding spiral of the labor conditions and wages of workers throughout the world. . . ."[15] Thus critics charge that in Indonesia wages are deliberately held below the poverty level or subsistence in order to make the country a desirable location. The results of this competitive dismantling of worker protections, living standards, and worker rights are predictable: deteriorating work conditions, declining real incomes for workers, and a widening gap between rich and poor in developing countries. I turn next to the specific charges made by the critics of international sweatshops.

Unconscionable Wages

Critics charge that the companies, by their proxies, are paying "starvation wages" and "slave wages." They are far from clear about what wage level they consider to be appropriate. But they generally demand that companies pay a "living wage." Kernaghan has said that workers should be paid enough to support their families and they should get a "living wage" and "be treated

"fair, decent or a living wage for an employee and his or her family." He has said that wages in the maquiladoras of Mexico averaged $35 to $55 a week (in or near 1993) which he calls a "shockingly substandard wage," apparently on the grounds that it "clearly does not allow an employee to feed and care for a family adequately."[17] In 1992, Nike came in for harsh criticism when a magazine published the pay stub of a worker at one of its Indonesian suppliers. It showed that the worker was paid at the rate of $1.03 per day which was reportedly less than the Indonesian government's figure for "minimum physical need."[18]

Immiserization Thesis

Former Labor Secretary Robert Reich has proposed as a test of the fairness of development policies that "Low-wage workers should become better off, not worse off, as trade and investment boost national income." He has written that "[i]f a country pursues policies that . . . limit to a narrow elite the benefits of trade, the promise of open commerce is perverted and drained of its rationale."[19] A key claim of the activists is that companies actually impoverish or immiserize developing country workers. They experience an absolute decline in living standards. This thesis follows from the claim that the bidding war among developing countries is depressing wages. . . .

Widening Gap Between Rich and Poor

A related charge is that international sweatshops are contributing to the increasing gap between rich and poor. Not only are the poor being absolutely impoverished, but trade in generating greater inequality within developing countries. Another test that Reich has proposed to establish the fairness of international trade is that "the gap between rich and poor should tend to narrow with development, not widen."[20] Critics charge that international sweatshops flunk that test. They say that the increasing GNPs of some developing countries simply mask a widening gap between rich and poor. "Across the world, both local and foreign elites are getting richer from the exploitation of the most vulnerable."[21] And, "The major adverse consequence of quickening global economic integration has been widening income disparity within almost all nations. . . ."[22] There appears to be a tacit alliance between the elites of both first and third worlds to exploit the most vulnerable, to regiment and control and conscript them so that they can create the material conditions for the elites' extravagant lifestyles.

Collusion with Repressive Regimes

Critics charge that, in their zeal to make their countries safe for foreign investment, Third World regimes, notably China and Indonesia, have stepped up their repression. Not only have these countries failed to enforce even the minimal labor rules on the books, but they have also used their military and police to break strikes and suppress independent unions. They have stifled political dissent, both to retain their hold on political power and to avoid any instability that might scare off foreign investors. Consequently, critunions spread in [Korea and Taiwan], Nike shifted its suppliers primarily to Indonesia, China and Thailand, where they could depend on governments to suppress independent union-organizing efforts."[23]

EVALUATION OF THE CHARGES AGAINS INTERNATIONAL SWEATSHOPS

The critics' charges are undoubtedly accurate on a number of points: (1) There is no doubt that international companies are chasing cheap labor. (2) The wages paid by the international sweatshops are—by American standards—shockingly low. (3) Some developing country governments have tightly controlled or repressed organized labor in order to prevent it from disturbing the flow of foreign investment. Thus, in Indonesia, independent unions have been suppressed. (4) It is not unusual in developing countries for minimum wage levels to be lower than the official poverty level. (5) Developing country governments have winked at violations of minimum wage laws and labor rules. However, most jobs are in the informal sector and so largely outside the scope of government supervision. (6) Some suppliers have employed children or have subcontracted work to other producers who have done so. (7) Some developing country governments deny their people basic political rights. China is the obvious example; Indonesia's record is pretty horrible but had shown steady improvement until the last two years. But on many of the other counts, the critics charges appear to be seriously inaccurate. And, even where the charges are accurate, it is not self-evident that the practices in question are improper or unethical, as we see next.

Wages and Conditions

Even the critics of international sweatshops do not dispute that the wages they pay are generally higher than—or at least equal to—comparable wages in the labor markets where they operate. According to the International Labor Organization (ILO), multinational companies often apply standards relating to wages, benefits, conditions of work, and occupational safety and health, which both exceed statutory requirements and those practiced by local firms.[24] The ILO also says that wages and working conditions in so-called Export Processing Zones (EPZs) are often equal to or higher than jobs outside. The World Bank says that the poorest workers in developing countries work in the informal sector where they often earn less than half what a formal sector employee earns. Moreover, "informal and rural workers often must work under more hazardous and insecure conditions than their formal sector counterparts."[25]

The same appears to hold true for the international sweatshops. In 1996, young women working in the plant of a Nike supplier in Serang, Indonesia were earning the Indonesian legal minimum wage of 5,200 rupiahs or about $2.28 each day. As a report in the *Washington Post* pointed out, just earning the minimum wage put these workers among higher-paid Indonesians: "In Indonesia, less than half the working population earns the minimum wage, since about half of all adults here are in farming, and the typical farmer would make only about 2,000 rupiahs each day."[26] The workers in

A 17-year-old woman said: "I came here one year ago from central Java. I'm making more money than my father makes." This woman also said that she sent about 75 percent of her earnings back to her family on the farm.[27] Also in 1996, a Nike spokeswoman estimated that an entry-level factory worker in the plant of a Nike supplier made five times what a farmer makes.[28] Nike's chairman, Phil Knight, likes to teasingly remind critics that the average worker in one of Nike's Chinese factories is paid more than a professor at Beijing University.[29] There is also plentiful anecdotal evidence from non-Nike sources. A worker at the Taiwanese-owned King Star Garment Assembly plant in Honduras told a reporter that he was earning seven times what he earned in the countryside.[30] In Bangladesh, the country's fledgling garment industry was paying women who had never worked before between $40 and $55 a month in 1991. That compared with a national per capita income of about $200 and the approximately $1 a day earned by many of these women's husbands as day laborers or rickshaw drivers.[31]

The same news reports also shed some light on the working conditions in sweatshops. According to the *Washington Post*, in 1994 the Indonesian office of the international accounting firm Ernst & Young surveyed Nike workers concerning worker pay, safety conditions and attitudes toward the job. The auditors pulled workers off the assembly line at random and asked them questions that the workers answered anonymously. The survey of 25 workers at Nike's Serang plant found that 23 thought the hours and overtime hours too high. None of the workers reported[32] that they had been discriminated against. Thirteen said the working environment was the key reason they worked at the Serang plant while eight cited salary and benefits. The *Post* report also noted that the Serang plant closes for about ten days each year for Muslim holidays. It quoted Nike officials and the plant's Taiwanese owners as saying that 94 percent of the workers had returned to the plant following the recent break. . . .

There is also the mute testimony of the lines of job applicants outside the sweatshops in Guatemala and Honduras. According to Lucy Martinez-Mont, in Guatemala the sweatshops are conspicuous for the long lines of young people waiting to be interviewed for a job.[33] Outside the gates of the industrial park in Honduras that Rohter visited "anxious on-lookers are always waiting, hoping for a chance to at least fill out a job application for [employment at one of the apparel plants].[34]

The critics of sweatshops acknowledge that workers have voluntarily taken their jobs, consider themselves lucky to have them, and want to keep them. . . . But they go on to discount the workers' views as the product of confusion or ignorance, and/or they just argue that the workers' views are beside the point. Thus, while "it is undoubtedly true" that Nike has given jobs to thousands of people who wouldn't be working otherwise, they say that "neatly skirts the fundamental human-rights issue raised by these production arrangements that are now spreading all across the world."[35] Similarly the NLC's Kernaghan says that "[w]hether workers think they are better off in the assembly plants than elsewhere is not the real issue."[36] Kernaghan, and Jeff Ballinger of the AFL-CIO, concede that the workers desperately need these jobs. But "[t]hey say they're not asking that U.S. companies stop operating in these countries. They're asking that workers be paid a living wage and treated like human beings."[37] Apparently these workers sector reduce employment there and (by increasing the supply of labor) depress incomes in the informal sector. The case against requiring above-market wages for international sweatshop workers is essentially the same as the case against other measures that artificially raise labor costs, like the minimum wage. In Jagdish Bhagwati's words, "Requiring a minimum wage in an overpopulated, developing country may actually be morally wicked. A minimum wage might help the unionized, industrial proletariat, while limiting the ability to save and invest rapidly which is necessary to draw more of the unemployed and nonunionized rural poor into gainful employment and income."[43] The World Bank makes the same point: "Minimum wages may help the most poverty-stricken workers in industrial countries, but they clearly do not in developing nations. . . . The workers whom minimum wage legislation tries to protect—urban formal workers—already earn much more than the less favored majority. . . . And inasmuch as minimum wage and other regulations discourage formal employment by increasing wage and nonwage costs, they hurt the poor who aspire to formal employment."[44]

The story is no different when it comes to labor standard other than wages. If standards are set too high they will hurt investment and employment. The World Bank report points out that "[r]educing hazards in the workplace is costly, and typically the greater the reduction the more it costs. Moreover, the costs of compliance often fall largely on employees through lower wages or reduced employment. As a result, setting standards too high can actually lower workers' welfare. . . ."[45] Perversely, if the higher standards advocated by critics retard the growth of formal sector jobs, then that will trap more informal and rural workers in jobs which are far more hazardous and insecure than those of their formal sector counterparts.

The critics consistently advocate policies that will benefit better-off workers at the expense of worse-off ones. If it were within their power, it appears that they could reinvent the labor markets of much of Latin America. Alejandro Portes' description seems to be on the mark: "In Mexico, Brazil, Peru, and other Third World countries, [unlike East Asia], there are powerful independent unions representing the protected sector of the working class. Although their rhetoric is populist and even radical, the fact is that they tend to represent the better-paid and more stable fraction of the working class. Alongside, there toils a vast, unprotected proletariat, employed by informal enterprises and linked, in ways hidden from public view, with modern sector firms." . . .

Of course, it might be objected that trading off workers' rights for more jobs is unethical. But, so far as I can determine, the critics have not made this argument. Although they sometimes implicitly accept the existence of the trade-off (we saw that they attack Nike for chasing cheap labor), their public statements are silent on the lost or foregone jobs from higher wages and better labor standards. At other times, they imply or claim that improvements in workers' wages and conditions are essentially free. . . .

In summary, the result of the ostensibly humanitarian changes urged by critics are likely to be (1) reduced employment in the formal or modern sector of the economy, (2) lower incomes in the informal sector, (3) less investment and so slower economic growth, (4) reduced exports, (5) greater

CONCLUSION: THE CASE FOR NOT EXCEEDING MARKET STANDARDS

It is part of the job description of business ethicists to exhort companies to treat their workers better (otherwise what purpose do they serve?). So it will have come as no surprise that both the business ethicists whose views I summarized at the beginning of the paper—Thomas Donaldson and Richard De George—objected to letting the market alone determine wages and labor standards in multinational companies. Both of them proposed criteria for setting wages that might occasionally "improve" on the outcomes of the market.

Their reasons for rejecting market determination of wages were similar. They both cited conditions that allegedly prevent international markets from generating ethically acceptable results. Donaldson argued that neoclassical economic principles are not applicable to international business because of high unemployment rates in developing countries. And De George argued that, in an unregulated international market, the gross inequality of bargaining power between workers and companies would lead to exploitation.

But this paper has shown that attempts to improve on market outcomes may have unforeseen tragic consequences. We saw how raising the wages of workers in international sweatshops might wind up penalizing the most vulnerable workers (those in the informal sectors of developing countries) by depressing their wages and reducing their job opportunities in the formal sector. Donaldson and De George cited high unemployment and unequal bargaining power as conditions that made it necessary to bypass or override the market determination of wages. However, in both cases, bypassing the market in order to prevent exploitation may aggravate these conditions. As we have seen, above-market wages paid to sweatshop workers may discourage further investment and so perpetuate high unemployment. In turn, the higher unemployment may weaken the bargaining power of workers vis-à-vis employers. Thus such market imperfections seem to call for more reliance on market forces rather than less. Likewise, the experience of the newly industrialized East Asian economies suggests that the best cure for the ills of sweatshops is more sweatshops. But most of the well-intentioned policies that improve on market outcomes are likely to have the opposite effects.

Where does this leave the international manager? If the preceding analysis is correct, then it follows that it is ethically permissible to pay market wage rates in developing countries (and to provide employment conditions appropriate for the level of development). That holds true even if the wages pay less than so-called living wages or subsistence or even (conceivably) the local minimum wage. The appropriate test is not whether the wage reaches some predetermined standard, but whether it is freely accepted by (reasonably) informed workers. The workers themselves are in the best position to judge whether the wages offered are superior to their next best alternatives. (The same logic applies *mutatis mutandis* to workplace labor standards.)

Indeed, not only is it ethically acceptable for a company to pay market wages, but it may be ethically unacceptable for it to pay wages that exceed market levels. That will be the case if the company's above-market wages set precedents for other international companies which raise labor costs to the have a social responsibility to transcend their own narrow preoccupation with protecting their brand image and to publicly defend a system which has greatly improved the lot of millions of workers in developing countries.

Notes

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6. Richard De George, *Competing with Integrity in International Business* (New York: Oxford University Press, 1993), p. 79.
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8. Ibid., p. 78.
9. World Bank, *World Development Report 1995, "Workers in an Integrating World Economy"* (Oxford University Press, 1995), p. 77.
10. Donaldson, op. cit., p. 115.
11. Ibid., p. 150.
12. De George, op. cit., p. 48.
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14. Ibid.
15. Terry Collingsworth, J. William Goold, Pharis J. Harvey, "Time for a Global New Deal," *Foreign Affairs* (January-February 1994), p.8.
16. William B. Falk, "Dirty Little Secrets," *Newsday* (June 16, 1996).
17. Tim Smith, "The Power of Business for Human Rights," *Business & Society Review* (January, 1994), p. 36.
18. Jeffrey Ballinger, "The New Free Trade Heel," *Harper's Magazine* (August 1992), pp. 46–47. As in many developing countries, Indonesia's minimum wage, . . . is less than poverty level." Nina Baker, "The Hidden Hands of Nike," *Oregonian* (August 9, 1992).
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21. Kenneth P. Hutchinson, "Third World Growth," *Harvard Business Review* (November-December 1994).
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24. International Labor Organization, *World Employment 1995* (Geneva: ILO, 1995), p. 73.
25. World Bank, op. cit., p. 5.
26. Keith B. Richburg and Anne Swarsdon, "U.S. Industry Overseas: Sweatshop or Job Source?: Indonesians Praise Work at Nike Factory," *Washington Post* (July 28, 1996).
... and Swarsdon, op. cit. The 17-year-old was interviewed in the presence of man- ... of their earnings see Seth

28. Donna Gibbs, Nike spokeswoman on ABC's *World News Tonight*, June 6, 1996.
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42. Gideon Rachman, "Wealth in Its Grasp, a Survey of Indonesia, " *Economist* (April 17, 1993), pp. 14–15.
43. Jagdish Bhagwati and Robert E. Hudec, eds., *Fair Trade and Harmonization* (Cambridge, MA: MIT Press, 1996), vol. 1, p. 2.
44. World Bank, *Workers in an Integrating World Economy*, p. 75.
45. Ibid., p. 77. As I have noted, the report proposes that the "appropriate level is therefore that at which the costs are commensurate with the value that informed workers place on improved working conditions and reduced risk . . ." (p. 77).