# Why an international code of business ethics would be good for business

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**Abstract:**

*Many international business training programs present a viewpoint of cultural relativism that encourages business people to adapt to the host country's culture. This paper presents an argument that cultural relativism is not always appropriate for business ethics; rather, a code of conduct must be adapted which presents guidelines for core ethical business conduct across cultures. Both moral and economic evidence is provided to support the argument for a universal code of ethics. Also, four steps are presented that will help ensure that company ethical standards are followed internationally.*


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Introduction

In many executive training seminars for international business, executives are taught to honor customs in other countries and "Do as the Romans Do." The emphasis on international business training is on learning how other cultures do business and adapting to their way of business (Wines and Napier, 1992; Paige and Martin, 1983). To some companies, adapting to foreign cultures often requires ethical compromises. That is, companies may conduct international business operations in a manner that is contrary to its standards of conduct in U.S. operation. In fact, some of the conduct in international operations may run contrary to the basic tenets of capitalism. The issue that arises is whether it is possible to successfully conduct business in those countries where cultural issues require ethical compromises that could significantly affect business operations.

Cultures hold significant variations in **language, non-verbal communication,** and social custom. Anthropologists, historians, and sociologists are intrigued by these differences. Many business people feel that culture differences between countries can make or break business operations between and within particular countries. Business people also discover that cultural norms for doing business in one country often conflict with codes of ethics and other business standards established in the United States. Even divisions within a company can be at odds. A domestic subsidiary may observe that a foreign subsidiary is operating successfully using tactics not permitted within the firm's domestic code of ethics.

A manager for a U.S. title insurer provides a typical example. He complained that if he tipped employees in the U.S. public recording agencies for expediting property filings, he would be violating the company's code of ethics, and could be charged with violations of the Real Estate Settlement Procedures Act, RICO statutes, and state and federal anti-bribery provisions. Yet that same type of practice is permitted, as well as recognized and encouraged, in other countries as a cost of doing business. Paying a regulatory agency in the United States to expedite a licensing process would be bribery of a public official. Yet many businesses maintain that they cannot obtain such authorizations to do business in other countries unless such payments are made. So-called "grease" or facilitation payments are permitted under the Foreign Corrupt Practices Act, so they are classified as legal; however, the issue that remains is whether such payments are ethical (Fadiman, 1986).

Consider three other examples. In India a I 0-year old works 12 hours a day weaving a rug. In Honduras 15-year-old girls work 80 hours per week producing Liz Claiborne sweaters. In Bangladesh there are production quotas for nine-year-olds working in shoe factories (Quindlen, 1994). Within these countries' cultures and legal standards, such work schedules and quotas are acceptable. But in the U.S., all three examples would be violations of labor law and contrary to commonly accepted standards of ethics and social responsibility.

An **inevitable question arises when national custom and culture in one country** clash with ethical standards and moral values adopted by a firm whose primary operations is in another country. Should individual national cultures or should company ethics codes control the firm's ethical decisions for international operations? Typical business responses to the question of whether cultural norms or company codes of ethics should guide international business operations are: Who am I to question the culture of another country? Who am I to impose my country's standards on all the other nations of the world? Isn't legality the equivalent of ethical behavior? The attitude of businesses is one that permits ethical deviations in the name of cultural sensitivity. Many businesses fear that the risk of offending business people in other countries is far too high to impose its business ethics standards on them.

However, from an economic standpoint as well as from the viewpoint that businesses operate best within certain defined standards, the rote response of cultural imperialism is a short-sighted approach to international business. A culturally imperialistic perspective may prove costly to individual companies as well as an entire national business economy. The purpose of this article is to present an argument supporting a universal framework for ethical operations in international business and offer suggestions for ensuring compliance with that universal orientation.

The ethical **roots of business:** trust **and** other values

Previous work in the area of cross-cultural differences has focused on issues of consistency (Berliant, 1982), international codes of ethics (Schollhammer, 1977), human rights (Donaldson, 1989) and global ethics (Buller, Kohl and Anderson, 1991); however, the successful commercial operations are dependent upon the ethical roots of business. What is this ethical root? TRUST. Nobel Laureate Kenneth Arrow has noted: ". . . a great deal of economic life depends for its viability on a certain limited degree of ethical commitment. Purely selfish behavior of individuals is really incompatible with any kind of settled economic life" (Arrow, 1973). A look at the three major players in all of business establishes that basic trust is a key component in their willingness to interact. The three parties are the risk-takers, the employees and the customers. Risk-takers - those furnishing the capital necessary for production - are willing to take a risk based on the assumption that their products will be judged by customer value. Employees are willing to work in production, to offer input, skills and ideas in exchange for wages, rewards and other incentives. Consumers or customers are willing to purchase products and services as long as they are given value in exchange for their ftimishing, through their payment, costs and profits to the risktakers and employers. To the extent that the interdependency of the parties in the system is affected by factors outside of their perceived roles and control, the intended business system does not function on its underlying assumptions. When the players are uncertain about the underlying assumptions, their willingness to participate is questioned or, at a minimum, the cost of participation is affected.

Ethics in the capitalistic system

The business system is, in short, an economic system, endorsed by society, which allows risk takers, employees and customers each to allocate scarce resources to competing ends. To the extent that the allocation is based on factors other than the interdependency of these parties with their basic assumptions, the notions of the capitalistic economic system are undermined in favor of systems based, not on value, but on facilitation payments, personal connections and factors other than price, quality, and demand. The purpose of regulating behaviors through legal and ethical standards is to correct and adjust any means of allocation that is not based on the strict interdependence of risk-takers, employees and customers. A study of the Russian Commodity Exchange in which legal enforcement of standards are essentially nonexistent, indicates this laissz-fair market works because free market principles of full and complete information for trading commodities are followed (Kolosov, Martin and Peterson, 1993).

Many examples in the U.S. statutory **scheme illustrate how regulation has been used to reinstate** the basic tenets of the free market assumptions made by economic players. For example, the Securities Exchange Act of 1934 made insider trading a criminal act. Those who have access to non-public information, whether it is obtained through their positions (officer or director) or through bribery (paying insiders for non-public information) are market participants who are making sales and purchases based on information not available to other investors/risktakers. If investors/risk-takers' perceptions are that there can never be an equitable trading environment for a free market, they are unwilling to invest in such a market. The 1934 Act was thus a correction or adjustment to market practices to restore the interdependent trust necessary for a free market.

Another example of federal regulation used to restore equity for all those involved in the free market, or to reinstate market trust, are the antitrust laws such as the Sherman Act. This act prevents monopolistic practices beyond just building a better mousetrap which consumers are drawn to under the basic tenet of value. Labor laws evolved to control treatment of employees because, as a critical part of the economic flow, they needed to be rewarded appropriately and not taken advantage of or oppressed in order to reduce operating costs. Labor legislation recognized that fairness to employees was required if the economic system was to survive. Rebellion by employees because of unfair treatment has toppled both economic systems and governments. For example, the treatment of workers in Poland not only initiated change in the workplace, it initiated change in the political, economic and social structure of the Eastern European countries. The issues of child labor, minimum wages and maximum hours were the focus of 1930s labor legislation in the United States due to an ever-declining standard of living, the outcry of the public and their demand for legislative response (Bassiry and Jones, 1993).

While the roots of business are primarily economic, even an economic system cannot survive without recognition of some fundamental values. Values here are not defined in the same sense of moral standards or moral norms, which may be culture-specific (Donaldson, 1989). Rather values, as defined here, relate to the equitable means of distribution of benefits and costs or values inherent in a viable economy (Frederick, 1988). Some of the inherent, indeed universal, values built into the capitalistic economic system described earlier are that: (1) the consumer is given value in exchange for the funds expended; (2) employees are rewarded according to their contribution to production; and (3) the risk-takers are rewarded for their investment in the enterprise in the form of a return on that investment. Adam Smith developed his model of a market-driven, consumer based economic system as an alternative to those systems (mercantilism and others) in which political structures determined supply of goods and services rather than having the structure of the system respond to market forces (Bassiry and Jones, 1993). Smith's model of a capitalistic economy involved decentralized decisionmaking. Smith also recognized certain universal battles such as no privileges for producers based on political influence, a strong work ethic and, occasionally, government protection for workers.

Beyond just these basic values of capitalism and the **free-flow of labor and commerce** is the notion that, to a large extent, all business is based on trust. The decision to extend credit, regardless of the credit terms or the level of background check, is still, after all, dependent upon the debtor's honoring the obligation to repay. A consumer commits to purchase on the presumption that a seller can produce. A company invests in plant and equipment on the belief that it will be able to compete. If these assumptions are removed by means of either intended or unintended government intervention in the form of controlling market access, basic assumptions of a system based on business trust are removed. The tenets for doing business are dissolved as an economy moves toward a system in which one individual can control the market in order to maximize personal income.

Suppose, for example, that the sale of a firm's product is no longer determined by perceived consumer value but rather by access to consumers which is controlled by government officials. That is, a company's product cannot be sold to consumers in a particular country unless and until it is licensed within that country. Suppose further that the licensing procedures are controlled by government officials, and those officials demand personal payment in exchange for the company's right to even apply for a business license. Furthermore, payment size may be arbitrarily determined by officials who withhold portions for themselves. The basic values of the system have been changed. Consumers no longer directly determine the demand. Government officials who demand compensation beyond government salaries now determine consumer demand by controlling business within a county. That determination is made not on the basis of product value, but rather on the basis of who is willing to do the most for the government official making the decision to issue licenses to sell. This is not government regulation intended to enhance the market, rather it is government regulation that controls the market. One of the often noted five problems with Smith's capitalistic system is the government intervention that fosters monopolies or awards selective privileges (Wilson, 1989). "Smith's concerns about the evils of monopoly went beyond the unjustified rewards that accrued to the man who was able to rig the market. A still more untoward consequence of monopoly was the ineffective management, that in Smith's view was the likely concomitant of an entrepreneur's being sheltered from the cold winds of competition." (Ginsberg, 1979).

Beyond just the impact on the basic economic system, ethical breaches involving 11grease" payments introduce an element beyond a now recognized component in economic performance: consumer confidence in long-term economic performance. Economist Douglas Brown has described the differences between the United States and other countries in explaining why capitalism works in the U.S. and not in all nations (Brown, 1994). His theory is that capitalism is dependent upon an interdependent system of production. Consumers, risk-takers, and employees must all feel confident about the future, the concept of a level playing field, and the absence of corruption for economic growth to proceed. To the extent that consumers, risk-takers and employees feel uncomfortable about a market driven by the basic assumptions, the investments and commitments necessary for economic growth via capitalism are made (Sherwin, 1983). Significant monetary costs are incurred by business systems based on factors other than customer value discussed previously.

Business ethics in economically developing countries

In developing countries in which there is the presence of "speed" or "grease" payments and resulting corruption on the part of recipient government officials, the actual money involved in these acts may not be significant in relationship to the nation’s economy or culture. However, the so-called Brown impact may be devastating to economic growth. These activities and payments introduce an element of demoralization and cynicism that serves to thwart entrepreneurial activity when these nations most need these risk takers to step forward.

We cannot deny that several countries that have experienced the most economic expansion in the last five years are nations in which bribery is de rigeur. For example, China and Russia are recognized as economic growth successes over the last five years. However, it is important to recognize that there are costs of this economic growth that are not as yet obvious in these still growing economies. Bribes and guanxi (or gifts) in China given to establish connections in the Chinese government are estimated at 3%-5% of operating costs for companies, for a total of $3-$5 billion of 1993's foreign investment in China. (Pennar, Galuszka, Lindorff, and Jesurum, 1993)

Additionally, China incurs costs that come from the choices government officials make in response to payments. For example, guanxi are often used to persuade government officials to transfer government assets to foreign investors at substantially less than their value. Chinese government assets have fallen over $50 billion in value over the same period of economic growth primarily due to the large undervaluation by government officials in these transactions with foreign companies.

Perhaps Italy and Brazil provide the best examples of the long-term impact of foreign business corruption. While the United States, Japan, and Great Britain have scandals such as the savings and loan debacle, political corruption and insurance self-regulation, these scandals are not indicative of the type of corruption that pervades entire economic systems. The same cannot be said about Italy. Elaborate connections among government officials, the Mafia, and business executives have been unearthed with resulting resignations of half the cabinet and the indictments of hundreds of business executives. It has been estimated the interconnections among these three groups have cost the Italian government $200 billion and a resulting financial inability to complete government projects (Pennar, 1993).

In Brazil, the level of government corruption has led to a climate of murder and espionage. Many foreign firms elect not do to business in Brazil because of so much governmental uncertainty and risk, beyond just the normal financial risks of international investment. Why send an executive to a country where officials may use force when soliciting huge bribes from foreign executives?

The Wall Street Journal offered an example of how Brazil's corruption has damaged a country's economy despite growth and opportunity in surrounding nations (Kamm, 1994). Governor Ronaldo Cunha Lima of the northeastern Brazilian state of Paraiba was angry because his predecessor, Tarcisio Burity, had accused Lima's son of corruption. Mr. Lima shot Mr. Burity twice in the chest while Mr. Burity was having lunch at a restaurant. The speaker of Brazil's Senate praised Mr. Lima for his courage in shooting Mr. Burity himself as opposed to sending someone else. Mr. Lima was given a medal by the local city council and granted immunity from prosecution by Paraiba!s state legislature. No one spoke for the victim, and the lack O support was reflective of a culture controlled by self-interest that benefits those in control. Unfortunately, these self-interests, along with the fears such action creates, preclude economic development.

Paralleling this described moral deterioration has been Brazil's lack of economic advancement despite growth in surrounding South American nations. Economists in Brazil document hyperinflation and systemic corruption. A Sao Paulo businessman observed, "The ftmdamental reason we can't get our act together is we're an amoral society" (Kamm, 1994). This business person probably understands capitalism. Privatization that has helped the economies of Chile, Argentina and Mexico cannot take hold in Brazil because government officials enjoy the benefits of generous wages and returns from the businesses they control. The result is that workers are unable to earn enough even to clothe a family, with 20% of the Brazilian population living below the poverty line, and crime at such a level that nightly firefights are accepted. Brazil's predicament has occurred over time as graft, collusion and fraud have become entrenched in the government-controlled economy.

The loss of values: methods of cultural corruption

Although bribery is prohibited under the Foreign Corrupt Practices Act, grease or facilitation payments are allowed. Ranging from 3 0%-10% of licensing fees in various countries, these payments often make business processes proceed quickly for a U.S. company. Thus, a U.S. company can, without violating the law, pay a foreign government official independently of government licensing fees to speed up processing for anything from phone installation to the unloading of goods from a boat docked in a country's waters. Customs clearance can be expedited. Building inspectors can overlook defects in construction and speed up final inspection. An employee can pay a traffic officer and avoid receiving a ticket.

In other countries, such as Russia, government officials actually control market **price.** Government officials make the determination as to where, when, and for how much goods will be sold. In many countries, government officials permit both businesses and executives to underreport their income for purposes of income taxes in exchange for payments to them. The result is that an individual's control results in higher prices for government contracts. Decisions to award contracts are based on the amount of payments to officials making the decisions as opposed to the price, quality of the good or service and experience of the bidder. In many of these government contracts, the price of these public service projects can range from 20%-100% higher than what the costs could or should be. For example, the Italian government has experienced a 40% drop in costs of its freeway construction contracts since the removal of government officials who were taking individual payments from construction company executives (Pennar, 1993). Many of the business executives from the construction industry probably rationalized that these payments were a business necessity. In reality, these payments cost the citizens of Italy in the form of premium prices as well as in the resulting lack of freeway completion.

In Russia, police officers and other enforcement officials are paid by businesses to look the other way when they use acts of violence against those who attempt to undersell them in the marketplace. The forms of "doing business" in these countries where government officials profit individually are limited only by the human imagination.

**Whether to do business:** the **presence of economic values**

An observation made by many businesses with respect to those countries fraught with individual payoff is: that's the way it has always been done, and you can't do business any other way. It's a way of life. It's the culture. It's international market place reality. When in Rome, Do as the Romans Do!

Given the fact that the basic assumptions of economic systems frequently do not operate in these countries, the initial question a business should ask is not whether to participate in these activities, but whether to do business at all in those countries. The traditional question posed by ethicists is: would you engage in legal forms of corrupt activity in order to conduct business in a country where such payments to individuals is culturally acceptable? The better question is: would you do business at all in a country in which questionable payments are culturally acceptable? Not only is the question presented in a better ethical posture, it represents a more businesslike approach to the problem. Is it going to cost more in the long run to compete in this country because payments to individuals are not defensible and rules vary from situation to situation? Probably yes. Is it going to take more time to establish business there? Without a doubt. The basic value of trust necessary for doing business is missing in countries with standards that include such culturally acceptable practices.

The Levi Strauss Company's decision not to do business in mainland China is an example of a costly financial choice made on the basis that China's current political, social economic environment was too far removed from basic notions of ethics and social responsibility to permit consistent business operations. Concerns about human rights, child labor and the government's role in plant operations caused Levi to forego the potential of a market that would bring them two billion teenager customers between now and the year 2000. Assuming one pair of Levi jeans could be sold to each teenager for a low price of I U.S.D. the cost revenues from this ethical choice equal all of Levi's earnings from international operations in 1993.

**Why would Levi choose not to do business** in China? The uncertainty of labor conditions affects one component of the three basic values of an economic system. Demands and controls by a government that denies basic individual freedoms could be unreasonable, but more importantly, in an economic sense, these practices could deprive Levi of basic financial assumptions about investing in plant and equipment in China. If the rules for business play are uncertain with respect to its citizens, how can the Chinese government provide assurances of fairness to its potential business citizens? In short, the existing cultural atmosphere is not one nurturing to the three values underlying a successful capitalistic economic system.

Establishing standards for international business

Once a business has decided to internationalize and determined in which countries it will operate, the next question becomes how the firm will operate in these countries and internationally in general?

Under the school of business thought in which cultural imperialism is touted as the key to international business success, all notions of value, quality and performance are cast aside. Not only are the premises of economic system set aside, the premise of business performance is ignored as all efforts are placed on matters outside the product or business scope. These companies employ any culturally acceptable means in order to infiltrate markets. Their U.S. standards of quality service and the idea of a better mousetrap are ignored with the belief that any culturally acceptable means to success will generally lead to quicker results. Unfortunately, this orientation is contrary to the Centesimus Annus of Pope John Paul 11. In this document, the Pope addresses the principle characteristics of a just economic order. He concludes that although a pure free market economy is not ideal because of its lack of focus on human needs, an economy that offers opportunity for all and eliminates suffering is desirable over one that benefits the few who accept payments (Sethi and Steidlmeier, 1993).

A company with two sets of values, one for domestic business and another for international business, is a company headed for an ethical crisis. Employees will not see the distinction nor find it justifiable. It is not an issue of how a firm does business in each country, it is a question of whether a firm does business in each country. That answer should be dependent upon the business evaluation of the country's atmosphere for competition and its ability to survive without compromising a company's atmosphere for competition and its ability to survive without compromising a company's ethical standards.

Businesses should adopt a code of international ethics for employees so they can better meet its financial goals. Absolutes should exist. For example, no employee should ever pay a government official funds or fees in excess of mandated licensing fees. Such fees are outside the realm of the capitalistic business system.

Other universal values might include prohibitions on commission payments covering factors outside the immediate negotiations. Additionally, monitoring becomes a critical part of preserving international business standards. As a manager becomes familiar with a foreign country's customs, and the practices of competing companies in that country, the tendency is for managers to rationalize behavior. The frequent argument is that forms of business unacceptable in U.S. practices are acceptable in other countries because "everyone else is doing it." This may be particularly true when managers are feeling some pressure to meet quarterly or yearly performance figures. Managers operating in foreign cultures need corporate feedback and reinforcement to be able to maintain ethical and economic standards in countries where such standards are not always practiced, especially by the competition.

Many executives argue that it is impossible to do business without engaging in the types of payments that would be illegal and unethical in the United States. However, a study on levels of international business since the passage of the Foreign Corrupt Practices Act provides some interesting data. U.S. international sales have actually increased dramatically since its passage, as opposed to the opposite prediction that U.S. international sales would decline. The principle of "change your moral standards or lose your markets" has not proven true. The former head of Large Coppee, a French cement maker, has observed, "The conflict over doing right versus doing a deal exists only in the short term. In the long run, companies using ethical practices will win out" (Sasseen, 1993).

Beyond just adopting values related to international operations, companies might consider the adoption of universal values in order to simplify and clarify its ethical posture. These basic values would serve to address the most complex ethical scenarios and could also be used as a framework for the decision process used when a firm is faced with an issue of international expansion into a particular country. Such universal values might include honesty, promisekeeping, fairness, respect for others, compassion and integrity. For example, Pope John Paul's ideal economic system requires the consideration of human and moral factors in a company's method of operation. Under Centesimus Annus, a profit made at the expense of workers with their human dignity offended is "morally inadmissible" (Sethi and Steidlmeier, 1993).

An example focusing on safety conditions demonstrates how these basic values related to human dignity and welfare would impact a foreign operations decision. Suppose that a U.S. chemical company is required by OSHA regulations to have employees wear eye protection when they are on the plant floor. The same company operates a plant in India where there are no governmental requirements for eye protection. Honesty would require disclosure of the U.S. standard to the Indian employees. Fairness, respect and compassion would require that the company furnish eye protection for the employees. Dangers for eye injury do not decrease simply because a plant is located outside the U.S. Further, the decision to supply eye protection is an act of integrity. The company is living up to its ethical principles despite the additional costs of these safety measures that may not be adopted in competitor's foreign operations.

The issue of international safety standards brings to mind the Union Carbide Bhopal disaster. A plant in complete compliance with Indian government standards caused the deaths and permanent injury of thousands. Just the implementation of the U.S. standard of limiting residences in the area immediately surrounding the plant could have minimized the harm. Again, the standards of honesty, respect for others, compassion, fairness and integrity would have come into play as the decisions were made with respect to plant operations and safety standards. The universality of standards for international operations is again made clear when phrased this way. It is no less dangerous in India to have residences next to a chemical plant than it is in the United States. Further, the decision on operations becomes more clear as we realize that the cost of compliance with U.S. standards for the Indian plant would be far less than the actual and public relations costs incurred by Union Carbide as result of the Bhopal accident.

Implementing an international ethical code

For those firms struggling with international markets, cultures, and competition, certain basic steps should be taken to ensure that company standards are followed internationally.

1. Train **managers on the relationship between capitalism and excessive payments** for services.

During a seminar on international business we administer a brief questionnaire. One question asked the managers if they believed strong ethical values led to economic business development. Approximately 50 percent of the 83 managers indicated they believed there was a strong or fairly strong relationship between ethics and business development. However, in subsequent discussions, the seminar participants made strong arguments' for "grease" payments to facilitate operations. But the fact remains that such payments do not increase a product's value. Adding to the personal worth of a government official does not increase anyone's confidence about the future wellbeing of a country's commerce.

When payments to government officials are considered an expense of doing business, education is required. In the U.S., various fees for doing business are used to assure the business meets safety, environmental or humanitarian standards. They are intended to meet the wellbeing of society. Economic conditions are thus enhanced. In many cultures, "grease" payments are intended to enhance the economic condition of only one or two individuals. Managers must be trained to understand these relationships.

2. Develop 0 code of universal values.

Let's return to the survey we administered at the international business seminar. Another question asked the participants the extent to which they believed that ethical standards varied among countries. Nearly 75 percent of the participants agreed standards varied. But the next question asked if it would be possible to work under a universal code. Again, over 75 percent of the participants believed it would be possible to work with a universal international code of ethics.

The firm's code of ethics should be based on simple, universal values. Because so many cultures exist, ethical business behavior cannot be culturally specific. In addition to the basic values discussed earlier, employees should be trained with examples involving issues of honesty and fairness. Part of the universal values of honesty and fairness is that no attempt to bribe an individual or make payments beyond those mandated by law will be made. Training should stress that payment may be in the form of actual monetary value or in the form of a quid pro quo - An example is that in order to secure business, a company gives a job to the relative of a government official responsible for the contract decision.

3. Conduct cultural, political, economic, and financial evaluations prior to commencing operations in any country.

Most businesses focus on the economic and financial issues as they decide whether to do business in a particular country. However, the cultural and political climates of a country often determine business results. The political climate may be such that the level of trust necessary for market operations is not present. Refraining from conducting business or postponing business in that country could be cost-effective. Further, by evaluating cultural and political norms, a business can establish a baseline. The managers in charge of a country's operation cannot then establish their interpretation of culturally acceptable behavior; the standards are pre-established.

4. Use internal auditors extensively in foreign operations and allow foreign operations as a priority item in the internal audit schedule.

Managers under pressure of deadlines and financial results may stretch the boundaries of acceptable behavior because of cultural or competitive pressure. Regular visits from U.S. managers can serve as a reality check for foreign managers immersed in the culture of foreign operations. Reviewing the financial outcomes of foreign operations is a key checkpoint for spotting deviations from either the legal or economic company standards in foreign operations. Red flags that auditors can spot include excessive commissions, excessive equipment or supply purchases which could be a sign of "bribes" or quid pro quo in exchange for contracts. Also, significant consulting contracts and excessive travel expenditures could be a disguise for "grease" payments.

Ethics may vary from country to country; however, an international code of business ethics is possible when based on the tenets of free market operation. Capitalism requires that economic goods enhance product value for all consumers ... not a select few. What U.S. citizens refer to as corruption is an act that benefits only one or few individuals. These acts undermine the trusting interdependency of parties in the capitalistic system.

The harm that comes from ongoing individual payments in a country ultimately rests upon those who benefitted from the payments - from the paid officials to company executives who enjoyed the rather short-term and short-sighted benefits of the payoffs. Throughout this article, the words corruption, illegal or unethical have been minimized because they are culturally specific terms. What a capitalistic economic society considers unethical or corrupt may be totally acceptable in another society. But the capitalistic economy cannot operate efficiently in a society that circumvents the relationships among risk-takers, consumers and producers.

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