

International Business Ethics Review

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Volume 2, Issue 1

A Common Ethic for the Americas: A New Momentum in the Public and Private Sectors

By Carlos Morelli, Peru

Until recently, corruption was thought to be an insurmountable phenomenon and the phrase "business ethics" was merely rhetoric. However, what constitutes proper behavior on the part of business is currently a subject of intense public interest. Corruption is being discussed openly at high-level global forums where, for the first time, international treaties are being approved that oblige governments to take immediate action. The concept of business ethics is attracting more and more followers who recognize the importance of the private sector's need for healthy worldwide competition and transparent market economies.

Both the efforts to combat corruption and the rising awareness of business ethics point to public sector reform and the addition of a new social dimension to the private sector as complementary courses of action. Promoting these forces would result in more equitable distribution of income within nation-states acting inside a less asymmetrical global community. In the Americas, we eagerly await this emerging scheme of values

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Photo courtesy of the OAS
Permanent Council of the OAS, Washington, D.C., January, 1998.

Meeting the Needs of the Physically and Mentally Challenged in Brazil

By M. Cecilia Arruda, Brazil

Physically and mentally handicapped individuals face the additional challenge of gaining acceptance in the workplace. By all accounts, Brazilian society has a pressing need to ensure that the handicapped are provided with opportunities to become contributing members of society. According to the World Health Organization, ten percent of the urban population in Brazil, or 15 million people, have some form of disability. The City of São Paulo alone has approximately one million disabled people.

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SPECIAL FOCUS: LATIN AMERICA

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FROM THE PRESIDENT

By Lori Tansey Martens

I would like to thank each of you who provided comments and feedback on our inaugural issue of the *International Business Ethics Review*. Your suggestions and encouragement were greatly appreciated and we continue to welcome ideas and recommendations for future issues.

Our current issue of the *Review* focuses on Latin America, which stands on the brink of a political and economic renaissance. Recent moves towards democracy and the rule of law, and the successful containment of hyperinflation, are creating environments of political stability and economic growth. The Wall Street Journal reports that with Asia in an economic crisis, Latin America has become the world's fastest growing region, with a gross domestic product expected to grow nearly 4% this year.

With interest in Latin America increasing, recent efforts at Pan-Americanism, including formulation of a Pan-American trading bloc, are receiving greater attention. And, as closer economic ties are established, business ethics issues will be at the forefront. Our feature article, by the highly respected Carlos Morelli of Peru, examines the potential of a "common ethic" across the Americas. Mr. Morelli discusses the importance of combating corruption and highlights recent initiatives shaping the debate throughout the hemisphere. Corruption is also the focus of three country reports by Ernesto García in Argentina, by Francisco Gallego and Jorge Rodríguez in Chile, and by Oscar Schiappa-Pietra in Peru.

However, corruption is not the only ethics issue confronting business in Latin America. Workplace and employment practices also pose challenges. A new tool, SA8000, is now available to help corporations manage these challenges and is highlighted in our article on page 10. In another article on workplace practices, Cecilia Arruda examines employment of the physically challenged in Brazil and provides examples of companies reaping positive business results by confronting existing stereotypes. We also are proud to report that Dr. Arruda, one of the foremost authorities on business ethics in the region, serves as Director of the Institute's operations in Latin America. More information on her background and experience can be found on page 15.

On a personal note, I first had the opportunity to visit Latin America in the Autumn of 1992. During my visit I was surprised at how little I knew or understood about the region. Perhaps like many in the US business community, I had a tendency to believe that US corporate interests were chiefly to be found across the Atlantic or across the Pacific. In addition to improving my knowledge and understanding of Latin America, I also was fortunate to meet with many dedicated individuals from business and academia who were already laying the groundwork in business ethics in the region. It is with great pleasure, therefore, that we present this issue of the *Review* which spotlights some of their remarkable achievements.



Editor's Note — The Editor would like to dedicate this issue of the *International Business Ethics Review* to the memory of Mrs. Sandra Gaspar (1950-1998), Manila, Philippines. As a role model and mentor in international business, Mrs. Gaspar taught by example that compassion, fairness and integrity transcend cultural boundaries.

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1000 Connecticut Avenue, N.W., Suite 503
Washington, DC 20036, USA
Phone: (202) 296-6938
Fax: (202) 296-5897
Web: www.business-ethics.org
E-mail: info@business-ethics.org

PresidentLori Tansey Martens
Managing EditorKristen A. Day
Associate EditorTawfik W. El Wahsh

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Building Business and Ethics in Latin America

By Oscar Schiappa-Pietra, Peru

Transnational corporations in Latin America have an unfortunate reputation of involvement in exploitation and corruption. Frequent allegations of abusive labor policies, support of dictatorships, bribing of public officers, pollution of the environment, disregard for the rights of indigenous populations, and, more recently, of operating sweatshops, have shaped such images. While these claims have been unfounded in some cases, or politically motivated in others, it can be asserted that corporate ethics generally has not been at the forefront of business development within Latin America.

Effects of Corruption

The effects of corrupt practices are certainly felt by the citizens of Latin America, who have been victimized by having their incomes and opportunities eroded by inflation and governmental fleecing. In a globalized world, poverty is also an exportable commodity in the form of illegal immigration.

Multinational corporations have a vested interest in monitoring their ethical performance in the countries in which they operate. In Latin America, as in other underdeveloped regions of the world, corrupt practices by transnational corporations have played a major role in supporting incompetent politicians in public offices. As a result, unsound economic policies have endured and poor governance has impaired the establishment of market competition. Corporations have suffered by losing business opportunities to unscrupulous competitors.

In short, living in a globalized world means that the consequences of inappropriate corporate ethics standards easily can generate chain reactions. Thus, corrupt corporate practices may trigger risks against a variety of actors, including multinational corporations and their staffs.

A Region in Transition

During the last decade, the Latin American region has undergone an impressive process of positive change. Democratic institutions are starting to flourish everywhere (with the exception of Cuba), and market economies have become the official currency. A broad spectrum of institutional transformations are underway to ensure fairness in politics and the economy, thus making the region an attractive spot for foreign investors. Consequently, the time has come to reevaluate standards and practices to assure the stable continuity of such favorable business environments within the region.

Many factors feed corruption in transnational business. Some are attributable to inadequate corporate governance and business' desire for short-term gains, but others are due to the environment in the host country. Such practices as gift-giving, "broker-fees" to well-connected local agents, or even the utilization of public funds for personal benefit, are not deemed as corrupt practices within some cultural settings. Rather, they are perceived as expressions of hospitality, or loyalty to friends within collectivistic social environments. This cultural diversity raises very difficult philosophical questions, and some criticize the "ethical imperialism" that they perceive the US and Europe try to impose on the rest of the world. For this reason, there is often difficulty in establishing a consensus on what constitutes business corruption.

Prescriptions for Change

In Latin America, it is still too frequently assumed that corruption is a "natural" ingredient for business success, and standards of accountability are low. Thus, corporate business ethics programs need to be implemented to change such views. Developing and disseminating specific policy guidelines on the issue including the training of executives on how to deal with and report situations such as corruption related risks, should be at the forefront of these programs. But it is also essential to set high and solid standards of accountability, which go far beyond the minimal legal requirements. Executives have to feel certain that there is zero tolerance for conduct which breaches the established standards of business ethics. And, when appropriate, confidential internal whistle blowing mechanisms have to be established within the corporation. Overall, our field executives must realize that they have a commitment of reciprocal trust with their employer. At a minimum, executives stationed abroad should be exposed to intercultural awareness programs to enhance their understanding of local values and behaviors.

Transnational business can make a difference in the way it carries business into the Latin American region. Together with other actors, business can help raise social awareness on the devastating effects of corrupt business practices. Through diverse means, corporations can promote the development of regulations and other institutional frameworks to combat corruption. Companies can train staff to be better prepared to deal with corruption-prone environments. At the country level, governments can improve and effectively enforce corporate anti-corruption policies. And, above all, transnational businesses can choose not to engage in corrupt practices. Working together, we can all make a difference. We have to.

"In Latin America, it is still too frequently assumed that corruption is a 'natural' ingredient for business success."

Oscar Schiappa-Pietra is an international lawyer and specialist in social and democratic development. He is Adjunct Professor of Comparative Law, Washington College of Law, American University, Washington, DC.

Additional Country Perspectives

ARGENTINA

By Ernesto García

The primary economic problem of Argentina is corruption. In Transparency International's 1997 list of the countries perceived to be the most corrupt, Argentina — which not long ago occupied a "comfortable" twentieth position — has risen to number eleven.

It is impossible to quantify with accuracy the levels of bribery and tax evasion because they are 'underground' activities. But in a country with an annual gross domestic product of approximately \$300 billion and a national budget approaching \$50 billion, corruption is estimated to amount to more than \$20 billion per year.

With an average annual per capita income of \$8,000, Argentina is no longer a poor country. However, Argentina is full of poor individuals. This lack of economic equity has raised social tensions. Some in the country blame the current "economic model," which has a market economy orientation. However, many countries with similar economic structures have resolved equity issues through the honest and effective administration of resources.

Until recently, corruption issues ranked behind other social and economic issues, like unemployment and poverty. This order of priorities meant that elections could still be won by candidates who espoused the philosophy made famous by a Paulista [local name for the inhabitants of São Paulo] governor, Adhemar do Barros: "Steal, but do." At present, however, the true cost of such moral deficiencies has been recognized and has led voters to observe that he who steals or allows stealing, does in fact "undo."

In 1982, after the painful war of Islas Malvinas (Falkland Islands), the primary priorities of voters were to create and maintain democratic and republican institutions. After the hyperinflation in 1989, the request was for stability and economic growth. As these objectives are being achieved, society's expectations are shifting to equity in economic growth and honesty and effectiveness in the management of public affairs.

The demand for change must come from Argentine society. Argentine analyst, Luis Moreno Ocampo, believes that leaders — the president, the governor, the minister, the general manager or whoever the leader of the organization may be — are not yet prepared to risk their positions to push for change in the current system. The push for change must come from society, because it is the only effective means by which to fight corruption. The political will must be established to do so. Only then is it feasible to reach the leaders of corrupt organizations and affect change.

Argentines are increasingly recognizing the links

CHILE

By Francisco Gallego and Jorge Rodríguez

Increasing privatization in Chile over the last 20 years has generated new challenges. One of the most recent and important challenges concerns issues of business ethics. As the engines of economic development, private firms have become key players in modern Chilean society. Their behavior and practices have become public issues which underpin economic and social order.

In Chile, concern over business ethics is reflected in the growing academic debate about the ethical behavior of business and in the implementation of Codes of Ethics in many firms and organizations. It also is reflected in public discourse, including press articles denouncing activities at variance with the ethical expectations of appropriate private and public sector conduct.

There are strong and compelling forces behind the growing concern over business ethics in Chile. The social and economic changes that Chile has faced in the last two decades have given private firms an increasingly important role. Society assigns more responsibilities to these organizations, as well as higher expectations for their conduct. This has been accompanied by more intense public scrutiny from a growing mass media. Groups have arisen in Chile which address aspects of these issues, including: the National Office of the Consumer (SERNAC), Office of Labour, Office of Interior Taxes, and various environmental organizations.

Finally, there is growing recognition that a democratic and free market society depends on the successful incorporation of ethical aspects and values, such as collaboration, trust, loyalty, justice, and mutual respect. These ethical aspects must be incorporated into the decision-making of economic agents including private firms and the people who work for them.

Extracted with permission from Gallego, F. and Rodríguez, J. (1998) "Business Ethics: A Theoretical Framework and an Empirical Study for Chilean Firms."

between economic deficits and corruption which makes it difficult for them to live with dignity. But Argentina cannot fully change until the firm will of its citizens against corruption is expressed at the ballot box. Indeed, the only way to reverse the descending course of Argentina in the Transparency International Index is for voters to reward honest individuals and to punish those who corrupt the election process.

Dr. Ernesto García is Director of the Social Ethics Academic Area, Instituto de Altos Estudios Empresariales, Universidad Austral, Buenos Aires, Argentina

Business and Economics: US and Latin American Attitudes

By Lori Tansey Martens

How divergent are Latin American and US attitudes towards business, economics and trade? And what repercussions do these have for business ethics issues?

A recent poll sponsored by The Wall Street Journal and 16 Latin American newspapers compared opinions among US and Latin American respondents across a wide range of issues confronting the hemisphere. While not specifically focused on business ethics or corporate responsibility, the findings do have implications for business practices and standards in Latin America.

Methodology

The Wall Street Journal Pan-American poll was conducted in Latin America by RAC&MORI International among 11,964 adults in face-to-face interviews. Individuals were randomly selected from urban areas in 14 Latin American countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Paraguay, Peru, and Venezuela. In the US, the poll was conducted by Hart & Teeter via phone interviews with 1,011 adults. The survey was conducted between January 20 and March 4, 1998. The margin of error for the US results is +/-3%, and +/-1% for Latin America as a region.

Views on Corruption and Business

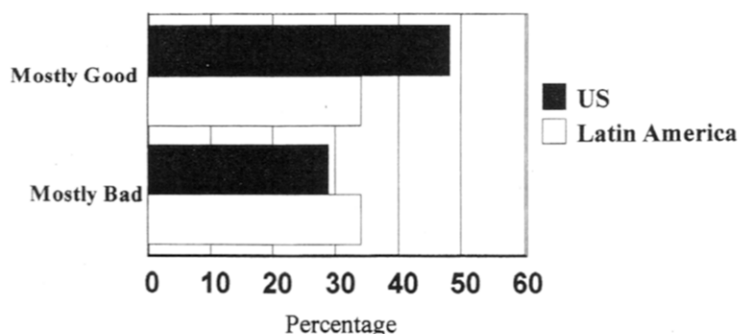
Not surprisingly, corruption was viewed as a higher priority issue in Latin America than in the US. When asked to identify the highest priority issue facing their country, Latin Americans identified corruption as the third highest, following unemployment and the economy. Among US respondents, the key concerns were political issues, the economy, crime and unemployment -- corruption failed to place even among the top ten priority issues in the US.

The perceived prevalence of corruption may be one reason why Latin Americans expressed a lower degree of confidence in the private sector. Only 41% of Latin Americans expressed a "great deal" or "some" confidence in "Big Business," versus 60% of US respondents. Small business scored higher levels of confidence in both regions, with 55% of Latin Americans and a staggering 88% of US respondents expressing a "great deal" or "some" confidence. (Among US respondents, small business tied with the military for the highest degree of confidence.)

Lower confidence in business may account for the skeptical views towards privatization found in Latin America. While 48% of US respondents viewed privatization as "mostly good for the country," only 34% of Latin Americans agreed. In fact, Latin Americans were evenly split on the issue as 34% believed that privatization was "mostly bad" for their country, versus 29% of US respondents.

"Lower confidence in business may account for skeptical views towards privatization in Latin America."

Do you believe the trend toward privatization is good or bad for your country?



Human Rights

The issue of human rights also yielded interesting findings. Latin Americans desired a greater role for the US in promoting human rights, with 18% of respondents indicating that improving human rights should be the *primary* objective of US foreign policy in Latin America, versus 11% of US respondents. The percentage of respondents placing the highest priority on human rights ranged from 24% of Costa Ricans to 9% of Dominican Republic respondents.

The US views itself as a stronger defender of human rights than do Latin Americans. Seventy-eight percent of US respondents strongly or somewhat agreed that the "US is a defender of human rights throughout the world," as opposed to 51% of Latin Americans.

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A New Momentum from the Americas (*Continued*)

that is generating a new élan across the continent.

Undoubtedly, there are many social and cultural differences within the Americas that make harmonious integration difficult — in fact, no continent has been able to integrate completely — but this notion should nevertheless remain an ideal to be reached. It is important that we continually rekindle this vision of a common future, no matter how difficult it is to achieve. If we could at least secure a “common ethic” for the public and private sectors on the continent, without the loss of individual identity, we would bolster better levels of understanding and collaboration as well as bring about new dimensions of social and economic development.

Public Sector Reform

For those who have been pondering these issues for some time, and for those who have been promoting this Pan-American vision, it seems that suddenly this American utopia is becoming a continental reality. This is not due to mere political coincidences, but because events are pointing to a new wave of values. If this trend continues, it could positively effect the daily inner workings of our societies.

For some time there has been concern over the moral and administrative reform of the public sector which is a large source of corruption. Reform has focused on the following aspects:

- making government acts transparent;
- ensuring that political parties do not administer public funds as if they were their private “loot;”
- making the judiciary independent and honest; and
- creating an ethical environment where professional activities and private enterprises can be carried out, through means which are responsible and contribute to the public good.

While these aspects form part of the legitimate goals of any society, significant advances have not been made in Latin America until recent years.

Initially, many people were surprised that corruption was on the agenda of the First Summit of the Americas, which took place in Miami in December 1994. However, once the matter was openly debated, there was no doubt in anyone’s mind that it deserved its place on the platform of the 34 presidents and chiefs of state who attended the summit. The diagnosis was clear: corruption was not only undermining democracy, particularly in Latin America, but its negative influence was seriously detrimental to economic development, especially with regard to the poor and the credibility of governments. At this summit, the Organization of American States (OAS) and the Inter-American Development Bank were put in charge of implementing the measures necessary to control this plague of corruption. Business executives were also included as necessary players in finding solutions to the problem.

A short time later, in March 1996, the OAS approved the Inter-American Convention Against Corruption. But this was not the only event that took place in the Americas concerning this issue. During its first General Assembly in Lima in 1996, the Pan-American Federation of Consultants (FEPAC) — an organization made up of more than 10,000 private consultants and engineering firms — organized a seminar to discuss corruption in the project development sector, together with governmental and development agencies. The FEPAC meeting was a milestone, as it was the first civil society entity on the continent to openly confront corruption.

It was also in 1996 that the President of the World Bank announced the Bank’s decision to fight corruption at the annual meetings between the IMF and the World Bank. For many years in the Americas, corruption was not a subject openly discussed, but in 1997 regional anti-corruption initiatives multiplied. One example is the regional seminar “Corruption and Democracy,” organized in

Tegucigalpa, Honduras, in February of this year by the United Nations

Development Programme. Another conference, “Probidad o Corrupción,” [“Probity/Honesty vs. Corruption”] was held in Santiago, Chile, and was organized by the Catholic Church of Latin America. This meeting of Latin American bishops, business executives, academics, and public officials ended with a strong declaration of action aimed at chiefs of state. Those who are familiar with the vast influence of the Catholic Church in Latin American understand the significance of such a stance.

“Events are pointing to a new wave of values.”

“Business executives were also included as necessary players in finding solutions to the problem of corruption.”

The bishops' declaration adds momentum to civil society's fight against corruption. The Church, thus, also clearly communicated that "enough is enough," an intolerance which is being heard from many voices across the continent. The Church's anxiety about this subject is illustrated by the words of Monsignor Oscar Rodriguez, the President of CELAM, the Latin American Bishop's Conference: "Corruption has become a way of life in Latin America."

In June 1997, the OAS ratified the Inter-American Convention Against Corruption and launched the Inter-American Cooperation Program against Corruption, in Lima. This is a significant document because it identifies the particulars of international bribery and defines illegal enrichment. It also takes steps towards the elimination of bank secrecy laws in the cases of presumably corrupt individuals, and deals with issues including extradition for corruption-related offenses, the urgent need to reform public administration, the necessity to strengthen the judiciary, and the need to promote the independence of the different powers within a state. The Convention calls attention to the payment of "graft" or bribes, which could be tax deductible in the home countries of transnational enterprises, especially in relation to public works contracts. This was not only a matter of unfair competition but a questionable practice for moral reasons, wherein companies were allowed to make illegal payments abroad that were prohibited in their own countries.

The Convention was followed by another particularly important event, the Eighth International Anti-Corruption Conference, which took place in Lima in September 1997, and had more than 1,000 participants from 93 countries. Their attendance was important not only because of the number of countries they represented, but also because participants came from high levels of government, business and academia. Participants included ministers, congressmen, district attorneys, intellectuals, international functionaries and corporate executives. The presence of the private sector was probably motivated by the fact that the event was organized by business executives, but we cannot overlook the fact that its focus, "The State and Civil Society in the Fight Against Corruption," was of interest to them.

The "Declaration of Lima," a document which reflects the feelings of the participants, constitutes a treatise of the recommendations and actions to be carried out in order to halt corruption. It delineates responsibilities for the public sector, the private sector, regional organizations, the multilateral financial institutions and the various agencies of the United Nations, among others. The document declared unanimous support for the OAS Convention and for efforts by the World Bank and the International Monetary Fund to suspend financial aid loans to countries where acts of corruption have been proven. This is perhaps an example of a new ethic in development.

Following this impetus, other initiatives have been undertaken. The recent "Regional Seminar: The Modernization of the State and Anti-Corruption Strategies," which was organized by the Pontificia Universidad Católica Madre y Maestra of Santo Domingo, took place in January 1998 in Santa Domingo, the Dominican Republic. The venue was especially appropriate, as the Dominican Republic was the first country to receive an International Development Bank loan to create a program to prevent corruption based principally on the role of education and the participation of the civil society.

Such initiatives, are multiplying in the Americas, be it through the inauguration of specific anti-corruption institutions or through watchdog organizations. By keeping an eye on public ethics, these watchdog organizations — operating in the United States, in some Central American countries, and more recently in Ecuador and Argentina — are demonstrating the will to achieve levels of transparency, especially with regard to public sector decision-making.

"The Eighth International Anti-Corruption Conference, which took place in Lima in September 1997, had more than 1,000 participants from 93 countries."

The Need for Further Reforms

Public sector reforms are complementing the non-governmental organization efforts. Many Latin American countries have been experiencing in-depth reforms in judicial administration. This has been seen as a means of nurturing markets, within a functioning legal framework, in order to attract investors. Other promising developments include efforts to promote:

- education,
- the fostering of democracy,
- awareness of the responsibility of political parties and movements in the reform of the public administration, and its link to the accountability of public officials,
- citizen participation in the public sector, and
- the media's role in monitoring government.

After witnessing these events, we can conclude that we are on the verge of awakening to the dawn of a moral renewal, which could lead Latin America along unprecedented paths of cooperation and prosperity.

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Meeting the Needs - Brazil (Continued)

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Due in part to this sizeable population, Brazilian law requires that companies hire physically and mentally challenged workers. Specifically, law number 8213/91, Article 93 stipulates that companies must have a proportion of its workforce drawn from the country's large handicapped population. Employers with 100 to 200 employees are required to have at least 2% handicapped workers; 200-500 employees, 3%; 500-1,000 employees, 4%; and companies of more than 1,000 people are required to employ a minimum of 5% handicapped workers.

"In practice most companies do not strictly adhere to the legal requirements."

However, in practice most companies do not strictly adhere to the legal requirements and do not actively seek to hire and accommodate the needs of handicapped individuals in the workplace. Consider:

- Most companies do not accept handicapped students for internships.
- Padeff, a program of the São Paulo state government to promote employment of disabled workers, has 261 graduates registered with expertise in several professional

areas. Of those registered, 38 have found a job, and only three individuals are working in their area of specialization: an accountant, an auditor, and a journalist.

- A research project undertaken by the Ministry of Justice in 1997 showed that 84% of the 27,000 companies participating in the survey had not considered implementing a program to employ physically disabled workers.

Unfortunately, these figures do not reflect a lack of awareness of the legal requirements, but rather the prejudicial attitudes and a lack of tradition in Brazil of hiring the handicapped. Business leaders also are concerned about the cost of adapting physical space and providing additional assistance to support disabled employees.

Fortunately, the media has been playing a role in promoting a change in attitudes towards the handicapped in the workplace by publicizing "good citizen" companies and drawing attention to the pride felt by employees and clients alike when a company fulfills this important social role. The experiences of several Brazilian firms illustrate how creating opportunities for the handicapped can indeed make good business sense and initiate a change of perceptions in society as a whole.

Avon

Avon discovered that their 32 disabled employees could achieve well beyond expectations, often compensating for their disability with increased attention, dedication and sense of responsibility. The company also found that disabled employees were exemplary in the areas of punctuality, low absenteeism and diligence.

Avon discovered that modifications to accommodate the needs of handicapped employees could be as simple and inexpensive as using a different lapel color so that vehicle drivers would not expect a response from hearing impaired employees to their horns while in the plant. Avon also took steps such as training some employees to use the appropriate gestures to facilitate communication with the hearing impaired.

Banco Itaú: An Example of Leadership

Banco Itaú is one of the largest and best known retail banks in Brazil. It hired Leandro Dupre Rabello, a blind electrical engineer, as a computer analyst in the multibank technology program. With his experience on structural compatibility, he is perhaps more qualified than most professionals of his age in the area.

Leandro's outstanding performance in high school gained him acceptance to four of the major Engineering schools in the country. While a student in the Escola Politécnica -University of São Paulo, his strong grades were posted and recruiters from the best companies wrote to request his resume. After the interview, however, most of them dismissed the idea of hiring him because of the perceived difficulty in dealing with his limitation. Now he works for Banco Itaú, using a terminal and a printer in Braille, which makes him as productive as other analysts. Banco Itaú invested \$100,000 in equipment for blind employees, after the performance of employees like Leandro justified the investment in bringing in more disabled workers.

Leandro believes that often good talent goes unused because of the fear of dealing with differences. He feels that prejudice still exists in the market, where accommodating the needs of the disabled is generally viewed as an act of kindness.

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CTBC

CTBC, a telephone company which operates in greater São Paulo, saw the quality level of phone responses rise from 83% to 99.3% (based on a Telebras survey) after disabled people were hired to answer the calls. These employees were found to be dedicated and conscientious. The result was outstanding levels of quality and productivity.

Einstein Hospital

Einstein Hospital in São Paulo, considered one of the finest in the country, recently created a program for training and supporting disabled employees. The philosophy of the program is that an individual's physical or mental limitations should not lead to paternalism.

Currently, seven handicapped people are working in the security department, monitoring internal cameras which protect the hospital assets, control the entrance of helicopters and ambulances, and oversee emergency services. The hospital plans to eventually have all 15 jobs in the area occupied by physically disabled workers. The only adaptation costs incurred by the hospital were the purchase of appropriate tables and desks and minor adjustments in the restrooms.

Conclusion

Attitudes within Brazilian business are slowly changing. This evolution is concurrent with the rising appreciation of the business rationale for hiring physically and mentally challenged workers. An indication of this rising awareness is the fact that even recruitment agencies are developing expertise in job placement of disabled individuals. In Brazil, progressive companies are demonstrating through their actions and success that society has a valuable untapped resource in its handicapped citizens.

Dr. Maria Cecilia Coutinho de Arruda serves as the Latin America Director of the International Business Ethics Institute. Dr. Arruda is also an Associate Professor at Fundação Getulio Vargas, in São Paulo, Brazil, where she is the Coordinator of the Center for the Study of Ethics in Organizations (CENE). For additional information on Dr. Arruda's background and experience, see page 15.

Organization Spotlight:

The Center for the Study of Ethics in Organizations (CENE)



Fundação Getulio Vargas,
São Paulo School of Business
Administration, Brazil

The Center for the Study of Ethics in Organizations (CENE) was founded in 1992 to create a non-political forum for debate and discussion on business ethics issues in Brazil. CENE has sponsored and participated in numerous events in the field of business ethics. The Center's reports on developments in Latin American organizations have been widely disseminated, and the Center supports students and professors throughout Brazil in the study of business ethics. To broaden the dialogue on business ethics issues, in 1997 CENE expanded its orientation to include governmental and non-profit organizations.

CENE offers a variety of services in the area of organizational ethics to meet the needs of academicians, professionals and business people including:

- maintaining a resource and information center,
- developing and conducting business practices training programs,
- consulting and research activities, and
- participating in forums and debates to encourage dialogue on organizational ethics issues.

CENE will be sponsoring the Congress of Ethics, Business and Economics in Latin America, July 27-30, 1998, in São Paulo, Brazil. The Congress is intended to provide a forum for discussing the most important topics of ethics related to business and economics in all Latin American countries.

Contact information:

Dr. M. Cecilia Arruda
CENE Coordinator
EAESP/FGV
Av. 9 de Julho, 2029
01313-902 São Paulo, Brazil
Phone/fax: 55-11-281-7749
e-mail: cene@eaesp.fgvsp.br
internet: <http://www.fgvsp.br>

A New Tool for Multinationals: Social Accountability 8000

By Lori Tansey Martens

Multinational corporations face many challenges in their attempts to operate responsibly in emerging economies. Chief among their concerns are maintaining fair labor practices -- not only in the company's own operations, but also among local suppliers -- in locations where laws and cultural norms may not protect basic worker interests. For example, how should "fair compensation" be defined when prevailing wage rates equate to poverty level subsistence? Perhaps an even greater problem is ensuring that suppliers are complying with basic labor standards, particularly when companies are using dozens, if not hundreds, of suppliers from emerging markets.

A new tool, Social Accountability 8000, is now available to help companies address such issues. Developed by the Council on Economic Priorities Accreditation Agency (CEPAA), SA 8000 seeks to first define and then certify compliance with standards relating to working conditions and such concerns as: health and safety, child labor and forced labor, freedom of association and collective bargaining, discrimination, disciplinary practices, working hours and compensation.

Modeled on international quality standards such as ISO 9000 and ISO 14000, SA 8000 provides detailed standards against which accredited firms will audit and issue certification. Corporations will be able to select suppliers based on SA 8000 certification. Likewise, consumers will be able to ascertain whether or not a company uses only certified suppliers and whether the company is itself certified.

The Guidance Document for SA 8000 is filled with specific definitions and sample checklists, and details objective evidence which can be used to monitor compliance with the requirements. This level of detail, which enables actual certification, distinguishes SA 8000 from previous attempts to create international standards. However, companies may find that SA 8000 fails to adequately anticipate and resolve conflicts between the standards and some cultural practices in certain areas, such as discrimination.

The creation of SA 8000 is a major step forward in the drive to promote fair labor practices and improved working conditions in emerging markets. Regardless of whether companies elect to pursue actual certification, the Guidance Document for SA 8000 is an excellent resource which can be used to generate awareness of labor issues in developing economies.

For more information on SA 8000 contact: CEPAA, 30 Irving Place, New York, NY 10003 Telephone: (212) 358-7697; Fax: (212) 358-7723; Email: info@cepaa.org.

Defining Fair Wages

Methods of calculating fair wages from *The Guidance Document for Social Accountability 8000*:

There are two methods for determining whether wages provide for both workers' basic needs and some discretionary income. The first method is a calculation based on poverty line data for a given country and uses statistics that are often generated by local governments, United Nations Agencies or international financial institutions. The second method is a market basket survey conducted by an independent and reputable institution. The market basket survey would require a complete analysis of the local diet and the amount of food adequate for completing a recommended 2,400-calorie diet per day. In addition, it would require an extensive household survey on consumption patterns, household sizes and the number of adult income earners and their earnings. The steps are as follows:

- 1) Determine cost of the basic food basket needed for an adequate diet. In many countries this is already determined by the local government.
- 2) Determine what percentage of household income is spent on food. Dividing this percentage into the basic food basket cost will give a multiplier which, when applied to the cost of the food basket, gives an estimate of the amount that the average household needs to spend per person.
- 3) Determine the appropriate number of household members. CEPAA recommends using half of the average household size for that country. This assumes that there is at least one other income contributing to the household economy. In a local economy where there is a strong tendency toward single parent households, auditors may need to consider raising this number.
- 4) Determine the percent multiplier to "provide for some discretionary income." CEPAA recommends using a multiplier of at least 10%.
- 5) Plug the defined numbers into the following formula:
[cost of basic food basket x (1/ percent of average household income spent on food) x (.5 x average household size) x 110%]

Business and Economics: US and Latin American Attitudes (Continued)

(Continued from page 5)

On the subject of Cuba, US and Latin American respondents were in agreement that the most effective means to ending communism is to increase trade and economic relations with Cuba.

Implications for Business

Based on the survey findings, corruption and concern for human rights are two of the pressing issues among Latin Americans. Multinational corporations can assist in addressing these concerns and, in doing so, strengthen Latin American confidence in business and improve attitudes towards privatization.

While multinationals have long expressed dissatisfaction with corruption in Latin America, few have undertaken concrete action to address the problem. In fact, there are a number of ways that companies can assist in the fight against corruption. A few of these are highlighted below:

- Establish policies which strictly prohibit bribery and kickbacks in both public and private sectors. Monitor compliance with the policies at all levels of the organization and punish violations promptly.
- Train at-risk personnel on the policies. The training should encompass not just the “what,” but the “how.” Use interactive means such as case studies to prepare employees to recognize and avoid situations which may lead to corruption. Role plays are also an excellent tool to teach employees how to respond to specific requests for bribes from customers or government officials.
- Encourage trade associations and chambers of commerce to work towards combating corruption and to raise these issues with senior officials.
- Support the work of groups active in promoting anti-corruption initiatives and strengthening anti-corruption laws. Transparency International is one such organization which works at both the international and local levels.

Given interest in Latin American countries for US involvement in human rights issues, companies should also examine their policies with respect to these issues. In a previous issue of the *International Business Ethics Review*, John Kamm recommended steps companies could undertake to promote human rights in China. Many of these also are applicable to Latin American operations:

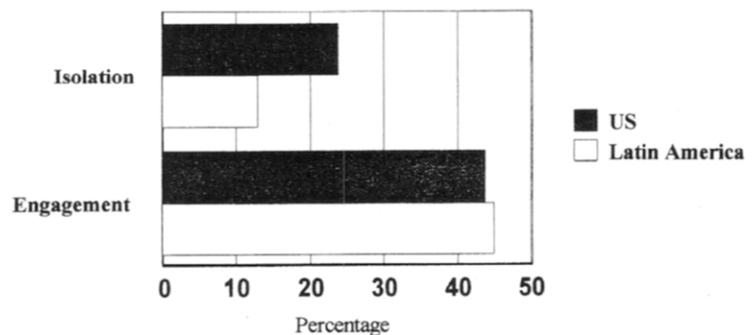
- Enforce codes of conduct which ban the purchase of goods made with child or forced labor and which put the highest value on health and safety.
- Create conditions in the workplace where free and critical discussion can take root. Encourage the establishment of free associations of workers which concern themselves with health, safety, the environment and quality issues.
- Lobby for legal reform by impressing upon the government the importance of behaving in accordance with international standards, whether the behavior concerns trade, labor or human rights.
- Encourage trade associations and chambers of commerce to raise human rights issues in discussion with senior officials and to establish human rights committees.

Conclusion

To further encourage moves toward economic reform and privatization, it is imperative that companies conduct Latin American operations with integrity and refrain from corrupt activities. Businesses, particularly multinational corporations, have a vested interest in strengthening public confidence in the private sector by promoting high standards of conduct in Latin America.

Which of the two methods is most effective in encouraging Cuba to abandon communism and establish a democratic state?

- ♦ Isolating Cuba through diplomatic pressure and economic sanctions
- ♦ Increasing trade relations with Cuba



Business Ethics Resources

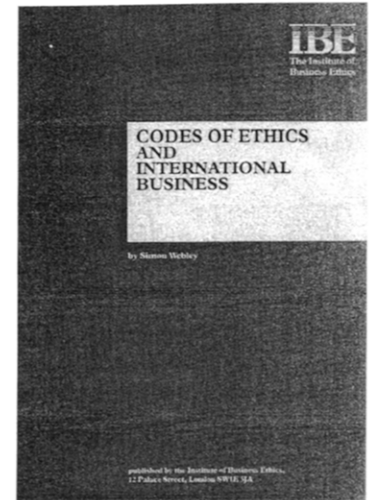
Codes of Ethics and International Business

As more international companies develop codes of conduct and establish business practices programs, there is an increasing need for resource tools both to introduce them to existing initiatives and to assist them in developing program materials relevant to their needs. *Codes of Ethics and International Business* by Simon Webley is an important tool which provides a comprehensive introduction to international codes of conduct, including the context within which they have evolved.

Codes of Ethics and International Business contains an overview of the field of international business ethics and its rapid growth within the context of globalization and increasing public awareness of corporate practices. Guidelines on business conduct developed by international organizations such as the International Chamber of Commerce, the Caux Round Table and the Interfaith Declaration on International Business Ethics are included.

The publication contains detailed code comparisons which is of particular value to companies in the process of developing or refining their global codes of conduct. The codes of ten companies are compared on 13 major issues, including gifts, conflicts of interest and sexual harassment. Companies referenced in the booklet include: Shell, BP, Texaco, ICI, Caterpillar, Honeywell, Alcan, Standard Chartered Bank, British Airways and Northern Telecom. The comparative approach enables the reader to view at a glance how a variety of companies are addressing often problematic aspects of corporate conduct through their code documents. *Codes of Ethics and International Business* also illustrates through comparisons how several multinational corporations are approaching and positioning the subject of business ethics within their companies.

Codes of Ethics and International Business is a compendium replete with information useful to any company in the process of developing or globalizing their code of business conduct.



Codes of Ethics and International Business may be purchased from the Institute of Business Ethics at 12 Palace Street, London SW1E 5JA, United Kingdom. For more information, contact the Institute of Business Ethics by phone: 0171 931 0495, fax: 0171 821 5819 or E-Mail: info@ibe.org.uk. The cost is £20.00 plus postage & handling.

A New Momentum from the Americas (*Continued*)

"We are on the verge of awakening to the dawn of a moral renewal, which could lead Latin America along unprecedented paths of cooperation and prosperity."

(Continued from page 7)

The road is clearly marked. Conferences, events, actions, and new institutions constitute part of a movement toward a "common ethic" which can be continually improved and perfected by degrees. One such milestone was the International Anti-Corruption Summit which took place in Miami in April of this year. Another significant event was the Second Summit of the Americas, which took place in Santiago, Chile in the same month. An important item on the agenda in Santiago was the review by Presidents and Chiefs of State of anti-corruption efforts.

The private sector should play a fundamental role in attaining the goals of this movement because the confirmation of ethical values in business will generate social benefits. It is not enough to improve the public sector; the private sector has as much if not more of a responsibility in this respect. At least that is what we believe.

Carlos Morelli was the Secretary General of the 8th International Anti-Corruption Conference, Lima, Peru, 1997. He is a Project Management and Business Ethics Consultant and a Senior Partner of EICA Consultores, S.D., Lima, Peru. He serves as Vice President of the Peruvian Management Institute, IPAE; Lima, Peru and acts as a Senior Advisor for Latin America, Casals & Associates, USA

GLOBAL ROUNDUP

Recent activities and efforts in the field of business ethics from around the world.

Africa: The Global Coalition on Africa held a conference on Corruption and Development in Africa in November 1997 in Maputo, Mozambique. The conference drew attention to the significant costs of corruption on economic development in the region and recommended steps which countries can take to combat corrupt practices on the continent. The policy statement from the conference is accessible at the GCA web site: www.gca-cma.org/epolicy.htm.

Brazil: Congress of Ethics, Business and Economics in Latin America, July 27-30, 1998, São Paulo. Sponsored by the Center for Studies of Ethics in Organizations (CENE), Fundação Getulio Vargas, São Paulo, Brazil. Establishment of Latin American Business Ethics Network (LABEN) to be addressed. For information, contact CENE. (See page 12)

Canada: A survey conducted by KPMG last year found that 66% of Canada's largest corporations now possess a code of ethics or conduct; 40% have a senior manager responsible for ethics; while 21% hold ethics training for employees. For more information on these or other developments in Canada, please contact Mark Schwartz, Associate Director of the Business Ethics Program, Schulich School of Business, York University, Toronto, Canada. (Phone: 416-736-5809; Fax: 416-787-3664; E-mail: schwartz@yorku.ca).

China: Adidas halted production of soccer balls in China due to indications that the products were being produced by prisoners. (*Wall Street Journal*)

Council of Europe: In December 1997, the 16 countries participating in the OCTOPUS Project to combat corruption and organized crime in Central and Eastern Europe met in Strasbourg to assess recent developments.

Cuba: In May/June 1998, a conference was held in Cuba entitled "Ethics and the Culture of Development: Building a Sustainable Economy." The conference, sponsored by the American Friends Service Committee, UNESCO and the Felix Varela Center in Havana, included about 250 members from Cuba's business community, government representatives and others from Cuba and elsewhere active in aspects of economic sustainability.

European Commission: The EC's 9th Annual Report on Fraud was released in May 1998. It is available on the Internet at: www.europa.eu.int/comm/off/rep/uclaf/1997/.

Japan: Public scandals forced Japanese corporations to revisit business practices. Gift giving and entertainment were banned by Hitachi and Nissan.

Latin America: The Fondo EcoEmpresas (EcoEnterprises Fund) was founded by the Nature Conservancy and an arm of the Inter-American Development Bank to invest in environmentally responsible businesses.

Mauritius: Concerns about business practices were addressed in a National Integrity Workshop; annual award for best business practices was established.

Middle East: Gulf Center for Excellence in Ethics was established in April 1998 in Dubai, United Arab Emirates by the Ethics Resource Center and Merck & Co.

Nigeria: A movement was initiated by the Oil, Chemical and Atomic Workers International Union to boycott Nigerian oil and implement stronger sanctions in protest of Nigerian human rights abuses.

Pakistan: Manufacturers and non-governmental organizations are working together to combat child labor practices in the soccer ball industry.

Ukraine: In April 1998 restrictions were removed to providing foreign aid to the Ukraine in response to progress in resolving complaints of US investors. Investors had complained of unfair trade practices and corruption. (*Associated Press*)

Institute Initiates Roundtable Discussion Series on International Business Ethics

In 1998, the International Business Ethics Institute initiated a Roundtable Discussion Series on International Business Ethics. The objective of the Roundtable is to bring together individuals from the Washington, DC area and elsewhere who are shaping the debate on corporate social responsibility and business practices worldwide. Participants come from the public, private and non-profit sectors and are active in academia, consulting and law, among other fields.

The first Roundtable was held in late January and attracted a number of participants. As an introductory meeting, attendees exchanged information about their activities relating to business ethics issues and professional interests. Based on the feedback and suggestions from this meeting, it was determined that future Roundtables would draw together international voices on business ethics to discuss global perspectives on developments in the field and to promote synergies across organizations.



Roundtable Discussion, "Business Ethics in China"

Dr. Josef Martens, European Ethics Consultant

In early April, the second Roundtable Discussion was held. Dr. Josef Martens, a consultant for European multinational corporations, and a German national, addressed the topic: "Trends in Corporate Ethics: A European Perspective." In an informative presentation that provoked much discussion, Dr. Martens addressed the current context of business ethics in Europe, examined trends in the field, and provided useful insights for US companies with subsidiaries in Europe. Dr. Martens' experience in conducting training for European companies made his comments particularly relevant to US business ethics practitioners.

Mr. Frank Martin, President, American Chamber of Commerce in Hong Kong

On May 15, the Institute hosted a Roundtable with special guests from the American Chamber of Commerce (AmCham) in Hong Kong. AmCham President, Frank Martin and other members of the delegation, who were in Washington to promote renewal of China's Most Favored Nation trading status, addressed the topic of Business Ethics in China. Mr. Martin gave an

overview of the history of business ethics in Hong Kong and contributed his observations of developments based on his extensive experience conducting business in the region. Mr. Martin offered a unique perspective as the President of a very active American Chamber of Commerce and a member of the Advisory Council of the Hong Kong Ethics Development Centre.

Attendees represented the private sector, public sector, non-governmental organizations and academia, and contributed a range of perspectives. Prospects for a similar evolution in business practices elsewhere in China were discussed, in light of such key concerns as human rights, labor practices and environmental protection. Delegation members observed that while the pace has been slow, there have been definite advances in business ethics practices in recent years in China. They were optimistic that this forward momentum would continue.



AmCham HK Delegation members Mitchell Presnick, Frank Martin and Gerald Murdock with Kristen Day, of the Institute.

Dr. Maria Cecilia Coutinho de Arruda Director of Latin America

Dr. Maria Cecilia Coutinho de Arruda serves as the Institute's Director of Latin American operations. Dr. Arruda is considered one of the foremost authorities on business ethics in South America. She is an Associate Professor at Fundação Getulio Vargas, in São Paulo, Brazil, where she is the Coordinator of the Center for the Study of Ethics in Organizations (CENE).

Through her work at CENE and with the International Business Ethics Institute, Dr. Arruda has conducted numerous sessions with employees, managers and senior executives on the subject of business ethics. Dr. Arruda has also worked as a researcher since 1985 and is the author of many articles on business/marketing ethics and management. Her perspectives on business ethics in Latin America were published in the October 1997 issue of the *Journal of Business Ethics*. Her research findings have also been published in RAE (Revista de Administração de Empresas), a leading academic journal in Latin America, and in the proceedings of many conferences in the US and Europe.



Dr. Arruda received her bachelor's degree in Economics from the University of São Paulo and her MBA from Fundação Getulio Vargas. She earned her doctoral degree in Business Administration from the University of São Paulo. Dr. Arruda was a Post-Doctorate in marketing ethics at Baruch College, the City University of New York.

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1000 Connecticut Avenue, N.W., Suite 503
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Suite 503
Washington DC 20036, USA
Phone: (202) 296-6938
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