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THE ETHICS OF MULTINATIONAL ORGANIZATIONS
- EMBEDDING THE ETHICAL CODE OF CONDUCT INTO A FOREIGN SUBSIDIARY COMPANY

Bachelor’s Thesis

Tallinn 2015
I declare that I have written the Bachelor’s thesis independently.

All works and major viewpoints of the other authors, data from other sources of literature and elsewhere used for writing this paper have been referenced.

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ABSTRACT

The ethics of organization has obtained much attention already for couple of decades, especially in Western countries. Several studies related to this topic have been conducted in different countries. However, this Bachelor’s Thesis does not focus on one country, but investigates ethics of multinational organizations, which operate in many different countries facing many different cultures, standards and norms. The emphasis is put on ethical code of conduct, which is an effective instrument used in organizations to ensure ethical behavior. This study aimed to investigate what actions has to be made in order to embed the parent company’s ethical code of conduct successfully into its subsidiaries located in another country and what challenges may occur in that process. The second aim was to find out whether the cultural differences in the subsidiary company are taken into consideration and thus the ethical code of conduct is adapted to them, or whether the subsidiaries, despite the local cultures and norms, have to follow strictly the ethical code of conduct, developed by the parent company.

The results show that ethical trainings, monitoring and reporting are essential in subsidiaries, but the leaders of an organization and their commitment to ethical behavior play the most significant role in the embedding process. Also cultural differences between the parent company and its subsidiaries may pose a challenge and thus they must be taken into account. In addition, lack of motivation and interest towards ethical issues among employees was seen as a global challenge. Lastly, the research shows that most of the multinational organizations have one universal ethical code of conduct, which they push through to their subsidiaries despite subsidiaries’ own local standards and norms.

Keywords: ethics of organization, ethical code of conduct, multinational organization, cultural differences, ethical dilemmas, subsidiary, parent organization
INTRODUCTION

The interest in organizational ethics, sustainable business practice and corporate social responsibility has grown significantly in the past decades, especially in Western countries. (Kaptein 2004) Many financial crises, human rights violations and accounting frauds that have been recently brought into public eye have fostered the creation of new universal rules and regulations in order improve the ethics of organization. (E.g. Foreign Corrupt Practices Act in 1997 and OECD Guidelines for Multinational Enterprises revised in 2011)

Not only stakeholders such as consumers, financiers, governmental bodies and political groups give greater consideration to the norms and values of organizations, but also organizations themselves are more aware of the importance of responsible business practice and ethical behavior. (Kaptein 2009) Therefore, more and more time and money is used for creating better techniques to ensure ethical conduct among organization.

A much recommended management instrument is an ethical code of conduct, (also known for example, as a code of ethics or a business code) which is a document developed by and for a company as a guideline for ethical behavior of the company’s managers and employees. (Kaptein 2004) It has indeed been a useful tool to create a coherent way of operating, thus avoid ethical dilemmas and improve the well being of employees and managers. (Pihlajasari et al. 2013)

Ethical codes of conduct have become increasingly prevalent globally. They are widely used especially in the U.S but also more and more often in Europe and Asia as well. (KPMG 2014) However, the cultural standards, values and habits may differ quite a lot among countries. Therefore the content of ethical code of conduct also varies between organizations originating from different cultures.

But what happens when a multinational organization operates in global arena, having a parent company in one country and subsidiaries in many other countries with different cultural standards and norms? Are these cultural differences taken into account when implementing the parent company’s ethical code of conduct into a foreign subsidiary? United
Nations Conference on Trade and Development (UNCTAD) estimated in 2006 that the number of multinational organizations is about 78,000 with more than 750,000 branches in other countries. Since the estimation was made almost ten years ago, the number has probably increased due to globalization. In addition, several studies have shown that when more multinational organizations get in more countries, the more ethical issues arise.

This Bachelor’s Thesis focuses on investigating the embedding process of an ethical code of conduct in multinational organizations, which operate around the world facing many different cultures. The research aims to find out what kind of acts a multinational organization has to make when embedding its ethical code of conduct into a subsidiary located in other country and what type of challenges the organization may face in that process. In addition, the research aims to find out whether and to what extent multinational organizations adapt their code of conduct to local norms and customs of the subsidiaries, or whether the local subsidiaries have to be strictly guided by the standards and rules of the parent organization.

Thus the objective of this thesis is to provide a better understanding of the challenges and difficulties, which headquarters at home may face when implementing its ethical policy in other country. The thesis also aims to give the reader a better understanding of organizational ethics, ethical code of conduct and its embedding process. In addition, about possible ethical dilemmas in multinational organizations will be discussed.

The research is conducted by using qualitative methods. The research objective is accomplished by studying and analyzing existing texts and documents, such as articles, books and previous surveys. Moreover, case studies are typical in qualitative approach, and also this thesis focuses on one multinational organization by interviewing two managers. The interviews help to gain more personal opinions and experiences from individuals and this way give better understanding of the research subject.

The Bachelor’s Thesis is divided into three main chapters. The research starts with a theoretical framework, which focuses on describing ethics, ethical theories and ethical code of conduct ending to measuring the ethics of organization. The second chapter presents the methodology of this research, after which the focus is turned into multinational organizations and their ethical behavior. The third chapter includes a case study, focusing on one multinational organization by analyzing interviews.
1. THE ETHICS OF ORGANIZATION AND AN ETHICAL CODE OF CONDUCT

The ethics of organization has obtained much attention in recent years. (Kaptein 2009) At the same time, tightening completion sets pressure for organizations and economic crisis occur more frequently. (Pihlajasaari et al. 2013) It is not difficult to recall some high-profile corporate scandals such as the American Telecommunication Corporation’s Worldcom’s accounting scandal at the beginning of 2000 or financial crisis caused by organizations such as Lehman Brothers, Olympus Corporation or even some major banks in U.S in 2008. (CCAB 2014) In response to the bookkeeping frauds and financial crisis, new or revised laws and regulations have been prescribed to improve the ethics of organizations. (Kaptein 2009)

Nonetheless, awareness and concern about the ethics of organization have grown beyond the legal domain as well. For example, ethical and sustainable investing has increased in U.S and in Europe significantly during the recent years. (Social Investment Forum 2007) Moreover, consumers and job seekers also give greater attention to the ethics of organization nowadays and “the number of international non-governmental organizations that scrutinize the ethnics of organization has increased worldwide from 30 000 in 2000 to over 60 000 in 2007.” (Kaptein 2009; 601)

Thus, big pressure to ensure ethical behavior within the whole organization is given to leaders. Effective approach and right tools have to be introduced and implemented throughout the organization, including its possible subsidiaries located in other countries. In this chapter, the definition of ethics and its centrality to leadership is briefly discussed and some main theories of organizational ethics introduced. In addition, this chapter will present the idea of Ethical Code of Conduct mostly using as a source of information many books and articles of highly valued Dutch professor Muel Kaptein, who has published six books, number of surveys and more than 50 peer-reviewed articles concerning the field of organizational ethics and integrity management. (RSM 2015) Lastly, the way in which the ethnic of organization...
can be measured is discussed and some previous findings will be presented at the end of the chapter.

1.1 A definition of Ethics and its centrality to leadership

In the Western world, the definition of ethics can be traced back to Plato and Aristotele. Ethics comes from a Greek word “ethos”, meaning character, conduct and/or customs. According to Hesselbein, ethics is about what morals and values are found appropriate by members of society and individuals themselves. (Hesselbein 2012; 490) Ethics helps us to decide what is right and what is wrong, or what is good or bad behavior, in any given situation.

The term international business ethics refers to business conduct or morals of multinational organizations in their relationships with individuals and entities. Such behavior is based largely on the cultural value system and the generally accepted ways of doing business in each country or society. Those norms, in turn, are based on broadly accepted guidelines from religion, philosophy, the professions and legal system. (Deresky 1994) When related to leadership, ethics is about whom leaders are – their character and what they do, their behaviors and actions. (Ibid. 2015) (Kaptein 2009)

“Ethics is central to leadership because of the nature of the relationship between leaders and followers.” (Hesselbein 2012; 491) Leaders influence to followers, which means that they have either negative or positive impact on follower’s lives. The nature of the impact depends on the leader’s character and behavior. Leaders have more authority, interpersonal and/or formal hierarchical power, and therefore have a greater responsibility with respect to their impact on their followers. Leaders affect followers in the pursuit and achievement of common goals. Especially in these situations leaders need to respect their followers and treat them with dignity. Lastly, leaders are instrumental in developing and establishing organizational values. Their own personal values and behavior determine what kind of ethical atmosphere will develop in their organization. (Ibid. 2012)
1.2 The main theories of organizational ethics

Business ethics is a specialized branch of ethics focusing on how moral standards apply to business organizations and behavior. (Velasques 1998) Properly speaking, it cannot be understood separately from the general ideas of ethics, and the general ethical theories apply to business ethics as well. (Lähdesmäki 2005) Thus several theories can be used to study ethics of organizations.

Normative theory aims to answer to the question “what is the best way to live?” According to a Theory and Methods in Political Science, normative theory is a discipline with roots stretching back to ancient times and concerned with thinking about the world not only as it is but also as we might think it ought to be. (Buckler 2010;156) Normative thinking typically invokes principles with respect to how we should conduct and organize ourselves; as such, it seeks to provide norms that prescribe appropriate ways of acting individually and collectively. (Ibid. 2010;156) In other words, the purpose of the normative theory is to provide justifiable and reliable principles (an ethical code) to determine what is moral and immoral behavior.

Theory of moral rights claims that people have certain fundamental rights, also known as human rights, that should be respected in all decisions, such as: the right to life, the right to free consent, the right to free speech, freedom of thought and freedom from slavery. (United Nations 2015)(Cavanagh et al. 1981) According to a Ronald Duska, a PhD and a consultant in business ethics, a right is a capacity, a possession or condition of existence that entitles either an individual or a group to enjoy some object or state of being. For example, the right to free speech is a condition of existence that entitles one to express one’s ideas and thoughts as one chooses. (Duska 2002) The theory of rights also claims that as long as the distribution of wealth in society is attained through fair production and exchange, the distribution is a just one regardless of any degree of inequalities that may follow. (Budd 2004) The morally correct behavior is the action that a person has a moral right to do, that does not violate the moral rights of others, and that promotes the moral rights of others. (Schumann 2001) Thus a manager making decisions based on this theory should avoid violating the rights of other who may be concerned by the decision.
Moreover, Robert Phillips among other scholars argues that Stakeholder Theory is the strongest candidate of a theory to study organizational ethics. According stakeholder theory, classical political and moral theories seek comprehensive explanations of ethical duties between moral agents and refer to all persons in all times and places. For this reason they may be comprehensive and universal but inadequate to study moral obligations within organizations and among stakeholders. (Phillips 2003) The stakeholder theory focuses on the relationships between an organization and others in its internal and external environment. It also studies how these relationships influences to the organization’s way in which it conducts its activities. (Financial Times 2015) Unlike in a traditional view of a company, according to which only the owners and stockholders of the company are important, the stakeholder theory argues that there are other important parties involved, such as employees, customers, financiers, suppliers, governmental bodies, communities and political groups. Thus all these stakeholders have to be recognized by the organizations and treated equally, despite the fact that some individuals will contribute more than other to the organizations. (Gioia 1999)

Lastly, the three most frequently cited business ethics theories are teleological theories, deontological theories, and virtue-based theories. (Kaptein 2009) Teleological ethics, such as utilitarianism, is related to consequences, primarily focusing on the effects and results of the actions of agents. Hence, these theories emphasize whether the leader’s actions, behavior and/or conduct have positive outcomes. This means that the outcomes connected to person’s behavior establish whether the behavior was ethical or unethical. (Hesselbein 2012)

Deontological ethics in turn are related to duty or rules. These theories primarily focus on the actions that lead to consequences and whether the actions are good or bad. (Hesselbein 2012) Deontological approach thus argues that whether or not an action is ethical depends not only on its outcome but also whether the action, behavior or conduct is itself inherently good. Actions that are intrinsically good are for example “telling the truth, being fair, keeping promises and respecting others”. Therefore Deontological ethics emphasizes the actions of leaders and their ethical responsibility to do what is right. (Hesselbein 2012; 491)

The third one, virtue-based approach, is related to leaders and who they are. “Virtue ethics focuses primarily on intentions, characteristics, qualities, attitudes and disposition of agents.” (Kaptein 2009; 602) These virtues can be learned and retained through experience and practice. The learning usually occurs in an individual’s family and in the various communities with which an individual interacts throughout his or her lifetime. (Hesselbein
Thus once more, virtue ethics focuses primarily on whom the agents are, deontological ethics on what agents do, and teleological ethics on the impact of what agents do. An agent can be an individual, group or collective entity, such as an organization. (Kaptein 2009)

1.3 Ethical Codes of Conduct

The first step for companies in developing their ethical conduct and integrity is to introduce a code of conduct. (Kaptein & Avelino 2005) “A code is a document developed by and for a company as a guideline for the current and future behavior of its managers and employees.” The codes are either rule-based or principle-based, and length of the documents varies from a single page up to eighty pages. (Kaptein 2004) The code of conduct must be relevant to all employees throughout the organization and it must be written in a language and style that is universally comprehensible. (CCAB)

In addition to the name “code of conduct”, academics use a variety of other names for a code such as “business code”, “business principles”, “code of ethics” and “integrity code”. (KPMG 2014) However, the term code of conduct is mostly used in this research.

1.3.1 Prevalence

Ethical codes of conduct are becoming increasingly prevalent globally. According to a study made by KPMG advisory N.V in 2014, 74% of the world’s 200 largest companies (Fortune Global 200) have a code, while in 2004 the number was 52,5%. However when comparing the current number to the 2008 study, the figure has dropped, mainly due to the large number of Asian companies in the Fortune Global 200 list. Only 42% of Asian companies in the Fortune Global 200 had a code in 2014 (Kaptein & Avelino 2005) (KPMG 2014)

Although the overall number of codes has decreased from 2008 to 2014, when comparing the presence of codes per region, there was an overall increase among the US and European companies and a slightly decrease among Asian companies. (See Figure 1.) In 2014, all US firms had a code (100%), and the percentage for European companies has increased to 88% when in 2008 it was 80%. This indicates that, even though the overall
percentage declined, the general use of codes in the US and Europe has increased. (KPMG 2014)

As seen above, having an ethical code of conduct is highly prevalent for the companies in the North America nowadays. Also in Europe, the existence of the codes is getting more and more general. However, the prevalence of the ethical codes varies quite a lot among countries in Europe. According to a study conducted by KPMG Forensic and Advokatfirman Delphi in association with students from Lund University and Uppsala University, a vast majority (84%) of the 50 largest companies in Sweden had code of conduct in 2013. (KPMG 2013) When comparing to Finnish companies, the prevalence is clearly smaller. A study, carried out in Finland by Pihlajasari et al. shows that only 51% of the 128 organizations that participated in the survey had a code in 2013. According to the same study, the organizations that had 100-250 employees, the prevalence of the code of conduct was 52% and the organizations that had more than 250 employees, the prevalence was almost 60%. (Pihlajasari, Feldt, Lämsä, Huhtala & Tolvanen 2013) Thus the bigger the organization is the more commonly it has the ethical code of conduct.

The existence of ethical codes of conduct in Estonian companies is less common than in the Nordic countries. According to a survey conducted by several authors from Tallinn
University of Technology in 2009, only 20% of Estonian middle and big size companies have an ethical code of conduct and in addition, 80% of them are fictive. The report also claims that: “Many Estonian companies have some kind of self-assessment forms, but ethics trainings or ethics officers are unknown in business ethics context in Estonia.” However most professional unions in Estonia do have a code of conduct and all organizations belonging to these professional unions have the obligation to follow their ethical codes. (Rihma & Meel 2013; 30) In addition, the study has been carried out six years ago due to which the data do not apply to this day anymore.

Lastly, there is only little evidence about the existence of ethical codes of conduct in African companies. However, according to research per country in Muel Kaptein’s book “The Living Code”, in South Africa 71% of the largest thousand organizations have a code. This result indicates how widespread codes of ethics are in the world. (Kaptein 2008a)

1.3.2 Content and drivers

The code of ethical conduct can consist of various layers of information. The structure of these layers can be portrayed as a code pyramid consisting of four layers. (See figure 2.) According to Muel Kaptein, the lower the layer, the more extensive, detailed and technical is the information in the codes usually. At the top of the pyramid is (1) the mission and vision of the organization, followed by (2) the organization’s core values. The third layer comprises (3) the organization’s responsibilities to the stakeholders and at the bottom are (4) the standards and rules for managers and employees. “These code elements are often integrated, together forming the company’s ethical backbone.” However the different layers do not necessarily have to be integrated in one document. Organizations sometimes decide to elaborate on one or more layers in separate documents. (Kaptein 2015)
Organizations have several reasons for developing the ethical code of conduct. According to a Consultative Committee of Accountancy Bodies, “the primary purpose of the ethical code of conduct is to provide an organization with a clear benchmark for ethical behavior.” (CCAB 2014) Other, more specific, reasons have been found out as well as a result of KPMG 2014 study. Based on that study, the three most common drivers for adopting the code of conduct are: 1) to create a shared company culture, 2) to improve staff behavior and 3) to protect/improve the corporate reputation. It is significant that these drivers differ from 2008 study, when the most important reason for developing the code was to comply with legal requirements. In 2014 only 78% of the responding organizations classified that reason “very important” leaving it out from the current top three-list. (KPMG 2014) This change can be explained by organizations’ increasing focus on establishing a working climate that they believe will lead to the best results. Also stakeholders such as consumers, governmental bodies and political groups require more and more ethical behavior from organizations due to which good reputation is desirable and important to keep.

Lastly, an organization’s ethical code of conduct can work as a useful mechanism when seeking to resolve ethical dilemmas. (Ibid. 2014) When the organization has developed
mutual rules of how to operate, the managers or employees can invoke to that “contract” whether unethical behavior occurs or the rules are questioned.

1.3.3 Embedding the ethical code of conduct

Developing the code of conduct is only the beginning. In order to use the code as an effective tool, a company must have a strategy for implementing the code effectively throughout the whole organization. To make the code effective, it has to be introduced (to focus attention on it), implemented (to integrate it into the process of the organization), internalized (to convince hearts and minds of management and employees) and institutionalized (to monitor and maintain the code and its effectiveness). (Everson et al. 2003) The embedding process is usually the most challenging process for the company. Therefore many relevant techniques for embedding the code have been developed by various scholars. (KPMG 2014) (CCAB 2014)

One widely used implementation cluster is communication and training. According to KPMG Advisory N.V, some examples of the ways in which ethical codes of conducts are brought to employees attention are: by including the code in letters or emails, by setting up a separate intranet site, by making copies of the code available at busy locations in the organization, by referring to the code in speeches and at meetings and/or using training courses. The survey conducted by KPMG in 2014 showed that 80% of the 200 biggest companies in the world use e-learning modules to implement their code. (KPMG 2014) Another effective ways of embedding the code is to include it in the company’s HR policy. Some companies for example mention the ethical policy already in the job advertisements or job interviews. (Everson et al. 2003) More frequently the code is part of the employment contract or referred to during the induction program. (KPMG. 2014)

Many companies also believe that is important to have an effective and fair disciplinary policy, which describes the steps leading to sanction, whether people violate the code of conduct. According to KPMG research, 76% of the surveyed companies had a sanctions policy in 2014, which is a significant increase on 2008 when the number was 55%. (Ibid. 2014) However, if someone has been dismissed for violating the code of conduct, it still does not mean that the code is effective and well implemented.
Moreover, ethics committee, office and officers are getting more and more common among companies. A little bit more than one-third of the world’s 200 largest companies, surveyed by KPMG, have an ethics committee, which meets regularly to discuss current issues. (KPMG 2014) The idea is that the employees can, for example, ask questions and submit dilemmas or suggestions to the committee and get guidance. The committee often consists of several representatives of departments within the organizations, ranging from 5-13 people. (Ibid. 2014)

Lastly, to ensure that a concerted effort is made to bring the code into effect, it is advisable to include the code of conduct in the standard planning and control cycle. (Kaptein 2008a; 134) Supervisory bodies pay more and more attention to the implementation of the code, so in order to get the full benefit of adopting a code, monitoring, auditing and reporting is essential. (KPMG 2014) Reporting can take place monthly to once every two to three years, for the whole organization as well as by each business division. The results can be audited internally and/or externally. (Kaptein 2008a; 135)

In addition to all, is important to keep in mind that all above mentioned actions and measures are linked to leadership. Actually, according to Muel Kaptein, the embedding of a code is first and foremost a question of leadership. It is essential that the leaders of the company show good role-modeling behavior, “set an example and demonstrate vision”. Only this way they ensure that the employees are fully committed and keep the code “living.” (Kaptein 2008a: 100)

### 1.3.4 Differences in codes of ethics by regions

Although new and revised international ethical codes of ethics (e.g. the OECD Guidelines for Multinational Enterprises) have been enacted to improve and unify the operations of multinational organizations, several studies have shown that the content of the codes can vary quite a lot among them. (Kaptein 2004) (OECD 2015)

Two approaches can be recognized regarding whether or not to include concrete rules and standards in codes. In addition, two types of codes can be differed regarding the extent to which a code should give employees the freedom to follow their own ethical judgment or not. (KPMG 2014) As previously mentioned, the content of codes can be divided to principle-based and rule-based codes. According to KPMG 2014 research, 5% of the codes they studied
were wholly principle-based. That means that the codes are more generalized and they set up abstract expectations such as the mission, values and/or responsibilities toward stakeholders. Principle-based codes also usually consist of a couple of pages the most and are more positively formulated than rule-based codes. In addition, they are not only for internal use but to be distributed to external stakeholders as well. 22% of the codes in turn were entirely rule-based. That means that the codes mainly contain rules and standards. Rule-based codes are almost always significantly more detailed and four times as lengthy as principle-based ones. Moreover, they are usually more commanding and more legalistic. Almost three-quarters of the codes, 73%, were a mix of general principles and detailed standards and rules. This shows that most of the studied organizations favor a more mixed version of codes. (KPMG 2014)

Based on couple of studies, there is evidence of differences in the content of code of conduct between different regions. According to Mathews’ (1987) content analysis of codes of conduct, U.S companies are more concerned with the conduct against the company than on behalf the company. Thus based on this study, U.S companies tend to use more rule-based codes of conduct. (Kaptein 2004) The study made by KPMG in 2014 also proves the same. However, in addition to the U.S, the results show that also Asian companies use more frequently ruled-based codes, while companies that are originally European more likely adopt principle-based codes. KPMG suggests a difference in attitude: “European codes often offer employees more space for their own interpretations and assessment of rules and standards, while Asian and U.S codes are more rigid.” (KPMG 2014)

Also other findings relating to the differences in the content of the codes were made by KPMG. For instance, according to the research, companies originating from China tend to formulate their codes merely in terms of the rules that employees must follow to. Thus, Chinese companies give very limited attention or not attention at all to stakeholders such as society, environment and shareholders. Moreover, while Asian and U.S companies primarily focus on the responsibilities of workers toward their company, European companies also pay a lot attention to the responsibilities that the company has towards its employees. This means, for example, guaranteeing a balance between work and private life and involving employees in decision-making. (KPMG 2014)

Although the codes can vary quite a lot between different regions, the above-mentioned study found some similar items that almost all codes of conduct contain. These were right of equality and non-discrimination (KPMG 2014) In addition, the study conducted
by Kaptein in 2004 showed that more uniformity could be found among rule-based codes, while more variation is found among principle-based ones. (Kaptein 2004) Lastly, it is also important to point out that the contents of codes may not only vary between different countries and regions but also within countries. (Kaptein 2004)

1.4. Measuring the ethics of organizations

As discussed in the previous section, simply drawing up and publishing the ethical code of conduct does not still guarantee that the organizations conduct is ethical. The existence of the code does not either tell how ethical the organization’s behavior is. In order to investigate how well the organization has succeeded in embedding the ethical code of conduct into its operations and how effective the code is, we should measure the organization’s integrity, or in other words, the ethics of an organization. (Kaptein & Avelino 2005)

When measuring the ethics of organizations it is good to focus on the intentions of the organizations, its conduct and effects. Generally, organizational ethics has been studied with the concepts of ethical culture and ethical climate, both of which are related to the organization’s way in which it promotes its employees’ ethical behavior or prevents their unethical behavior. According to Linda K. Trevino, a distinguished professor of organizational behavior and ethics in Smeal Collage of Business, the more the organization supports ethical behavior the more ethical is its employees’ operation. Professor Trevino, along with other scholars, also claims that ethical culture better explains unethical behavior than ethical climate, because ethical climate is usually defined as those aspects that determine what constitutes ethical conduct but culture is usually defined as those aspects that stimulates ethical conduct. (Trevino, Weaver & Reynolds 2006) For this reason, the ethical culture of an organization will be discussed next after which some previous results will be briefly presented.

1.3.1 Ethical Culture

The ethical culture of an organization is manifested in the way of how an organization’s formal and informal control systems influence to its personnel’s behavior. These formal and informal control systems of an organization are for instance leadership,
authority structures, incentive schemes, decision-making habits, the principles and norms. (Pihlajasari et al. 2013)

Organizations’ ethical culture as an area of study is still quite new everywhere around the world. Only a few empirical studies related to this subject (e.g. Kaptein 1998, Trevino 1998) have been published before 2010s. One famous, and so far the only model that has been used to measure the ethical culture of an organization is the Corporate Ethical Virtues Model (CEV) developed by the Dutch professor Muel Kaptein. The CEV Model is grounded mainly in Solomon’s virtue-based theory of business ethics and it distinguishes between ranges of organizational virtues and lends itself to measuring the relevant intentions of an organization. Corporate ethical virtues are the organizational conditions for ethical conduct; they reflect the capacity of an organization to stimulate ethical conduct of employees. (Kaptein 2008b) These eight distinguished and empirically validated virtues are: (1) Clarity, i.e. the extent to which ethical expectations, such as values, norms and rules are concrete, comprehensive and understandable to managers and employees; (2) congruency of management, defined as the extent to which the board and middle management act in accordance with ethical expectations; (3) congruency of supervisors, defined as the extent to which local management act in accordance with ethical expectations; (4) feasibility, defined as the extent to which the organization makes available sufficient time, budgets, equipment, information and authority to management and employees to fulfill their responsibilities; (5) supportability, defined as the extent to which the organization stimulates identification with, involvement in and commitment to ethical expectations among management and employees; (6) transparency, defined as the extent to which ethical and unethical behavior and its consequences are visible to those managers and employees who can act upon it; (7) discussability, defined as the extent to which managers and employees have the opportunity to raise and discuss ethical issues, such as ethical dilemmas and alleged unethical behavior; and (8) sanctionability, defined as the extent to which managers and employees believe that unethical behavior will be punished and ethical behavior will be rewarded, as well as the extent to which the organization learns from unethical behavior. (Kaptein 2008b)

Measuring the perceptions of leaders and employees regarding the existence of the virtues listed above in their organization reveals the ethical culture on an organization. According to Kaptein, the stronger the presence of these virtues the more ethical the organization is. (Kaptein 2009)
1.3.2 Previous results & findings

In this section, some findings that have been made based on two studies that measured the ethics of organization will be presented. The other one was conducted in the U.S by the Dutch professor Muel Kaptein in 2008, and the other one was conducted in Finland by several authors in 2013. In both of the studies, the virtue ethics model was employed.

When measuring the ethical culture of an organization, eight organizational virtues presented before were used. In order to measure these eight different items, a five-point Likert type scale ranging from “1= strongly disagree” to “5= strongly agree” was applied in both studies. (Kaptein 2009) However, the study conducted among Finnish organization was far more specific including for example ten questions in the (1) clarity dimension and six questions in the (5) supportability dimension. Thus in total the Finnish survey included 58 questions while the American included eight in the ethical culture section. (Pihlajasaari, Feld, Lämsä, Huhtala & Tolvanen 2013) (Kaptein 2009)

The 2008 study by Muel Kaptein showed that among 12,196 responded U.S managers and employees, clarity was the most visibly embedded in U.S organizations, scoring the average level of 82.73%. The second and third visibly embedded dimensions were supportability and congruency of supervisors, scoring about 75%. With a score of 58.80%, transparency was the least embedded virtue of the eight dimensions. The overall embeddedment of the all virtues was 68.42% in 2008. (Kaptain 2009)

In Finland, all employees of the 128 responded organizations evaluated the ethics of their organization at least rather good, scoring the average between 4.0-4.5 with the scale of 1-6. (Pihlajasaari et al. 2013) The 2013 study also showed that in those organizations, which have developed the ethical code of conduct (51% of responders), employees are evidently more convinced that their managers are acting according to the principles of ethical leadership. Moreover, also the employees in the organizations that use the ethical code of conduct, evaluated discussability to be stronger virtue than the employees in the organizations that do not have the code. (Ibid. 2013)

Lastly, the study conducted among Finnish organizations indicated that ethical culture was related to managers’ wellbeing and ethical strain in all organizations. The lower the evaluation of ethical culture, the more ethical strain and stress was experienced. (Pihlajasaari et al. 2013)
2. ETHICAL CONDUCT IN MULTINATIONAL ORGANIZATIONS

The world has increasingly become a global village. Companies do business in different parts of the world and employ people from diverging cultural backgrounds. (Kaptein 2008a; 37) Multinational Organization is a public company that is registered and operates in more than two countries at least. It is also the organizational form that defines foreign direct investment. (Kogut 2001) Generally the multinational organization has its headquarters in one country and wholly or partially owned subsidiaries in other countries. (Encyclopedia Britannica Inc. 2015) Multinational organizations can, apparently, vary in the extent of their multinational activities in terms of the number of countries in which they operate. A large multinational organization can, for instance, operate in 100 countries, with hundreds of thousands of employees located outside its home country. (Kogut 2001)

Globalization has multiplied the ethical problems facing global organizations. (Deresky 1994) Because of the size and financial power, multinational organization have been the subjects of much ethical criticism, and their impact on the countries in which they do business has been hotly debated. (Ferrel et al. 2008) As previously mentioned, 74% of the world’s 200 largest companies had a code of conduct in 2014. (KPMG 2014) Since the multinational organizations have operations in number of different countries with different business cultures, norms and standards, many questions are arisen, such as should the managers of multinational organization subsidiaries base their ethical standards on those of the host country or those of the home country? Or is there a core set of universal norms that multinational organizations uphold? How are these codes of conducts implemented?

The biggest single problem for multinational organizations in their attempt to define a corporate ethical posture is the great variation of ethical standards around the world. Many practices that are considered unethical or even illegal in some countries are accepted ways of doing business in others. (Deresky 1994) However, mutual ethical policies and successfully implemented codes of conducts are extremely important among multinational organizations. One misdemeanor in a subsidiary company in other side of the world can have a significant
impact to the reputation of the headquarters and the organization as a whole. Especially with the phenomenon of globalization, when the information can be transmitted instantly with the use of modern communication channels, the reputation of the organization can be destroyed suddenly. In the worst case the accident in the subsidiary can lead the whole corporation into bankruptcy. Thus, the consequences of a poorly implemented ethical policy are possibly very threatening. (Pestre 2004)

This chapter starts with presenting the methodology of this research, moving to discussing about ethical challenges that multinational organizations often face when operating in different countries. Lastly, the chapter deals with the concept of global governance and the challenges it poses.

2.1 Methodology of the research

As mentioned before, this Thesis aims to investigate what kind of acts a multinational organization has to make when embedding its ethical code of conduct into a subsidiary located in another country. What type of challenges the organization may face in that process? In addition, this research aims to find out whether and to what extent multinational organizations adapt their code of conduct, developed by the parent organization, to its subsidiaries’ local norms and customs or whether the local subsidiaries have to be strictly guided by the standard and rules of the parent organization.

The research is conducted and objective accomplished by using qualitative approach. Instead of using statistical (quantitative) methods, which focus on questions of “how many”, qualitative methods aim to explain “what”, “how” and “why” some event, phenomenon or outcome occurred. Thus, generalizability over many cases is rarely a goal of qualitative analysis. (Vromen 2010; 255) Moreover, while quantitative research focus on measuring causal effects, qualitative research seeks to provide understanding and to explain a certain phenomenon or outcome. (Ibid. 2010; 256)

In qualitative approach, it is typical to study existing documents or texts as part of the research. (Vromen 2010; 261) The analyzed documents and texts are either primary sources or secondary sources. Primary sources are original documents produced by political actors ranging from executive, parliamentary or judicial arms of governments to non-government organizations. Secondary sources in turn are for example books and scholarly journal articles.
Unlike primary sources, secondary sources are considered to be documents, which have an analysis in them. (Ibid. 2010; 262) In this research, some primary sources, such as original documents of certain company will be used, but mostly secondary sources such as books and articles by other scholars, will be used as a source of information. In addition, some previous surveys, which relate to the same topic than this research, will be analyzed.

When using qualitative analysis, researchers also tend to focus on a single or very few cases or examples in order to gain an in-depth understanding of their research subject. (Vromen 2010; 255) Although the theoretical part plays a bigger role in this thesis, it will have an empirical part in the end of the research in which the focus will be on one multinational organization by using interviews. The interviews help to gain more personal opinions and experiences from individuals and this way give better understanding of the research subject. Moreover, interviews leave the interpretation and analysis to the investigator. (DiCiccio-Bloom and Crabtree 2006)

The interviews were carried out at the subsidiary company’s headquarters in Finland. Two managers were interviewed during the same day, face to face and one at a time. The other interviewed manager works in the Nordic group of the multinational organization (consisting of Norway, Sweden, Denmark, Iceland, Finland and the Baltic countries) and the other one is a manager of Law, Patents & Compliance of the Finnish subsidiary. Eight questions plus three additional questions were asked from both of the managers (see Appendix 1) and both of the interviews took approximately 45 minutes. The findings of the interviews are presented later on in this research.

Another method that could have been used in this research is the comparative method. Comparison across several cases (countries in this research) enables the researcher to establish social scientific generalizations, not just interpretations from one case. (Hopkin 2010) However, due to small time range, and the size of the study, it was not possible to interview employees in several multinational companies. Furthermore, if two multinational companies would have been compared to each other, the research questions should have been different.

Due to limited time, this research had other restrictions as well. Two managers who work in a big multinational organization were interviewed, however the managers do not work in the parent company’s headquarters but its subsidiary’s headquarters in Finland. Thus the research is conducted from a subsidiary company’s point of view. At first, three persons
were supposed to be interviewed, instead of two, but the third person had to cancel the meeting in the last moment, and was not able to find new time before the dead line of this research. Moreover, due to confidentiality, it is not allowed to reveal the names of the interviewed managers, the name of the company or any details from which the company is recognizable.

2.2 Ethical challenges of Multinational Organizations

The more different culture the countries around the world have, the more their habits, customs, standards and beliefs differ from each other. Since multinational organizations operate in number of different countries and continents, it is inevitable that the cultural differences cause challenges when a global organization is implementing its ethical policy. Also different legislation among countries may cause dilemmas for multinational organizations. Differences can be seen for example in laws related to human rights, working conditions and environment, and although multinational organizations are seeking to follow international laws and regulations, sometimes the local subsidiaries are more willing to follow their own national laws. This may definitely challenge the multinational organization’s operations.

2.2.1 Ethical dilemmas caused by cultural differences

According to Ferrell et al., culture consists of everything in our surroundings that is made by people. Language, religion, law, politics, education, social organizations, general values and ethical standards are all included within this definition. Each nation has a distinctive culture and consequently, distinctive beliefs about what business practices are acceptable or unethical. (Ferrell et al. 2008; 264) Cultures can affect to technology transfer, managerial attitudes, ideology and even business-governmental relations. Perhaps most importantly, cultures affects how people think and behave. (Hodgetts & Luthans 1997) Therefore, as a French professor Florent Pestre argues, cultural differences can bee seen as an obstacle in the translation of values from one country to another. (Pestre 2004)

Cultural values can clearly differ when comparing different countries. Values are basic convictions that people have regarding what is right and wrong, good or bad, important or unimportant. These values are learned from the culture in which the individual is grown, and
they help to direct the person’s behavior ((Hodgetts & Luthans 1997) One study conducted by scholars Richard Hodgetts and Fred Luthans compared the most important cultural values of the United States, Japan and Arab countries. The two most important cultural values in the United States were freedom and independence, while in Japan they were belonging and group harmony. (Hodgetts & Luthans 1997:97) This shows that people in the U.S. are more individual orientated while in Japan people are more group orientated. The study also indicated that people in the Arab countries highly value family relations, answering that the most important values in that area are family security and family harmony. (Ibid. 1997:97)

Moreover, according to Hodgetts and Luthans, work values as well differ from each other across cultures. For example, one study found differences in work values between Western-oriented and tribal-oriented black employees in South Africa. The Western- oriented group accepted most of the tenets of the Protestant work ethic, but the tribal-oriented group did not. The results were explained in terms of the differences of the cultural backgrounds of the two groups. (Hodgetts & Luthans 1997)

In addition to values, another significant area of cultural differences is language. Problems of translation often make it difficult for people who act in multinational organizations to express exactly what they mean. Although blunders in communication may have a humorous side, they may also cause anger or offend employees in international environment. In the worst case misunderstandings in communications may even damage the relations between a subsidiary and a parent company (Ferrell et al. 2008) Also in order to avoid misunderstandings, it is important to make sure that, for example, the ethical code of conduct is translated well and written in a form that it is easily understandable for everyone within a multinational organization.

Cultural differences in body language can also lead to misunderstandings. Estonians, for instance, nod their heads up and down to indicate “yes”, but in Albania, an up-and-down nod means “no”, whereas in Britain it indicates only that the person is has heard, not that he or she agreed. In addition, pointing an index finger, a commonplace gesture among Americans, is considered quite rude in Asia and Africa. (Ferrell et al. 2008; 265) Differences in body languages among countries may, for instance, make negotiation within a multinational organization harder.

Ethical issues that most of the multinational organizations have to face are the issue of corruption and questionable payment. For example gifts and bribes giving is a social norm
that is part of everyday business in some countries, but is strongly forbidden in others. For instance U.S. views questionable payments as illegal and unethical practice while in many African countries it is acceptable and even customary. (Gargone 2010)

In one of the Muel Kaptein’s surveys, the Dutch professor investigated what are the most common norms and rules used in ethical codes of conducts among multinational organizations. The study showed that the norms formulated in the codes diverge most with the respect to the acceptance of gifts. Companies originating from Europe or United States were stricter about accepting gifts and invitations than companies originating from Asia (e.g. China and Japan), answering for example that their acceptance is “always agreed with supervisors”, “company officer of his/her delegate approve its acceptance”, or “the value has to be below $50.” However, some companies originating from the U.S. also gave answers such as acceptance of gifts is “generally accepted business practices of one’s country and industry” or that its purpose is to “create good will”. This shows that the acceptance of gifts is a controversial issue and the policies do not vary only among countries but also among organizations.

After all, in order to avoid ethical incidents relating to bribery and corruption, the United States passed the Foreign Corrupt Practice Act in 1977 (last amended in 1998) to prohibit the most questionable payments by U.S. companies doing business in other countries. The act was intended to upgrade the image of American multinationals and stop them from initiating or perpetuating corruption in foreign governments. It was also intended to encourage other nations to stop questionable payments, punish corruption and increase accurate reporting to shareholders. However, critics claim that the law represents an ethnocentric attempt to impose U.S standards on the rest of the world and puts American companies at a competitive disadvantage (Deresky 1994)

Lastly, some business dilemmas between the parent organization and a local subsidiary can be arisen in the conflict between religious standards and practical standards of a company. A study about business dilemmas and religious belief, conducted by Graanfland etc. in 2006, gives an example in which a Muslim executive whose religion obliges him to visit the mosque on Fridays. In one occasion he had to choose whether to go to the mosque or attend to an important business meeting. In this case, the executive gave priority to the practical standard of meeting business responsibilities rather than meeting the religious obligations. He afterwards regretted his decision. In two other similar religious dilemmas the
executives gave priority to religious standards and did not attend to the important business meetings. In both cases the executives felt no regret about the decision taken. (Graafland et all. 2006) However, the same study also indicated that different religious beliefs do not play as great role in ethical dilemmas within companies than easily believed.

2.2.2 Ethical dilemmas caused by different legislations

Different national legislations and cultural standards may lead multinational organizations to unethical behavior and cause ethical dilemmas. As gaining profits are naturally the most important goal for multinationals, damaging results can arise. Examples of these are violation of human rights, use of child labor, lobbying for and participating in manipulated international agreements as well as environmental damage. (Shah 2013)

Indeed in recent years a number of significant cases of human rights violations have been brought into public attention in the media, through concerned individuals or groups, most of which are NGOs. (Muchlinski 2001) Among the most famous cases have been the operations of Bp in Colombia, Unocal in Burma and Shell in Nigeria in all of which multinationals were accused of irresponsibility towards employees and violations of basic human rights, leading to injustices and creation of unhappiness and pain. (Ibid 2001)(Daudi 2010) According to Global Issues, multinational organizations often claim that their involvement in foreign countries is “a constructive engagement as it can promote human rights and non-discrimination.” However, critics in turn say that it seems more of convenient excuse to continue exploitative practices. (Shah 2013) Though, in some cases human right violations happen in the local subsidiaries in secret from the parent company, ruining the reputation of the whole organization. (Daudi 2010)

The largest cost for most of the companies is the workforce. Hence, when making profit is the main goal, it is natural for the companies to seek out the cheapest labor possible. (Shah 2013) In an era of globalization, one of the ways for multinationals to maximize profits is to move into less economically developed country and procure cheap labor. As children usually require less pay, child labor is often used. According to UNICEF, child labor is defined as “work that exceed a minimum number of hours depending on the age of the child and type of the work. Such work is considered harmful to the child and should therefore be eliminated“. Recent Global estimates-report, based on the data of UNICEF, the ILO, and the
World Bank, indicate that 168 million children aged to 5 to 17 are engaged in child labor. Some 150 million among them are below age of 14. Many children in developing countries work long hours in a field of agricultures, manufacturing, quarrying and mining and the work are often hidden from the public eye. (UNICEF 2015) Organizations that use child labor usually operate as suppliers for multinational organizations. Several multinationals have recently been suspected or prosecute using child labor such as Nike, Disney, Samsung, Primark Clothing, Nokia, McDonald’s and Adidas. (Human Rights Youth Forum 2010) There has been a steady decline in child labor, however the progress is far too slow. UNICEF estimates that at current rates, more than 100 million children will still be trapped in child labor by 2020. (UNICEF 2015)

In addition to human rights violations, also environmental issues can cause dilemmas within multinational organizations. According to an article written by Don Mayer and Ruth Jebe, there are only a few binding international environmental treaties that impact to multinational organizations. (E.g. Montreal Protocol) Instead, most environmental rules and regulations vary notably from nation to nations. (Mayer & Jebe 2010) Also one of the key challenges that exist for the progressive development of international environmental laws is the insufficient capacity to implement environmental laws, especially in developing countries. (UNEP 2015) For this reason, a multinational organization may face a challenge of whether to comply and follow the local environmental rules and standards, which can be poorly regulated and less strict and therefore cause more harm to the environment, or whether to adhere the rules of the parent organization, which are more ethical and strict, but probably cause more costs and less profit for the corporation.

All these above mentioned challenges and dilemmas have to be taken into account when a multinational organization is embedding its ethical code of conduct into the organization’s subsidiary located in another country. It is important to keep in mind that some unethical practices, such as bribe giving and use of child labor, are matter of course in many cultures but in some cultures not at all. Therefore it is inevitable for the parent organization to be familiar with the cultural norms and customs as well as the legislations of its subsidiaries.
2.3 Global governance

Not until the 1970s were there any significant attempts to establish rules of conduct for multinational organizations. In spite of some international tensions and national concern regarding multinational corporations, before and during the Bretton Woods period, there was no dominant conception of a common interest in restricting the operations of multinational organizations in the industrialized countries. (Scherer et al. 2006) During the Cold War in turn, most multinational organizations started to focus their political strategies on influencing governments at home and in the subsidiary countries. At home, multinational organizations often tried to influence the trade and industrial policies of their governments in order to improve their competitive position. In addition, they also tried to cope with significant political risks associated with operating in developing countries. Not surprisingly, the multinationals became good at anticipating national political demands and eventually began to view the capacity to impact public policy within multiple jurisdictions as a competitive business skill. (Detomasi 2006)

The end of the Cold War significantly changed the questions how and how much multinational corporations can do. The rise of the globalization increased the power of multinational business companies, but also forced the companies to raise efficiency and adopt cost-minimization strategies. This in turn raised a number of ethical and sustainability questions and aroused the ire of the NGO community. (Detomasi 2006) Subsequently, more and more pressure was given by NGOs and other political groups to create global regulations for multinationals, leading to a movement towards global governance.

According to World Health Organization, domestically governance refers to the different ways that organizations, businesses, institutions, and governments manage their affairs. “Government is the act of governing, and thus involves the application of laws and regulations, but also of customs, ethical standards and norms. Good governance means that the affairs are managed well, not that the laws, regulations or norms are themselves necessarily good.” (WHO 2015) In democratic countries, consent of the governed via periodic elections established the legitimacy for individual governments to employ authority: such governments create laws and domestic regulatory institutions that become the instrument through which authority is exercised. (Detomasi 2006: 324)

Global governance in turn refers to the way in which global affairs are managed.
(WHO 2015) However, the above-mentioned domestic model cannot be applied in the international system, which lacks a centralized supranational political authority that provides the equivalent operations of a domestic government. (Detomasi 2006) But although there is no global government, it does not mean that governance in the international arena is absent. On the contrary, according to an article written by David Detomasi, “a great deal of governance is exercised internationally: for example, existing technical standards manage international transport and communication procedures, and states have created and ratified international treaties that cover issues ranging from trade to arms control and human rights.” (Ibid. 2006: 322) Hence, global governance typically involves number of different actors including states as well as regional and international organizations (WHO 2015)

Although a great range of actors are influencing in international realm, some single organization may nominally be given the lead role on some problematic issue. Examples of these are the World Trade Organization in world trade affairs or the World Environmental Organization in world environmental issues. (UNEP 2015) Thereby, the aim of global governance is to form consensus in international issues, which generates guidelines and agreements that affect national governments and international organizations (WHO 2015)

Some key challenges in global governance are the enforcement and effectiveness of regimes established for governance, and the compliance of actors/states involved in agreements. For example the failure of the enforcement of the Growth and Stability Pacts (GSP) leading to the Eurozone crisis in the European Union indicates how unrealistic such an apolitical view of enforcement can be. (Väärynen 2011) Many international treaties are inadequate or have failed to put into practice. For instance, a number of global environmental agreements remain unenforceable simply because violations are ambiguous and this ambiguous is due to vagueness of the obligations. (Samaan 2011) Also David Datomasi argues that the current mechanisms of global governance are inadequate to codify and enforce recognized Corporate Social Responsibility Standards. (Datomasi 2006)

In addition to vagueness and inadequacy of global standards, global governance mechanism also receives criticism because of its supranational authority. Critics argue that global governance support the neo-liberal ideology of globalization and reduce the
role of the state and thus its sovereignty. Some scholars claim that, as a result, the interest of the poorest people and nations will be ignored unless they have a direct impact on the global economy. (WHO 2015)

After all, even though the international system is anarchic and thus lacks of centralized governing institution, it does not mean that it is impossible to establish a functioning rules and regulations system for actors operating in international arena. And despite often weak enforcement or sanctions, most rules are followed by most states and organizations most of the time. This shows that they normally accord the rules sufficient legitimacy to want to avoid violating them. Moreover, multinational organizations, governmental bodies and different non-state actors constantly work towards establishing more effective global guidelines and standards.
3. CASE STUDY OF A MULTINATIONAL ORGANIZATION

Two managers of a multinational organization were interviewed for this research. The idea is to show with a few examples how employees at the target subsidiary views ethical issues. The target organization is a global enterprise, which has more than 300 subsidiaries in 75 countries around the world. In 2014 the company had almost 120,000 employees worldwide of which 30% comes from the company’s home country Germany. After Europe, the second biggest workforce comes from Asia/Pacific area. According to the organization’s webpage, the company “is committed to the principles of sustainable development and acts as a socially and ethically responsible corporate citizen.” Due to confidentiality, the field in which the multinational organization operates cannot be revealed.

The managers were interviewed during the same day, one at a time, at the headquarters of the multinational organization’s subsidiary in Finland. In the next section, the results of the interviews are presented. Both of the responders brought out interesting results and different perspectives. After presenting the results they will be discussed and analyzed more carefully. Due to confidentiality, the names of the managers cannot be published. Therefore the names Respondent X and Respondent Y will be used. Respondent X is a manager of Law, Patents & Compliance of the Finnish subsidiary and Respondent Y works in the Nordic group of the multinational organization.

3.1 Interview results

The first interview question concerned the business cultural differences between the parent company and the subsidiary. (See Appendix 1) The interview brought out the fact that from the Finnish subsidiary’s point of view, the business cultures between Finland and Germany are extremely similar. “Finland and Germany come from really similar business cultures. If you look at it at a global level, it is hard to find as similar countries as Finland and Germany, what comes to business cultures. Both of the countries are extremely straight-out, conscientious and highlight honesty.” Respondent Y replied, but continued by explaining that
although in this case the subsidiary is really similar to the parent company, she is convinced that the organization has a lot of other subsidiaries, which are much different from their business cultures. Respondent X gave similar answer as well and replied that organizations originating from Germany are very bureaucratic and process-oriented, but it is not a bad thing when operating in Finland. She also said that it can surely pose challenges in other countries, for example already in Sweden. “Thus from our point of view, when we have the Nordic headquarters in Finland and the main headquarters in Germany, there are no big cultural differences between the parent company and this subsidiary.” Respondent X ended.

After all and although in this case the subsidiary and the parent company revealed to be extremely similar, Respondent X was still able to point out some cultural differences between the countries. “Maybe the biggest difference that can be seen in everyday operations at work is the German hierarchy and formally addressing when talking to each other. We use English as the main corporation language, but once Germans speak to each other in German, they call each other in the plural (In German “sie” not “du”) while in Finnish we call each other in the singular. (sinä”). So Germans respect hierarchy and talk to each other in really polite way.”

The second question (see Appendix 1) was about whether the whole corporation has a uniform and identical ethical code of conduct or whether it has been modified so that it is more applicable in this subsidiary (or the organization’s subsidiaries in general). The answers from both of the managers were similar and unambiguous. “We have strict and detailed instructions from the parent company’s headquarters.” The Respondent X answered. The manager then explained that the organization has enormous number of instructions, rules and regulations under the “compliance policy”, but the backbone of it consists of ten principles. “These ten principles have been translated from German directly to Finnish and also the same policy principles are taken to each subsidiary country as such and translated directly to the subsidiary country’s language.” The Respondent Y agreed by saying that the organization’s ethical code of conduct is extremely similar in every branch of the organization and continues: “… It (the ethical code of conduct) consists of rules and principles, which are a matter of course for us here in Finland and in the Nordic countries, but not necessarily in every country. For example there are issues about how to threat each other in the work community. Everybody has to be threatened equally, with justice and in a similar way, again a matter of course here but not automatically in every country. Same thing with corruption.”
Thus Respondent Y answered to the question quite directly that the whole organization does have a uniform and identical ethical code of conduct and it require that in every branch of the organization. “Especially in this field in which we are operating, we have to follow the rules strictly” Respondent Y ended.

The discussion then went on to discussing about whether the instructions come only from the parent company or are there also rules and regulations coming from outside. According to Respondent X, in addition to internal guidelines, they also get a lot of guidance from outside. The organization has to, for example, follow the guidelines set by EU, but the subsidiaries are also following the rules and regulations set by their home country, in this case Finland.

The answers from the interviews support the fact that European corporations more likely have a principle-based code of conduct than a rule-based. The codes used in the target organizations are also more generalized and give the employees freedom to follow their own ethical judgment. The Respondent X explains that in many cases, it is not enough that the employees are only forced to follow the rules. “We cannot just give instructions and set rules, at the end of the day we just have to teach people the right way to think and then trust that they act ethically in a right way.”

The third question dealt with the actions that have to be made so that the parent company’s ethical code of conduct is implemented successfully into its subsidiary located in another country. (See Appendix 1) Respondent Y pointed out instantly trainings. “Trainings are in a big role. Some of them are conducted face to face, but mostly e-learning is used. They are found to be really effective.” The manager then explained that for instance during this year, every employee around the world who works in this multinational organization has to pass nine e-learning exams. “E-learning is a great way to ensure that everyone, no matter where they are, reaches the exact same information.” As previously mentioned in this research, according to KPMG 2014 survey, 80% of the world’s 200 biggest organizations use e-learning system as well. (KPMG 2014)

Both of the interviewed managers also mentioned monitoring and reporting as an important action when embedding the ethical code of conduct into a subsidiary. “If some misconducts occur locally, specifically in ethical issues, we have to report about it to the main headquarters immediately.” Respondent X replied. Respondent Y also agrees that monitoring and reporting are in a big role in this organization. “All the cases that have even a little risk
for misdemeanor have to be reported to the headquarters. It has actually been taken to extremity. Nowadays, (because gifts giving is prohibited) it is not even allowed to give a free pen to someone. That also has to be monitored and reported.” Nevertheless, both of the managers agreed that monitoring and reporting is an effective way to ensure that the parent company is aware of what is happening in the world.

The discussion is turned to the challenges that the embedding of the ethical code of conduct may arise in the subsidiary. (See Appendix 1, question 4.) Both managers supposed that the challenge is that many employees in Finland and at the Nordic level take the ethical issues as matter of course and do not really care about them or consider them interesting. According to Respondent X “A lot of requirements come from the German headquarters that we have to train more and more employees in subsidiaries and usually the employees here feel like the information is already clear for them and there is nothing new. Many times they even call themselves “over trained” in ethical issues.” The manager however believed that the issue is a global challenge. Always when ethical trainings are hold and the employees are reminded about ethical issues, the time and money is away from business and the fulfilment of business goals. Also the Respondent Y answered: “I could imagine that in a subsidiary, was it then in Finland, China or Bangladesh, these ethical issues are not considered the most important issues.” So the lack of motivation and interest toward ethical issues is found a challenging factor. Lastly, the Respondent Y continued: “It is critical to make the employees in the subsidiaries to realize the risks and consequences of unethical behaviour. If there is even one employee in a subsidiary who does not take these issues seriously, it can affect to the reputation of the whole multinational organization. So the challenge is to ensure that no one makes mistakes, which may destroy the organization’s future.”

The fifth question is about ethical dilemmas and whether any has occurred in the target organization from the subsidiary’s point of view. (See appendix 1) Neither of the managers could bring out any significant dilemmas, because as previously mentioned, Finnish people follow the instructions and rules extremely carefully. However, when discussing about gift giving and bribes, both managers agreed that they might cause some dilemmas. “In this corporation, there are different kind of instructions what comes to gifts giving and acceptance, but usually the policy is really strict. Especially in our field in which we operate, the gift policy is taken to extremity. But then again, when you consider other business environments, for example with suppliers the price limit of acceptable gift is 30€.”
Respondent X replied. The manager also told that globally the corporation does not have clear limits for gift giving/acceptance, but it is not acceptable to give/receive gifts, which can be easily exchanged to money. This indicates that although the interviewed multinational organization should have mutual and identical instructions in every branch of the organization, the gift policy is quite controversial. At least it varies in different fields of operation. Lastly, the Respondent X pondered that even within Europe the different understandings of right gift policies can cause dilemmas. “Here in Finland and especially in this field, the policy is extremely strict. Nowadays it is prohibited to even offer cookies at meetings in which the participants are making business decision.” Respondent X replied and then continued: “And we know that this might pose challenges in other cultures, for example already in Baltic countries, where the custom of remembering others in business meetings is different.”

The discussion then moved on to the sixth question. (See Appendix 1) The question was about organization’s ethical culture and which of the Muel Kaptein’s eight organizational virtues are needed to be strengthened/improved when embedding the parent company’s ethical code of conduct into its foreign subsidiary, again from the subsidiary’s point of view. The eight virtues were presented for the managers in a paper. The opinions from them differed a little bit from each other, but both of the managers agreed that the congruency of management is the most important virtue. “If the top management is not strongly committed to ethical conduct in every operation, everything else is pointless.” Respondent X replied. Also Respondent Y answered that: “The congruency of management and the congruency of supervisors are the ones. It is always important, and therefore monitored, that the management acts in accordance with ethical expectations.” After the congruency of management, Respondent Y pondered that clarity and supportability are the next virtues to which the organization puts effort on. “For example the E-learnings have been made crystal clear. Nothing was unclear when I did mine.” Respondent Y answered. “Feasibility is challenging and should be strengthened. Another challenging issue is discussability, because some people find ethical issues really boring or do not want to talk about them. The decisions are usually made behind the closed doors.” Respondent Y continued.

Respondent X in turn found clarity, transparency and feasibility the most challenging issues. She for instance replied that: “When taking into account the use of time, the “virtue” which we usually find the most challenging one is feasibility. When the top management is
committed, it requires it from other employees as well, but the challenge is that in nowadays world everyone is always so busy. So it is hard to find time for ethical issues.”

The discussion then turned to talking about whether the corporation’s ethical conduct affects to the subsidiary’s operation and is effective. (See appendix 1, question 7) Again, both managers agreed that the existence of code of conduct can bee seen in everyday operations. They explained that despite the lack of motivation, ethical issues are taken seriously in this organization. “The existence of the code of conduct affects to everyday operations here and sanctions are given, whether someone violates it. The ethical code of conduct is taken so seriously that sometimes it may even cause hysteria, like if it is even allowed to offer a cup of coffee to someone anymore.” Respondent Y told. Respondent X in turn said: “Surely the situation is the same in almost every big global organizations”.

The eighth and the last question relating to the subsidiary company’s experiences was about international relations between countries of the parent company and the subsidiary and whether the relations are taken into consideration when forming the ethical code of conduct. (See Appendix 1) The question was quite challenging, especially in this case, but the managers achieved to give some interesting answers. “Here, in this case, these issues haven’t been have to considered the same way than if the code of conduct would have been taken, for example, to Ukraine or Russia. So this in mind I do not see that the relations between subsidiary’s country and the parent company’s country have been taken into consideration. Respondent X answered and then continued “But surely the organization’s general manager wants more and more to influence and participate to societal debates, and also strengthen the relations between Finland and Germany.” Respondent Y in turn replied: “The parent company has determinative role in these relations. In my previous company, which was also a big multinational organization but a parent company, the relations between countries and the cultures of local subsidiaries were taken into consideration a lot.” Thus the management of the parent company of this target multinational organization also most likely takes into considerations the relations between Germany and the countries in which the organization operates if necessary. After all Respondent Y continued: “Our business goes hand in hand with the society and politics, and therefore we try to make the code of conduct as transparent as possible in order to show to the policy-makers that we have nothing to hide, which would impact to the relations between countries.”
After these eight questions, three additional questions were asked, (see Appendix 1) which led to further discussion. Since the interviews were conducted from the subsidiary’s point of view, the additional questions concerned other subsidiaries with different cultures, and whether the managers had information if in some other country the embedding of the parent company’s ethical code of conduct has found to be more challenging. Neither of the managers could tell any specific case, problems or dilemmas that would have occurred in some other country, however both of them were sure that the embedding process and thus adhering the code of conduct can be quite a challenge in some countries. “Now when looking from the Finnish perspective, when we promise to do something, we do it. While there are countries in which people say “yes, yes” and then do something else. We found it here quite weird.” Respondent X answered and went on: “I am sure that it is not an easy process to try to embed the ethical code of conduct to a subsidiary which culture, habits and norms differ a lot from the parent company. Our requirements here in Europe are quite strict compared to countries for example in Asia. Unfortunately, I cannot name any specific case though.”

Respondent Y could not give any example from this target organization either, but she could tell a case that happened when she used to work in a big multinational company originating from the U.S. “I participated to a corporation gala which was arranged in Russia. After the gala, the whole management of the Russian subsidiary had to be dismissed from the office, because they had accepted so many bribes. And because Americans are so absolute when it comes to bribe giving, they did not accept any explanations about different cultures and customs.” Respondent Y replied and explained that she is sure that the same thing would happen in this interviewed organization as well. “If someone would use bribes in order to foster business, the whole personnel would be removed from the office. We are really absolute here as well.” The manager stated.

When discussion went on, Respondent Y started to ponder the differences between this target organization and her previous organization. The manager considered that in this current organization the ethical code of conduct is pushed through forcibly without taking into account the subsidiaries’ local norms and customs, whereas her previous organization had more big independent subsidiaries, which demanded to operate in their own way. Then again, global organizations aim more and more to create uniform and global customs and rules to gain more efficiency. “In my previous organization, the idea at first was to take local norms
and customs into account, but eventually, the ethical principles and code of conduct were pushed through. This organization is a good example of extremity.” Respondent Y replied.

When the interview with Respondent X was coming to an end, the manager concluded the discussion by expressing that in her opinion the idea of ethical code of conduct is that the parent organization can rely on it and require everyone within the organization to follow it although culture in another country would require something else. “And when talking about our parent company’s point of view, of course our fundamental goal is that we leave out the business if the subsidiary company cannot follow the ethical conduct. Therefore I claim that this organization do not conform to local standards and norms. Also the field is such kind that we have no choice.” Respondent X ended.

3.2 Discussion

Although the countries used in the case study revealed to be extremely similar what comes to business cultures, the case is still about global multinational organization. That means that the organization always face a challenge of what is the best way to operate globally, what is the most common and coherent way of thinking and where can the organization differ from others and localize and where to globalize.

Finland is almost annoyingly perfect country what comes to following rules from the global perspective. According to Transparency International survey, in 2014 Finland ranked the third least corrupt country in the world, which shows that honestly is highly valued in Finland. (Transparency International 2014) Of course this is a good thing, when thinking of ethical issues, but based on the information gained from the interviews, it can also pose some problems, which are not usually considered. For example in some cases the ethical issues are taken in the Nordic countries so much for granted that people do not pay attention to them enough anymore. Suddenly the control weakens leading to some stupid but baneful mistake.

Thus, the interviews brought up an interesting fact, that one of the biggest challenges which organizations face when embedding ethical codes of conduct is to get employees interested in it and to take ethical issues seriously. However, lack of motivation is surely not a problem only in Finland, but is also a global problem. When the organization is focusing on ethical issues, the time and money is always away from business.
The managers also strengthened the fact that ethics and integrity is extremely important especially among multinational organization. Therefore it is crucial to ensure that the employees around the world understand the risks. Everyone knows that the media loves corporate scandals and already one misbehavior in a subsidiary can ruin the reputation of the whole organization. Therefore multinational organizations, despite the lost money and time, take ethical issues seriously and put an effort on it. On the other hand, this may also look that multinational organizations are more concerned about their reputation than the ethical conduct itself.

In order to embed the ethical code of conduct successfully into a subsidiary, many actions have to be made. One of the most important and most used techniques is training. Especially e-learning is found to be an effective tool, since this way the headquarters ensure that everyone gains the exact same information, no matter where they are. Another effective way of embedding the code is to include it in the company’s HR policy, which means for example informing new employees about the organizational ethics. In addition, both of the interviewed managers emphasized the importance of monitoring and reporting. This way the parent company ensures that its subsidiaries are acting in accordance with the ethical code of conduct.

When taking the ethical code of conduct to another country, clarity is really important, although it can pose a challenge. The rules and regulations included in the code of conduct must be written in a language and style that is universally comprehensible. Same thing applies, for example, to the materials used in trainings. Language indeed is an issue that has to be taken into consideration. Many employees in multinational organizations cannot use their native language as a corporate language and thus misunderstandings may occur.

This research has showed that leadership is in a significant role in order to embed the ethical code of conduct successfully into a subsidiary. It is essential that the management, not only at the headquarters but also at a local level, shows good role modeling and is strongly committed to ethical behavior. Otherwise everything else is pointless as stated previously.

When focusing on multinational organizations, which operate in many different countries, cultural differences are something that the management has to be aware of. In order to develop an effective but coherent code of conduct, management has to take into consideration that ethical issues can be a matter of course in some countries, while in others they are not. Good examples of these issues are non-discrimination, gift giving and bribes.
The case study showed that especially gifts and bribes can cause different ethical dilemmas within multinational organizations. Sometimes employees in different countries have different understanding of acceptable gifts (like in the case in Russia), while in some cases the gift policy have been taken into extremity, causing stress and hysteria to the employees. The last one refers to the story, told by Respondent Y, by which nowadays employees in multinational organizations are not even sure anymore whether offering a cup of coffee to another employee is also considered as bribery. Since gift policies may differ between countries, it would be advisable for multinational organization to have one mutual and clear gift policy followed in every branch of the organization.

Legislation, originating from cultures, varies from country to country. In some countries the national laws towards, for example, working conditions or environmental issues may be really strict, whereas in some countries they barely exist. Or although the national laws exist, they may be poorly obeyed in order to foster efficiency and reduce costs. Especially in developing countries, where the economic situation is weak, generation of money for the family, and thus to the whole society, is often prioritized over rules.

In addition, even though the parent organization has to be familiar with the different cultural norms of its subsidiaries, and especially their national legislation, it does not mean that the ethical code of conduct has to be adapted to them. This research has shown that actually the case is the other way around. Big multinational organizations demand more and more that the employees at the local subsidiaries adapt to their global standards and rules, in order to avoid ethical risks and foster efficiency. This of course means that the parent company itself must follow the global guidelines despite the rules of its home country.

Lastly, this research has shown that although the content of ethical code of conduct can vary in different regions (e.g. principle-based or rule-based) almost all multinational organization are seeking to develop one uniform and identical ethical code of conduct which all its subsidiaries must follow despite the local standards and norms.

3.3 Future research and proposals

The empirical part of this research focused only on one multinational organization. In addition, the research was conducted from a subsidiary’s point of view, which was located in Finland and the parent company in Germany. Therefore cultural differences barely exist
between the companies. Since the research area was very limited, this research gives a good basis for wider research. (e.g. Master’s thesis)

One proposal is to add more countries to the research and compare them. Also in order to make the study more demonstrative, it would be advisable and interesting to study subsidiaries, which parent organization is located for example in Europe, but the subsidiaries in Asia or South America. This way the research would show how the bigger cultural differences, such as corruption or use of child labor, affects to the embedding process. Third proposal in turn is to conduct interviews in both, subsidiary and in a parent organization, and then have two different point of views which to compare.
CONCLUSION

As previously mentioned, there are more than 78 000 multinational organizations in the world, having more than 750 000 subsidiaries in different countries. While the globalization has increased the number of multinational organizations, it has also multiplied the ethical problems facing them. Since the idea of ethics, acceptable norms and habits varies between different cultures, ethical dilemmas easily occur between the parent company and its subsidiaries.

Big multinational organizations are easily targets of ethical criticism and accused of unethical behavior. The pressure for ethical conduct comes especially from other non-state actors such as NGO’s, but also stakeholders such as customers, financiers and governmental bodies pay more and more attention to multinational organizations’ operations. Moreover, also multinational organizations themselves have started to be more aware of the importance of responsible business practice and ethical behavior. Therefore, the headquarters at home put a lot of time and money for ethical issues, and use different techniques in order to ensure ethical behavior and avoid scandals.

The ethical code of conduct has proven to be an effective and popular instrument to foster ethical behavior and integrity in an organization. It is nowadays widely used around the world and especially among multinational organizations. The content of the code of conduct can vary a lot between different organizations and different regions, meaning that the rules and standards can be either really detailed or more generalized referring to values and principles. The length of the code of conduct can also vary from one page to eighty pages. However, the code of conduct is developed to give guidance for the organization’s employees as well as for the managers in their everyday operations, and thus despite the content, the idea is always the same.

This Bachelor’s thesis focused on investigating the embedding process of an ethical code of conduct in multinational organizations by using qualitative methods. One of the aims was to find out what actions has to be made in order to embed the parent company’s ethical
code of conduct successfully into its subsidiary located in another country, and what challenges may occur in that process. The research brought up facts and points, which managers of multinational organizations should take into consideration when taking the ethical code of conduct into another country, which may have different local norms, habits and values.

One effective way of embedding the ethical code of conduct is to train and remind employees about ethical issues frequently. Not only new employees but also old ones. Especially e-learning has turned out to be an effective tool among multinational organizations, because this way everyone reaches the same information no matter where they are. Also monitoring and reporting are essential actions in order to ensure that the ethical code of conduct is effective. After all, this study has shown that the management has the most significant role in embedding process. The management, not only at the headquarters but also at the local level, must be strongly committed to ethical behavior and show good role modeling. Only this way the ethical code of conduct can be successfully embedded throughout the whole organization including the subsidiaries.

The study also revealed interesting challenges, which may occur in multinational organizations. While in some cultures ethical standards are still quite unclear and loose, in some cultures, like in Finland, they have been taken into extremity. Rules are so strict that it may cause stress for employees. Also, in the Nordic countries, some employees consider ethical issues so obvious that they are taken too much for granted. People feel like they are “over trained” in ethical issues, and they are not interested in attending, for example, to trainings. Lack of motivation in ethical issues is surely a problem in every business corporation around the world. They require big investments and the time and money is always away from business.

Differences in norms and habits among different cultures may indeed pose challenges in multinational organizations. Although the cultural differences would not be remarkable big, already different gift policies may create a dilemma between the parent company and a subsidiary. The same thing goes with bribery.

Different local legislations and therefore, for example, different rules related to working conditions among countries is another issue that typically cause problems for multinational organizations. Especially in developing countries money is often prioritized over ethical conduct due to which human rights violations easily occur. For this reason, it is
extremely important for the parent organization to be aware of its subsidiaries’ operations. However, in many cases unethical conduct (e.g. use of child labor) takes place hidden from the parent organization and public eye.

Lastly, cultural values may differ from each other notably. In the Western countries people consider values such as independence and freedom as the most important issues, while in the East, group harmony and family relations are more important values. In the Nordic countries in turn, honesty is highly valued and people are really process-oriented. For this reason, when embedding the ethical code of conduct, it is important that the parent organization is at least familiar with the cultures of its subsidiaries.

Because of the cultural differences, the second aim of the Bachelor’s thesis was to find out whether and to what extent multinational organizations adapt their code of conduct to local norms and customs of their subsidiaries, or whether the local subsidiaries have to be strictly guided by the standards and rules of the parent organization. First of all, the results showed that nowadays multinational organizations try more and more to create coherent and global standards and rules, in other words, have a similar code of conduct. Moreover, parent organizations also increasingly demand that their ethical code of conduct is strictly followed in every branch of the organization. This fosters efficiency but more importantly reduce unethical behavior. Thus, this research can be concluded by claiming that in most of the cases multinational organizations do take local cultures, standards and norms into consideration, but do not try to adapt to them.
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APPENDICES

Appendix 1. Interview questions

1. Have you experienced any business cultural differences between the subsidiary located in this country and the parent company located in Germany? If you have, what kind?

2. Does the whole corporation have a uniform and identical ethical code of conduct or has it been modified somehow so that it is more applicable in this subsidiary or other subsidiaries?

3. What kind of actions has to be made so that the parent company’s ethical code of conduct is implemented successfully into its subsidiary located in another country?

4. What kind of issues are found challenging when embedding the ethical code of conduct into the subsidiary?

5. Have any ethical dilemmas occurred in this multinational organization from the subsidiary’s point of view?

6. When thinking of the eight virtues of the organizations’ ethical culture, which of them are needed to be strengthened/improved when embedding the parent company’s ethical code of conduct into its foreign subsidiary? (From the subsidiary’s point of view)

7. Do you feel that the organization’s ethical code of conduct affects to the operations of this subsidiary and is effective? Examples of affects?

8. Have the international relations between countries of the parent company and the subsidiary company taken into consideration when forming the ethical code of conduct? Any examples?

Additional questions:

1. Do you have information whether in some other country the embedding of the parent company’s ethical code of conduct has appeared to be more challenging?

2. Do you have any information what kind of challenges or problems have occurred?

3. Have any ethical dilemmas occurred between other subsidiaries and the parent company?