The Ethics of Relativism and Absolutism: An Examination of the Australian Wheat Board Case

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Abstract

This paper explores the challenges faced by the Australian Wheat Board (AWB) as a result of taking part in the United Nations Oil-for-Food Program. AWB is currently implicated in an ethical and legal investigation into the payment of $221.7 million worth of kickbacks to the Iraqi government, under the guise of ‘inland transportation fees’. The case of AWB highlights the ethical challenges managers face in engaging in international marketing activities across different cultures. The perspectives of cultural relativism and ethical absolutism are discussed as alternative approaches to the practice of ethics in international marketing. Further, the ethics of kickbacks is considered. This paper highlights the failings of both relativism and absolutism in assisting the determination of ethical practices in foreign cultures. The development of a hybrid solution which draws on both relativism and absolutism is supported, as proposed by Donaldson and Dunfee (1994).

Introduction

International marketing occurs in a complex environment that exposes organisations and managers to situations which are unfamiliar and not fully understood. Under pressure to be competitive in distorted markets, to be profitable for shareholders, to comply with differing legal requirements, and to navigate through cultural sensitivities, the concept of ethics is highly complex.

The case of AWB uniquely highlights the difficulties an organisation encounters in the international environment. Under pressure to retain its dominant position in the Iraq market and to return profits to Australian wheat growers, AWB succumbed to paying $221.7 million (Volker, Goldstone and Pieth, 2005) in kickbacks which were diverted to the Iraqi Government. Whilst the payment of kickbacks has received much attention from competitors and regulatory authorities, the ethics of kickbacks are unclear, particularly if they are accepted in the host country as simply a means for accomplishing business goals (Kugel and Gruenberg, 1977; Kaikati, 1977).

In an attempt to ease the difficulties faced by organisations in reconciling their actions within vastly different cultures, cultural relativism and ethical absolutism are proposed. However, as discussed in this paper, neither position can successfully reconcile the complexities of international trade and ethical standards of behaviour in foreign markets. The AWB case further demonstrates the existence of certain market conditions which encourage the use of kickbacks in foreign market transactions.

Literature

The issue of business ethics with an international perspective has received a great deal of attention in recent decades. Literature on international marketing ethics has highlighted the challenges managers encounter in navigating unfamiliar and different cultures when engaging
foreign markets (Amine, 1996; Singhapakdi, Vitell and Leelakulthanit, 1994; Stajkovic and Luthans, 1997; Velasquez, 2000; Windsor, 2004). However, there is little guidance or consensus on how organisations and management should approach such challenges. Stajkovic and Luthans (1997) further consider that the philosophical approach to ethics theory development is largely not grounded in, nor related to, existing business practices.

Discussed in the literature is the notion that ‘international business norms do not exist’ (Windsor, 2004, p. 729). Therefore, in an attempt to overcome cultural complexity, the literature presents the debate of cultural relativism and ethical absolutism (Buller and McEvoy, 1999; Velasquez, 2000), two extreme positions of approaching variances in ethical standards due to cultural differences, as shown in Table 1.

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<tr>
<th>Cultural Relativism</th>
<th>Ethical Absolutism</th>
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<td>- No universal set of ethical standards.</td>
<td>- A set of universally accepted and valid ethical standards.</td>
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<tr>
<td>- The ethical nature of an action can only be determined relative to the moral norms of the particular culture where the action takes place.</td>
<td>- The ethical nature of an action is independent of cultural settings.</td>
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Studies on ethical perspectives have stemmed from the early work of Forsyth (1980), who proposes four approaches to ethical judgement based on the degree to which an individual adopts an absolutist or relativist perspective. Forsyth and Burger (1982), further posit that ethical ideology may not be a predictive measure of behaviour, but provides the basis of the subsequent judgement of the ethical nature of an action.

The cultural relativist perspective argues that apart from the localised moral norms that are customary in a particular culture, there are no universally valid moral standards that can be used to evaluate the behaviours of people in all cultures (Velasquez, 2000). Due to the absence of universally valid standards, behaviours occurring in a particular culture can be evaluated only by appealing to the moral standards prevalent in that culture. Therefore, ‘when in Rome, do as the Romans do’, or in the case of AWB, ‘when in Iraq, do as the Iraqis do’. At the other extreme, absolutism contends that there is a set of universally valid moral standards that can be used to evaluate behaviours in all cultures (Velasquez, 2000). Therefore, the home country norms and values must be applied in all business situations as they are at home (Buller and McEvoy, 1999). The division between the two opposing viewpoints is highlighted by Donaldson (1996, cited in Buller and McEvoy, 1999, p. 327) who stated:

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

Cultural relativism and ethical absolutism both come under criticism for their short comings and inability to assist managers in cultural conflicts. The failings of relativism have been widely discussed in ethics literature. From the mere fact that a culture holds a certain set of values, does not follow that those values are more or less justified than the values held by other cultures (Velasquez, 2000). Absolutism is similarly criticised, although it is in its
ethnocentric view of assuming all cultures value the same ideals for which it comes into disrepute.

In efforts to develop ethics literature that is useful to the complexities of international marketing, a number of writers have attempted to find a common ground between relativism and absolutism (Buller and McEvoy, 1999). Donaldson (1996, cited in Buller and McEvoy, 1999) considers there to be a number of core values which serve an organisation, yet also there should be ‘moral free space’ which allows for judgement based on unique circumstances. Jackson (1997, cited in Buller and McEvoy, 1999) envisions a ‘cosmopolitan’ culture of ethical awareness, one which is neither relativist nor absolutist, but is sensitive to the ethical differences created through culture. However, in each attempt to consolidate the failings of both relativism and absolutism, theories are developed which propose no real consolation to managers, as a middle ground between the two extremes fails to eliminate the deficiencies of both positions.

**The Ethical Basis of Kickbacks**

The existence of kickbacks in international transactions poses greater difficulties for international marketers. Whilst not a new trend, Kaikati (1977) wrote that the phenomenon of corporate bribery ‘is as old as sin itself’. The issue with kickbacks is that whilst it is not outright bribery or extortion, but not likened to bona fide commissions, kickbacks lie in the grey area of ethical conduct (Kugel and Gruenberg, 1977). Existing literature presents kickbacks as a ‘means of accomplishing business goals (Kugel and Gruenberg, 1977, p. 113), with past studies justifying kickbacks if the practice is accepted in the host country (Kaikati, 1977). A further distinction to be considered is the explicit nature of the kickbacks. Kugel and Gruenberg (1976) consider it crucial to consider where the payments were made, to whom, for what purpose, and also the amount involved.

Ethics literature on international payoffs and kickbacks report the attitude of management that a refusal or inability to conform with host country competitive business practices seriously prejudices the multinational’s ability to compete effectively in certain foreign markets (Kugel and Gruenberg, 1976). It is therefore characteristics other than ethical stance which influences an organisation’s likelihood to pay kickbacks. According to Harting, Harmeling and Venkataraman (2006, p. 50) ‘when the expected value of an action exceeds the cost of moral compliance, there will be a temptation to act in a less than ethical manner’. Kugel and Gruenberg (1976) associate the payment of kickbacks with oligopoly market structures in which a small number of large companies dominate the market. Another characteristic influencing the likelihood of kickbacks is the value of the traded goods, an increased likelihood in multi-million dollar industries. Additionally, the traded commodity is typically bought by a government rather than a private corporation.

**Discussion of AWB Situation**

The case of AWB uniquely highlights the difficulties an organisation encounters when attempting to negotiate the complexities of the international marketing environment. Under pressure to secure lucrative contracts in a highly competitive and distorted global market and to return profits to Australian wheat growers, AWB faced significant commercial demands.
The basis of trade with Iraq was further complicated and unique in that it was within the confines of sanctions imposed by the United Nations Oil-for-Food Program.

The United Nations Oil-for-Food Program was established in 1997 to provide humanitarian relief to 27 million Iraqi people after the Iraq invasion of Kuwait in 1990 (United Nations, 2006). A subsequent inquiry into the management of the Program, conducted by the Independent Inquiry Committee, and lead by Paul Volker, found gross manipulation of the Program (Volker, Goldstone and Pieth, 2005).

The involvement of AWB in the Oil-for-Food program has come into serious question since the Independent Inquiry Committee began investigations in 2004. Termed as ‘inland transportation fees’ (Volker, Goldstone and Pieth, 2005, p. 314), AWB paid kickbacks to the Jordan trucking company Alia, which were subsequently diverted to the Iraqi government. AWB maintains that it had no reason to link Alia with the Iraqi government. However, indications have recently come to suggest that AWB was aware of the explicit nature of the payments (Tasker, 2006). This suggests that AWB was knowingly paying kickbacks to a regime that the Australian government would subsequently make efforts to overcome.

The payment of kickbacks by AWB creates further disturbance by the sheer value involved. In total, the Iraqi government received more than $1.5 billion in illicit payments and kickbacks. AWB alone contributed $221.7 million (Volker, Goldstone and Pieth, 2005). Whilst AWB claims the payments were for legitimate transport services, Volker, Goldstone and Pieth (2005) established that the kickbacks were a means of securing contracts within the Oil-for-Food Program.

On the basis of cultural relativism the alleged payment of kickbacks by AWB in Iraq, where such practices appear to be rife, is not surprising. An interesting point to consider is under which culture did the business dealings between AWB and Iraq fall? Although AWB was physically selling wheat to Iraq, it was done under the conditions and sanctions of the UN Oil-for-Food Program. Support for the kickbacks is given more credibility if they were made with the knowledge of the UN as is alleged (Cole Inquiry, 2006). Furthermore, of the 3614 entities contracting in the Oil-for-Food Program, 2253 were involved in the payment of kickbacks (Volker, Goldstone and Pieth, 2005), indicating that ‘everyone else was doing it’. As the kickbacks became essential for securing contracts with the Iraqi government, there is an indication the payment of kickbacks was simply ‘a means of accomplishing business goals’ (Kugel and Gruenberg, 1977, p. 113).

Literature highlights the increased likelihood of kickbacks under certain conditions. These conditions are predominantly related to the type of industry and market. Kugel and Gruenberg (1976) identify oligopolistic market structures, multimillion-dollar values of the commodity, and governments as customers, as the primary conditions fostering kickbacks in international trade. The nature of the global wheat market in which AWB competes is strikingly representative of a market likely to involve kickbacks.

AWB competes in a global wheat market which is highly competitive and oligopolistic in nature. According to a Boston Consulting Group (BCG) analysis (2004 cited in AWB International, n.d.), in 2003, 73 per cent of global grain trade was controlled by Cargill, ADM, ConAgra, Louis Dreyfus and Bunge. The Iraqi market is considered to be highly lucrative, worth over $800 million a year to Australia (Overington, 2006). The Oil-for-Food program between 1997 and 2003 was extremely valuable to Australia, earning over $2.3 billion for the
sale of 6.8 million tonnes of wheat (Volker, Goldstone and Pieth, 2005). Finally, AWB was contracting directly with the Iraqi government for the sale of wheat (Volker, Goldstone and Pieth, 2005). Based on the characteristics of the global wheat market, Kugel and Gruenberg (1976) would not consider it a surprise for AWB to be paying kickbacks to the Iraqi regime.

Buller and McEvoy (1999, p. 333) wrote that ‘the process of creating and sustaining ethical capability is best initiated and facilitated through transformational leadership on the part of the CEO and other key leaders’. It is within an organisation’s corporate code of conduct that the manager’s view on ethical responsibility is evident (Mayo, Marks and Ryans, 1991). Mayo, Marks and Ryans (1991) attribute the ambiguity of defining ethical issues to an organisation’s focus on the social and economic responsibilities of the firm in a foreign market. When ethical responsibilities are noted, they tend to be limited or vague.

The AWB’s Corporate Ethics and Code of Conduct appear vague and non-descriptive: that ‘business affairs and operations are at all times being conducted legally, ethically and in accordance with the highest standards of integrity and propriety (AWB Limited, 2005, p. 43). It comes as no surprise then that AWB has conceded that their actions during the Oil-for-Food Program were primarily ‘commercial and technical’ (Reuters Financial News, 2006) in nature. In pursuit of its ‘constitutional requirement’ (News Limited, 2006) to maximise the returns to Australian wheat growers, AWB failed to consider the broader implications of its actions. This suggests that AWB supports the profit maximisation view of the firm proposed by Friedman (1970), which advocates profit maximisation for shareholders as the extent of the firm’s social responsibility. Furthermore, the ambiguity of AWB’s Corporate Ethics and Code of Conduct, and the actions of top management, reflect a lack of appreciation for the ethical responsibilities of AWB in foreign markets.

Conclusions and Implications

A review of the AWB case highlights the need to develop ethical theory that is more grounded in international business practices. According to Mayo, Marks and Ryans (1991), the vast difference between cultures does not permit the creation of a viable set of worldwide ethical standards, yet the old cliché of ‘when in Rome, do as the Romans do’, no longer serves as an excuse in the current environment. Whilst it is evidently difficult to determine what is ethically right and wrong in foreign markets, so too is ethical regulation across foreign borders. A growing concern for the social responsibility of business will inevitably require firms to act ethically to remain sustainable (Quazi and O’Brien, 2000). However, no amount of corporate social responsibility in international markets will overcome the complexity of determining what is and is not ethical, as stakeholders from different cultures will have different views on the ethical nature of an action and the level of social responsibility of the firm.

The edicts of absolutism may be too difficult to reconcile in a world where cultural relativism prevails. Donaldson and Dunfee’s (1994) integrative social contracts theory draws on both relativism and absolutism to develop a hybrid solution. They assert that contracting groups can do as they please, so long as hyper norms are unaffected. In international marketing, the work of Donaldson (1996) and others to develop a hybrid model of ethical behaviour, whereby an organisation can adapt host country cultural values while still abiding by universal values or hyper-norms, has considerable merit.
References


