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Strategic Frameworks of Ethic Management in MNEs: Theoretical Discussions and Model Development

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Abstract

The proposed framework of strategic ethics management is assumed to improve both economic and ethical goals of Multinational Enterprises (MNEs). Especially, considerations of financial values of these two mutually exclusive objectives in this framework will allow MNEs to consider financial performance of business operations and ethical business conducts. With positive correlation between ethical business conducts and long-term financial performances, the strategic ethics management should be able to use business ethics as competitive advantages in global operations to increase long-term profitability.

Keywords: Business ethics, MNEs, Ethics Management

1. Introduction

A divergence of economic interests and ethical objectives in business operations has been quite common since Drucker clearly introduced a concept of corporate social responsibility in 1950s (Drucker, 1993; Porter and Kramer, 2002). Definitely, lack of empirical confirmations of a positive correlation between the two different interests could be an underlying reason.

However, current researches have finally found a positive correlation between long-term profitability of corporations and their levels of business ethics (Anonymous, 1997; Takahashi et al., 2002). Although causality relationship between the profitability and the business ethics had not been confirmed yet, existence of such positive correlation has asked for practical managerial considerations to business ethics as a critical element of the long-term profitability.

This discovery of the positive correlation has given managerial challenges to multinational enterprises (MNEs), which operate on a higher level of ethical relativism of global markets. Since the higher level of ethical relativism differentiates ethical senses in businesses (Donaldson and Werhane, 1979), MNEs have to deal with such ethical differences in various markets to ensure their long-term profitability. More specifically, MNEs need new strategic management of both global business operations and global business ethics to achieve the optimum convergence of economic interests and ethical objectives.

In this paper, the emphasis is on MNEs, which need the new strategic management system. However, since there are a large amount of discussions about such strategic management system for global operations, this paper focuses on a new system for global business ethics. At the end of this paper, this strategic management system is proposed as the strategic ethics management.

To discuss the strategic ethics management for MNEs, we take two steps. First, we build conceptual frameworks of the strategic ethics management, which is quite effective in managing global business ethics to achieve the optimum convergence of two different interests. Second, we try to show strategic approaches to the ethics management based upon contemporary concepts of global strategies such as the generic business strategy (Porter, 1985), the strategic philanthropy (Porter and Kramer, 2002), the ethical relativism (Donaldson and Werhane, 1979), path dependence and lock-in effects (Arthur, 1994; Liebowitz and Margolis, 1999 and 2002), and applications of a concept of adjusted present value (APV) (Luehrman, 1994 and 1997).

2. Global Business Ethics and Environmental Changes

Environmental changes usually seriously influence business operations; therefore, companies need to have strategic approaches to deal with the new environments. Global business ethics is not exception. When environmental changes of the global business ethics occur, MNEs must be able to deal with the changes with strategic approaches.

While there are various discussions about such environmental changes, we will describe three critical changes in this chapter. The three critical changes are respectively (1) market intolerance of unethical business conducts (Henderson, 1992), (2) explicitness of global business ethics in long-term profitability (Anonymous, 1997; Takahashi et al., 2002), and (3) feasibility of a convergence of economic interests and ethical objectives in global business operations (Porter and Kramer, 2002).

First, market intolerance of unethical business conducts is observed with three different market players, which are local governments, investors, and consumers (Henderson, 1992). Local governments have forced MNEs to respect local ethical standards as well as global business ethics through stricter regulations and restrictions. These government regulations have been getting stricter and more sophisticated (Henderson, 1992).

Under these situations, MNEs must be quite sensitive to both their own business ethics and local business ethics because of serious operational damages from penalties and compensations from local governments. These operational damages include fatal damages to intangible business assets such as reputations and operational histories. In addition, MNEs have additional financial damages by opportunity costs because they may not be able to continue their operations.

Similarly, investors and consumers have expected MNEs to be ethical and socially beneficial throughout their operations (Takahashi et al., 2002; Economist, 1992). For example, socially responsible investing (SRI) has emerged to show investors' concerns about business ethics in markets (Manahan, 2002; Takahashi et al., 2002). Such socially responsible investors use business ethics criteria for decision-makings of their investments. Frequently, they use the Domini 400 Social Index (Domini 400) for the screening (www.domini.com, 2005). The socially responsible investors will immediately divest from corporations which they consider to be unethical based upon their ethical criteria.

SRI cannot be overlooked because financial powers of the socially responsible investors are quite large for MNEs. For example, the socially responsible investors have invested 40 billion US dollars in total assets. In addition, the total value of assets involved in the investments has been approximately 2.16 trillion US dollars (Manahan, 2002).

Instead of huge financial powers, consumers have a direct tool to show their ethical concerns to companies. The tool is their purchasing powers (Takahashi et al., 2002; Economist, 1992). Based upon their own ethical criteria and opinions, the consumers have begun purchasing goods and services from ethical and socially responsible enterprises. They are boycotting products and services of unethical business entities.

Second environmental change is caused by observations of positive influences of ethical business conducts to long-term profitability (Anonymous, 1997; Venardos and Fung, 1998; Takahashi et al., 2002). This environmental change is mainly for internal assessments of MNEs. Especially, MNEs have begun estimating cost and benefit of business ethics so that they can predict contributions of business ethics to their profits. In addition, the cost and benefit analysis allows MNEs to estimate the influences on costs of implicit requests for business ethics to costs of explicit requests. As a result, MNEs can consider influences of both implicit and explicit requests to long-term profitability (Takahashi et al., 2002).

Third, because of implicitness of business ethics in long-term profitability, feasibility of a convergence of economic interests and ethical objectives in global business operations has been established. This means that management of MNEs has faced a new challenge for optimizations of their operating management enough to achieve the convergence (Takahashi et al., 2002).

Such a new challenge for the optimizations is not easy to accomplish without new strategic management and approaches. This statement is correct if one takes a look at serious managerial dilemmas between business ethics and profit maximizations (Takahashi et al., 2002). While these managerial dilemmas are because of unconfirmed positive correlation between the economic and ethical goals, this also means that there has not been effective strategic management and approaches for the management optimizations toward the convergence of the two different interests.

Currently, new strategic approaches have emerged to control business ethics so that ethical business conducts actually contribute to long-term profit maximizations. In the next section, such strategic approaches are discussed. However, before that discussion, it is highly important for MNEs to understand a fundamental corporate goal, which is maximization of shareholder welfare. MNEs must generate profits sufficient enough to increase values of equities as the returns to investors (Drucker, 1974 and 1991). Global business ethics must be assessed and managed based upon not only the ethical relativism but also cost-benefit.

3. Global Business Ethics and Its Strategic Approach

Under the current environmental changes of global business ethics, strategic approaches to global business ethics have emerged. Such strategic approaches begun with Drucker's concerns of influences of business decisions to ethical business behaviors in the 1950s (Drucker, 1993).

Drucker (1993) pointed out that management must consider influences of current business decisions to ethical behaviors of corporations. He suggested that managers should be able to prevent business decisions that may create ethical problems in the future.

His suggestion implies critical elements of strategic ethics management. First, he connected business decisions to ethical business conducts and corporate social responsibilities. This means that business ethics must be considered the same way project profitability is seriously considered by managers. Second, he implies that business ethics must be continuously considered in the entire operating duration where continuous business decisions are required.

Lane (1991) extended these two points made by Drucker as a strategic approach to business ethics. Lane (1991) pointed out a positive correlation between level of business ethics and degree of time horizon for profit. According to implications of the strategic approach, companies must maintain longer perspectives to their profits if they consider business ethics critical. Then, the firms must build long-term business strategies and plans to maximize long-term returns. Finally, such long-term business strategies and plans must build business ethics into their decisions.

Lane's strategic approach (1991) has been defined as "ethics strategy" (management_control_02.asp, 2005). The ethics strategy considers importance of converging the economic interests and ethical requirement in businesses based upon both social welfare and profit maximization point of views. According to the strategy, companies should prevent damages to operations and revenues from unethical business conducts through effective ethical controls. At the same time, the firms must be able to be beneficial to societies by being ethical and socially responsible through strict ethical management.

Especially, the ethics strategy has been quite meaningful to MNEs because of its emphases not only on ethical decisions in every organizational level but also differences in business ethics among various corporate cultures (http://www.aicpa.org, 2005). Therefore, for MNEs in different cultures, considerations of the ethical relativism is quite important because (1) MNEs has noticed that their corporate cultures tend to lead business decisions to unethical unconsciously in different regions due to regional cultural differences and (2) such local values of ethics are quite persistent because cultural values and historical values lock-in such indigenous values.

4. Convergence of Economic Goals and Ethical Requirements in Strategic Philanthropy

While there have been several arguments about strategic approaches to business ethics, strategic management of business ethics has not been clearly discussed. This is because there had not been empirical confirmation of the positive correlation between level of business ethics and long-term profit. However, upon confirmation of such positive correlation, MNEs need to discuss the strategic ethics management, which allows them to achieve a convergence of economic interests and ethical goals.

Before we propose this strategic ethics management, we will study the strategic philanthropy for optimum convergence of economic and social benefits. This approach is quite ideal because this considers philanthropy based upon costs and benefits of the charitable donations of corporations as well as evaluations of profitability of business operations (Porter and Kramer, 2002).

According to Porter and Kramer (2002), corporate philanthropy has similar dilemmas to that of business ethics. Namely, firms experience an unbalance of cost and returns from these charitable donations. Therefore, philanthropic activities have been investments without returns on them even though they could have generated a considerable profit to the business operations. Porter and Kramer (2002) suggested strategic philanthropy to make the charitable donations sources of additional benefits to businesses.

Strategic philanthropy will strengthen competitive advantages of corporations to generate higher profits (Porter and Kramer, 2002). Once firms obtain the competitive advantages through the strategic philanthropy, they should be able to achieve "a convergence of interests" because the charitable donations are built into continuous business operations as sources of additional profits (Porter and Kramer, 2002). From a financial standpoint, management can evaluate profitability of the philanthropy in addition to business projects through cost-benefit analyses.

As figure 1 indicates, the convergence of interests is shown based on two dimensions: social benefits from a pure philanthropic point of view and economic benefits from pure business perspective (Porter and Kramer, 2002). In theory, a perfect convergence of interest should be on a line of 45-degree. If a company stays above the 45-degree line, the company is getting returns from its philanthropy but losing returns from its business operations. Therefore, the convergence of interests is achieved on the 45-degree line.

5. Ethical Relativism and Strategic Considerations

What makes global business ethics more sophisticated than regular business is ethical relativism (Donaldson and Werhane, 1979). Because the relativism generates various ethical values in different cultures, MNEs must be quite sensitive to the ethical relativism in their operations. In addition, since MNEs are based upon certain countries, they have different ethical values influenced by the cultural relativism (Klein, 1993).

When the ethical relativism exists, there is an ultimate disagreement in ethical values, which makes business ethics quite complex. Under this situation, companies must have enough flexibility to adapt themselves to different ethical values. Naturally, they should respect local ethical values and adapt their ethical values to the local region.

If there is weak ethical relativism, such strategic management and flexibilities cannot be ignored. Instead of adaptations of their ethical values, companies have to control their business ethics not to violate common ethical values in businesses.

6. Path Dependence of Ethical Values

While the ethical relativism is quite important for MNEs to build strategic management of business ethics, it is important to see persistence of cultural value because the ethical relativisms are built on the basic cultural values (Klein, 1993). In addition, understanding the persistence help MNEs dealing with their own ethical values, which are influenced by corporate values with strong cultural values (Bebchuk and Roe, 1999).

From a strategic point of view, it is almost mandatory for MNEs to make ethical values explicit as much as they can because MNEs may be able to conduct cost-benefit analyses of such explicit ethical values. In addition, explicit ethical values are quite ideal for screening global business ethics. Therefore, MNEs can improve strategic efficiency in ethics management by using these screenings.

Generally speaking, the theory of path dependence classifies cultural persistence of certain regions into first, second, and third-degree path dependence (Arthur, 1989 and 1990; Liebowitz and Margolis, 2002). The classification is based upon characteristics of an outcome of the stochastic process, sensitivity to the initial conditions and institutionalized historical events, strength of persistence and lock-in effects, and sensitivity to information conditions.

Ethical values being locked-in by cultural values with the second-degree path dependence are considered as sub-optimum outputs. This inefficient output is due to information inefficiencies or bounded rationality in markets. Especially, the second-degree path dependence is very sensitive to the initial conditions and the historical events; therefore, indigenous ethical values being locked-in by the second-degree path dependences are quite different among regions where have different historical events and the initial conditions (Liebowitz and Margolis, 2002).

Consequently, such ethical values may be subjects for reforms and transformations by corporations because improving information efficiencies in certain markets may change such ethical values. However, companies should notice that ethical values being locked-in by the second-degree path dependences have higher levels of persistence and lock-in effects because the information inefficiency may not be easily improved enough to increase the sub-optimum values.

This means that the modifications of the sub-optimum values are costly in markets due to costs of information and switching costs (Liebowitz and Margolis, 2002). In addition, such painful corrections will only be possible if the limitations of knowledge are removed with better information conditions in markets (Aoki 2000; Aoki and Okuno, 2003).

In global markets, when there are ethical values being locked-in by the second-degree path dependences, ethical relativism exists. This means that MNEs should be able to apply or modify their own ethical values in markets where these values are being locked-in by different cultural values with the second-degree path dependences.

Therefore, under this circumstance, MNEs tend to manage global business ethics by controlling not only ethical principles but also factual aspects of the ethical business conducts. This task is not easily done because MNEs must carefully analyze not only indigenous ethical vales but also their own ethical values before they face the two different strategic challenges in controlling the ethical principles and factual aspects. This implies that the strategic ethical management has two directions, which are (1) from corporate point of view and (2) from market point of view.

The strategic ethical management may allow MNEs to select both remedial and non-remedial ethical principles, assess both internal and indigenous ethical values, and make strategic actions to control both ethical principles and factual aspects of the ethical business conducts in global markets. In other words, MNEs should be able to use the strategic ethics management to find critical differences in ethical values between themselves and the global market. Once MNEs can find the differences, they can choose strategic actions to either influence indigenous ethical values or change their own values.

Ethical values based upon cultural values being locked-in by the third-degree path dependence are considered as inefficient in business because of the serious information inefficiency and the limitations of knowledge in markets (Liebowitz and Margolis, 2002).

In comparison to the second-degree path dependence, ethical values locked-in by the third-degree path dependences are more difficult to change so that the third-degree path dependences are frequently described as unchangeable dependences (Liebowitz and Margolis, 2002). This is because situations of the information inefficiencies were worse than those of the second-degree path dependences. Consequently, improvements in such serious information inefficiencies and the limitations of knowledge may be almost impossible until “abrupt changes” occur in the markets (Aoki, 2000).

Consequently, given such highly differentiated indigenous ethical values, they are not subjects for reforms and transformations by corporations. Rather, the ethical values with the third-degree path dependences will always be inefficient and remain inefficient throughout environments changes unless an abrupt change occurs in the market.

In global markets, when there are ethical values being locked-in by the third-degree path dependences, serious ethical relativism exists. This means that MNEs should be able to define ultimate disagreements in ethical values between themselves and various regions. Then, MNEs should be able to approach such ethical principles and factual aspects of indigenous values by careful control of their own ethical values to prevent any serious ethical conflicts in various markets. Strategic ethics management is highly demanding for this situation, especially to reduce risks and costs from unethical business conduct in indigenous regions.

7. Concepts of Strategic Ethics Management

Based upon discussions in this chapter, it is quite obvious that strategic ethics management should support MNEs to satisfy both (1) convergence of economic goals with ethical requirements and (2) strategic flexibilities to the ethical relativisms in global markets. In this section, concepts of the strategic ethics management are proposed based upon applications of current strategic concepts.

Especially, there are three strategic principles and one financial element which the strategic ethics management should include. First, the generic business strategy (Porter, 1985) is applied to determine basic strategic directions of business ethics of MNEs. Second, the ethical and legal quadrant (Henderson, 1992) is used to determine basic combinations of ethical values and legalities in various regions. The quadrant is also useful for ethical screenings to define levels of ethical relativisms in various cultures. In this screenings, the theory of path dependence is quite effective because the theory gives different levels of persistence of fundamental cultural values which strongly influence the ethical relativisms (Donaldson and Werhane, 1979; Bebchuk and Roe, 1999; Liebowitz and Margolis, 2002). Finally, the four elements of competitive context (Porter and Kramer, 2002) are applied to ensure suitability of chosen ethical values and the strategic ethics management to achieve both the convergence of the two interests and the strategic flexibilities in MNEs.

A reason for the financial element in the strategic ethics management is a necessity for cost-benefit assessments of ethical business conducts. Such financial assessment is quite critical to achieve not only the convergence of the two different interests but also the cost efficient of the business ethics. Especially, throughout the assessment, the two types of interest should be estimated and evaluated with financial terms. By using financial values in the evaluations, managers can measure potential financial returns of business operations and business ethics clearly. This also means that the managers can strategically control the business ethics to maximize financial contributions to the business project as if they do for regular business projects. For the cost-benefit assessment, we have used a discount cash flow analysis, which is designed to estimate profitability of a business project (Bruns, 1997; Hammond, 2000; Healy and Cohen, 2000).

However, for the cost-benefit assessment of the strategic ethics management, adjusted present value (APV) may be more suitable because managers should consider both the economic returns and the benefits from business ethics.

According to Luehrman (1997), APV has an advantage in future cash flow evaluations. The advantage is called as “values additivity”. Managers can divide a project into several components to evaluate the cash flows for each component. After all the components are assessed separately, the components are added up again to see total value of the project (Luehrman, 1994 & 1997).

The strategic ethics management can use APV to evaluate value of a business project more accurately because APV can assess returns from investment and business ethics of a certain point. Especially, if managers can use APV for certain project duration, they can know total values of the business project more accurately because each component of an accurate value assessment at a certain point will be added up. This total cash flow assessment can be called as net APV.

8. An Application of the Convergence of Interests

Before frameworks of the strategic ethics management are discussed based on the three strategic principles and financial tools, it is quite important to show the concept of a convergence of economic and ethical goals, which is an application of a convergence of interest by Porter and Kramer (2002). As figure 2 shows, there are two dimensions, an economic benefit and return on ethics. Since line Q is a 45-degree slope, line Q is the optimum frontier where returns from ethical business conducts and business operations are optimized. On the frontier, companies can expect optimum return from business projects with the highest economical performances of business ethics.

Consequently, a basic direction of the strategic ethics management is to increase cash inflows from both business ethics and operations enough to make a zone between line A and line B narrower. Ideally, they should try to bring the two lines, A and B, to the optimum frontier, which creates the convergence of interests.

9. Principles of Business and Strategy in Ethics Management

A genetic business strategy (Porter, 1985) will be a good starting point for strategic ethics management because it can give MNEs basic directions in global markets. According to Porter’s discussions, there seem to be three directions of business strategy: cost leadership, differentiation, and focusing.

While there are three basic directions, the strategic ethical management will use cost leadership and differentiation because focusing will be included into the two directions as cost focusing and differentiation focusing (Porter, 1985). Therefore, MNEs could take either cost leadership in global business ethics through global standardizations of business ethics or differentiation of global business ethics through localizations of business ethics.

Careful screenings of the degrees of ethical relativism and persistence of ethical values must be performed before MNEs make decisions about the directions of their strategic ethics management. For example, when MNEs face similar ethical values in business, MNEs can take standardizations of global business ethics. On the other hand, when MNEs face significant levels of ethical relativism and persistence of ethical values, differentiation of global business ethics should be the best strategic direction.

More specifically, MNEs should take standardization of global business ethics if there are ethical values which have been locked in by the first-degree path dependence. Since such values are given and efficient anyway, MNEs should be able to reduce costs of the strategic ethics management by introducing standardized ethics management for areas where similar ethical values exist. On the other hand, MNEs should take global business ethics differentiation if there are ethical values which have been locked in by the second-degree path dependence. Since these values are still remedial, MNEs should be able to either influence indigenous ethical values or adapt their own ethical values to the local values. Finally, when MNEs face strong ethical values being locked-in by the third-degree path dependence, they should take differentiation focus that exclusively respect either indigenous values or their own values.

Other concerns for MNEs are ethical flexibility and strategic flexibility. First, MNEs must ensure enough ethical flexibility to adapt differentiation of global ethics in various regions. When their ethical values cannot tolerate such differentiations, the differentiation strategy may not be the best choice to practice. Second, MNEs must ensure enough strategic flexibility to adapt standardization of global ethics in different nations. When strategic flexibility is not high, the standardized business ethics can be liabilities for MNEs as ethical environments change. MNEs must have flexible strategic ethics management to maintain standardizations of the ethical values in various regions.

Figure 3 shows the ethical and legal quadrants (Henderson, 1992), which can be used to determine target areas of business operations. Since MNEs must pay attention to both their own ethical and the indigenous values and legalities, MNEs should clarify basic combinations of ethics and legality in global markets based upon two different points of view.

When MNEs use this quadrant from their point of view, each quadrant can be called respectively as universal ethics and legality, specific legality, specific ethics, and universal unethical and illegality. On the other hand, if MNEs use indigenous market point of view, each quadrant can be called respectively as de facto ethics and legality, de facto illegality, de facto unethical, and de facto unethical and illegality.

These classifications are quite important for strategic ethics management in global business because MNEs can specify strategic approaches in the target areas based upon legality and ethics. For example, if there is either the first quadrant or the fourth quadrant both in a home country and a host country, MNEs can standardize their business ethics. If there is the second quadrant, MNEs have no choice except to respect legality. If there is the third quadrant, MNEs have to have enough strategic ethics management to either adapt their ethical values or modify indigenous ethical values.

Once MNEs have defined their basic strategic directions of global business ethics, they need to fine tune these directions to make sure they satisfy the basic competitive context The four elements of competitive context are (1) context for strategy and rivalry, (2) demand conditions, (3) related and supporting industries, and (4) factor conditions. These need to be satisfied to increase both competitive advantages and profitability (Porter and Kramer, 2002).

The most important point here is that MNEs must satisfy these four competitive contexts through both business operations and business ethics in indigenous markets. This means that strategic ethics management must go along with strategic business management. If there are convergences between the two different managements, MNEs will not be able to satisfy the contexts. Then, they will suffer from decreased long-term profitability in indigenous markets.

MNEs must be able to maintain long-term profitability by improving operational productivity, customer satisfaction, and product qualities in various markets with respect to indigenous ethical values as well as their own. As Porter and Kramer (2002) suggested, in various markets, MNEs should be able to organize ethics clusters, which will support operations based upon similar business ethics. Such support will have synergistic benefits for operations because MNEs can take advantage of the similarity in business ethics through competitive advantages. Such advantages are supports from local businesses, preferential business deals with local firms, and easier localizations of businesses.

10. Financial Considerations in the Strategic Ethics Management

While concepts and applications of the strategic ethics management have been discussed, financial considerations must not be ignored when MNEs consider practical implementations of the strategic ethics management. Such financial considerations are quite crucial for the convergence of economic goals and ethical interests to optimize, and therefore, maximize long-term profitability.

The main financial concern is to make cost-benefit evaluations comparable and measurable for both economic activities and global business ethics. The cost-benefit evaluation procedures consider both costs (risks) and benefits (returns) continuously. This means that the cost-benefit evaluation will respect financial principles of business entities. For example, companies must maintain profitability and positive net present values (NPV) for new projects. Firms must consider cost minimizations not only by profit maximizations but also risk minimizations. Finally, they must consider long-term financial projections and evaluations for long-term return maximizations, which are prerequisites to be going concerns.

While the cost-benefit assessment, such as NPV analysis, has been widely implemented in business, such assessment may not have been introduced in firms because a clear correlation between business ethics and long-term profitability has not been clearly confirmed. However, since the correlation has been observed, global business ethics should be evaluated by the cost-benefit assessment to control cash flows relating to the ethics and to optimize financial contributions of the ethics to long-term profitability. In addition, such cost-benefit analysis must use the same methods of the evaluations to maintain comparative approaches to the financial evaluations. Firms should also determine costs and returns on ethics based upon economic values. For example, companies should be able to estimate social overhead costs, time values of the costs, costs of capital, and financial damages from mismanagement of business ethics. At the same time, they should be able to estimate potential financial returns from continuous maintenance of business ethics.

Based upon these discussions, financial tools such as NPV analysis or adjusted present value (APV) analysis should be used for economic and ethical goals. APV is more appropriate for the cost-benefit assessment because APV allows MNEs to estimate the cash flows of operations and business ethics throughout the project duration. This net APV analysis has same estimation effectiveness to NPV analysis.

APV's "additivity" is also quite appropriate for the future cash flow evaluations in the strategic ethics management because two separate future cash flow evaluations for the business projects and ethics must be integrated to evaluate the total future cash flows (Luehrman, 1994 and 1997). Therefore, if MNEs use APN, they can separate economic activities into a business projects and business ethics, evaluate costs-and-benefits separately, and add the two different valuations back up again.

By using net APV analysis, MNEs could take strategic financial approaches to the convergence of economic interests and ethical goals to maintain a continuous and optimum long-term profitability. In addition, such financial approaches are crucial for both strategic business management and ethics management because they will not function without financial projections for the entire project durations.

11. Conclusion

Strategic ethics management has been proposed as a strong tool for management to achieve both economic and ethics objectives in operations. Especially, this is quite effective for controlling the two different interests since values of the goals are assessed financially based upon potential cash flows. Therefore, managers of MNEs can actually estimate cost-benefits of both business operations and business ethics accurately.

Since there has been positive correlation between ethical business conducts and long-term financial performances, the strategic ethics management should be considered seriously for MNEs. Then, managers should be able to use business ethics as competitive advantages in global operations to increase long-term profitability of their enterprises.

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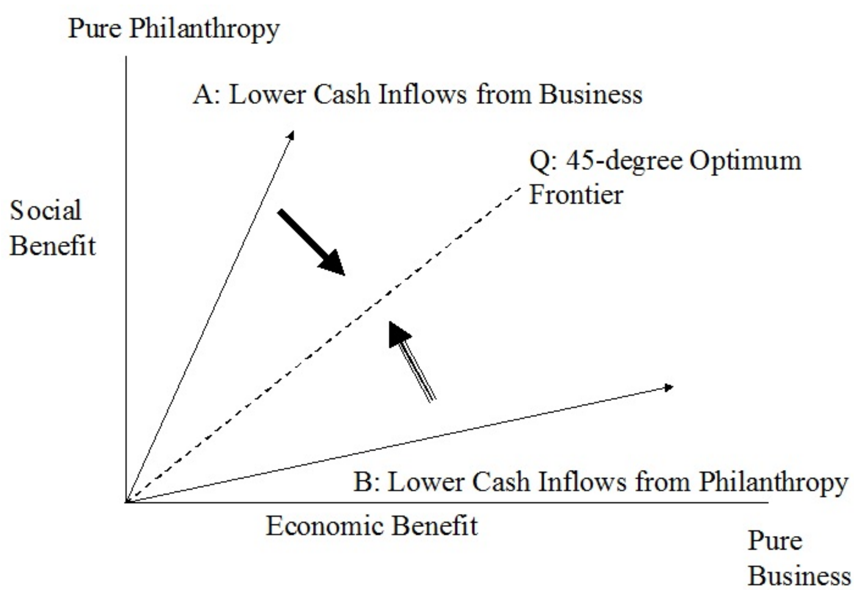
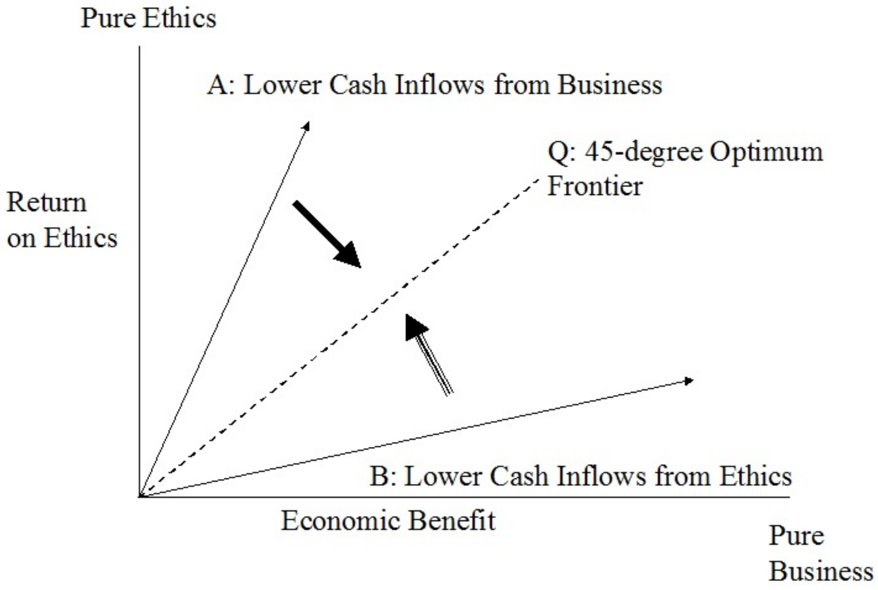
Appendix



Source: Porter and Kramer (2002), Page 9.

Figure 1. A Convergence of Interests



Source: Built based on "A Convergence of Interests," Porter and Kramer (2002), Page 9.

Figure 2. A Convergence of Interests in the Strategic Ethics Management

	Illegal	Legal
Ethical	Quadrant 2 Illegal Ethical	Quadrant 1 Legal Ethical
Unethical	Quadrant 4 Illegal Unethical	Quadrant 3 Legal Unethical

Source: Henderson (1992), Fig 3-2, Page 103.

Figure 3. Ethical and Legal Quadrants

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