

Business Ethics

Manual for Azerbaijan companies

*Rena Safaralieva
Sanar Mammadov
Vagif Gaziev*

**Publication of Transparency Azerbaijan with financial support of
Royal Norwegian Embassy and Transparency International**

Baku - 2004

Foreword

This publication is the first attempt to analyze and summarize the situation of business ethics among Azerbaijan businesses. This manual is designed to facilitate the organization of business ethics training for staff of Azerbaijan companies. The manual can also be used in the preparation of university business ethics courses.

The manual consists of 10 chapters, discussing various aspects of business ethics and self-assessment questions, which can help readers to easily self-check how well the material has been learned. Case studies presented at the end of each chapter are based on real examples of Azerbaijan companies. At the end of the book readers will find notes to cases, which discuss various approaches to the ethical dilemmas presented. The appendices contain sample business ethics documents used by multi-national companies, as well as a suggested example which could be used by Azerbaijan companies.

The manual was pilot tested during a series of seminars organized by Transparency International from January to April 2003 as well as at the Western University in Baku from 2001 to 2003. In addition, the team of authors and the Baku office of the Citizens Democracy Corps organized a second round of training in May 2003.

This project would have been impossible without the financial support provided by the Royal Norwegian Embassy in Baku. We would like to express our sincere gratitude to the Embassy for its confidence in the success of the project. This project was co-funded by the Transparency International Secretariat as the follow-up to the Regional Business Ethics Conference, which was organized by Transparency Azerbaijan in Baku in November 2002 to develop business ethics standards in Azerbaijan.

The team of authors owes special thanks to the Good Governance Program, U.S. Department of Commerce, which organized training in business ethics for specialists from Central and Eastern Europe in the summer of 2002, in which two co-authors of this book (Sanar Mammadov and Vagif Gaziev) participated. This Program funded the organization in the winter of 2004 of three additional rounds of training based upon this publication.

Preparation of this book has posed a challenge which could not have been successfully met without the invaluable assistance of our editors who donated their time and effort to enhance the content and style of the book in all three languages (Azerbaijan, English and Russian). For this, we are grateful to the staff members of BP Azerbaijan Business Unit, Business Alliance Development, Exxon/Mobil Operating Company LLC, AZEL, SS – Production, Center of Economic Reforms under Azerbaijan Ministry of Economic Development, Good Governance Program of the U.S. Department of Commerce, British Embassy in Baku, Caspian Business News newspaper, and Transparency International Secretariat and chapters of CIS countries and TI Secretariat. We are especially grateful to Mr. Namik Azizov, President of the Union of Managers of Azerbaijan and Mr. Charles Davidson, Visiting Faculty Fellow, Khazar University who have read the manuscript and whose valuable comments served to improve the quality of this publication.

Your comments on this publication will be very much appreciated in order to help us undertake further work in this area. Please send them to Transparency Azerbaijan by e-mail (transpaz@azeronline.com), by telephone (99412) 92 04 22) or post (Ahmad Javad Street 5, Flat 6, Baku, Azerbaijan, 370004).

Dr. Rena Safaralieva,
Executive director,
Transparency Azerbaijan

Sanar Mammadov,
Executive director,
Azerbaijan Marketing Society

Vagif Gaziev,
Teacher, N.Tusi gymnasium

WHAT IS BUSINESS ETHICS ?

Business ethics is an important attribute, which testifies to the quality of governance culture of any company, whether state or private, governmental or non-governmental. Any organization, where decisions made at different management and executive levels are accompanied by a risk of emergence of internal or external conflicts, damage to reputation of decision makers or reduction of efficiency of the management system, (whether a state organ, a private or public enterprise, an NGO or political party), can benefit from the incorporation of business ethics as an important component of corporate culture.. As is well-known, violation of ethics has led to bankruptcies of several of the largest companies and discredited many well known political leaders and top managers. It suffices to recall recent corruption related scandals in the Italian and Korean governments and such big companies, as Enron and Elf.

What makes it so important to follow ethical norms in the workplace?

We believe that the main reasons of the growing importance of ethical compliance in the work environment are: on one hand, the increasingly high cost of poor decisions, which has to be paid not only by decision makers, but more often than not by society at large; on the other hand, because legislation simply cannot envision and regulate every aspect of social interaction. Some undesirable conduct is always left outside of the legal framework and must therefore be regulated by norms of ethics, i.e., a code of certain rules of behavior, perceived by the majority as right, just, and fair. It is even more difficult for legal instruments to regulate behavior of people within an isolated structure, for example, an individual company or organization.

Factors such as democratization and free access to information in the modern society also contribute enormously to the need for business ethics. These factors make it impossible to hide a bad decision which may have global consequences and thus to avoid negative financial and societal repercussions. It is better still to avoid actions which will result in detrimental negative consequences for others which only preventive measures can assure. Establishing codes of conduct can serve a valuable preventive role, and therefore benefit not only business but all society.

Rules of business ethics are summarized in the so called codes – sets of rules to regulate behavior of employees. A code of business ethics is the most important internal document for the overwhelming majority of companies based in democratic countries, to say nothing of transnational corporations. A code of ethics is a compulsory document, which regulates behavior of employees of governmental and non-governmental organizations in developed Western democracies.

It shall be mentioned that codes are tailored to individual structures. Codes may have many things in common, yet there is always a certain aspect of activity of a company or organization or public agency which is specific to each particular organization.

How timely is creation and introduction of business ethics codes in Azerbaijan? By all means, it should be done. Still, we have to recognize that this is rather difficult and in some cases simply impossible to fully comply with all ethical norms in a country like Azerbaijan. The reason for this lies in the widespread manifestations of corruption: bribery, protectionism, nepotism, unfair competition, etc. These forms of corruption thrive under conditions such as the absence of democratic traditions, imperfect legislation, dependence of the judicial on the executive power, low level of transparency in the public sector in general, scarcity of independent media, undeveloped civil society, etc.

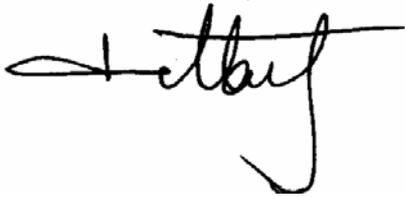
However, Azerbaijan companies especially those which are gradually gaining access to international markets, need to develop a business ethics culture. This will add one more guarantee of their success, as modern Azerbaijan consumers became more and more sophisticated regarding company reputations. Can this task be successfully fulfilled by Azerbaijan companies? By all means. The term, business ethics, itself is rather new, however, many components of business ethics have been applied before in the form of all kinds of internal regulations and job descriptions of enterprises. This is why many employees of companies will not find it difficult to adhere to the principles of business ethics and the need to follow them. The codes will not repeat old internal regulations and job descriptions and will have many new

requirements created by the demands of a market economy, norms of corporate culture, new customer policies, etc. Business ethics norms can be delivered to employees at special training programs for personnel.

Development of codes in Azerbaijan does not present much of a problem. There are specialists who can provide advice. This book can also be of help. What companies need is the resolute will of their management. Sooner or later, Azerbaijan companies will come to realize the paramount importance of business ethics codes. We firmly believe it is better not to postpone the introduction of these codes for the distant future. Codes serve the interests of all stakeholders: companies themselves and consumers of their goods and services.

This book is the first in its kind in the Azerbaijan language. It is gratifying that the book does not represent a translation from a foreign language, but was written in Azerbaijan as the result of the research of our specialists. The various authors of this book have been engaged in research of business ethics problems for the last several years and are well-known experts in this area. Their own research into problems of business ethics, in addition to knowledge acquired in the course of trips abroad, teaching experience at universities, training programs organized for various public and business structures, helped them to form their own visions of the problem and to formulate valuable recommendations in this remarkable publication. This book will no doubt be found useful in business circles, as well as by government agencies and non-governmental organizations, state enterprises, and students of business ethics.

Finally, this book is not only the first of its type published in Azerbaijan language, but is also one of the few books published in our country with a considerable amount of real life cases. These case scenarios are accompanied by notes which will help readers not only to familiarize themselves with the concepts, but also to self-train.



Sabit Bagirov,
Chairman of board,
Transparency Azerbaijan

President, Entrepreneurship
and Market Economy
Development Foundation

CHAPTER I. INTRODUCTION INTO BUSINESS ETHICS

The notion of ethics and morale

The study of ethics explores questions of morality and constitutes an integral part of applied philosophy. Normative ethics is a practical discipline, as it offers recommendations on the application of the principles of morality in practical life¹. In other words, normative ethics teaches us what should be done, while descriptive ethics studies what has been done in real life and is in the focus of attention of historians and sociologists. Social ethics regulates human social behavior, while business ethics, naturally, is concerned with business conduct. In its turn, professional ethics, which establishes standards of behavior for certain professions, constitutes a subset of business ethics. The ethical principles pertaining to the legal and medical professions, for instance, are among the most developed and complicated areas of business ethics.

Morality is an abstract philosophical concept, which represents perceptions of “correct behavior” in a human society. To pass judgment in respect to any human behavior, people refer to *moral norms*, including *moral values* (a set of abstract moral categories, shared by all members of a certain social group) such as justice, goodness, honesty and honor, and *moral principles* (certain approaches or theories, which people use to solve moral dilemmas). For example, “I can do the same to you as you did to me.”

Moral norms and values can be divided into two main categories: universal and specific. These notions can significantly differ in different societies and even change within the same society over time.

Harsh conditions of life and constant wars resulted in deaths of a considerable portion of the male population of ancient Arabia and Arabs solved the problem of redundant females in a very simple way: they killed newly born girls, allowing to live only those born immediately after a surviving male child. Prophet Mohammed prohibited this practice and legalized polygamy.

This, however, does not mean that there are no universal moral norms, shared by all mankind. For example, no human society can afford to unconditionally justify murder, because such a society will not be able to offer guarantees of personal security. No society can justify lying in business, because this will make business transactions insecure. Universal moral principles have been formulated by major world religions in a more or less similar way with only relatively slight variations. Specific moral norms and values are shared by certain groups of people within a definite time frame. In the same way, norms of business ethics may significantly vary in different areas of business activities.

A medical doctor is obliged to help any patient, friend and enemy likewise, while a construction company can refuse to build a metal and glass skyscraper among historic monuments. It is regretful that the company which built the hotel ISR Plaza in Baku’s Fountain Square did not follow this principle.

In the West, soliciting of potential customers was considered unethical by many professions in 1980s, but tough competition forced many professions (for example, lawyers and doctors) to soften their stance towards such solicitations. However, regardless of levels of competition, there are certain situations in which solicitation would likely be deemed inappropriate. It would be difficult to imagine that unregulated solicitation of potential customers, for instance, elderly persons, by funeral homes advertising their services would be welcomed.

¹ Ethics, A Textbook on Philosophy, Political Science and Religion Studies, ed. by A.A. Gousseinov and E.L. Dubko, Gardariki Publishing House, Moscow, 1999, p. 31

Regulation of behavior

Religion. In many communities behavior is regulated by religious principles. Theology states that ethics is based on “the supreme moral”, which is delivered to people by the Lord, Allah, or Buddha, for instance, and that the Almighty God is the ultimate judge of human behavior.

Philosophy. Philosophy offers a variety of ethical theories, which we shall not dwell upon here, but will satisfy ourselves with mentioning two basic approaches to ethical theories.² *Relative ethics* takes into account consequences (the ends) or conditions and methods (the means). It states that there are no absolute standards applicable in all situations, and that morality depends upon the individual (“You have to do whatever is good for you”), conditions (“Stealing can be justified, if you can not earn your living otherwise”) and society (“Cannibalism is moral in a society of cannibals”). In its extreme form, relative ethics can justify anything, because “this is a right thing to do” or “because everybody does it”. *Absolute ethics* judges the morality of the act itself. Absolutism is a very simple theory, easy to grasp even by young children. However, this advantage is offset by a very serious disadvantage - in its extreme form, absolute ethics can lead to intolerance, because absolute ethics evaluates only the morality of an act itself. For example, Christian missionaries propagated religion and Communists the ideas of a happy future by fire and sword and very often against the wish of their intended beneficiaries.

The law. The law, similar to ethics, establishes a set of rules and norms, regulating behavior of a society as a whole and of individuals in particular. One might then ask: if ethics establishes a set of rules and norms, what is the difference between the law and ethics?

The answer is very simple – the law sets out what *must be done*, while ethics tells us what *should be done*.

One must comply with the law and if he/she does not, there are repercussions to face, at least, in a society governed by the rule of law. Ethical compliance is voluntary and is based on a system of values, shared by individuals or groups of people, united under various principles. For example, we can refer to an ethical system shared by a certain social class or a group of people, living in a certain geographic area, belonging to a certain profession or even a family. Norms of different groups may significantly vary. One such contradiction is very well illustrated by phenomenon of “whistleblowers”, discussed in Chapter VI.

In clear contrast to ethics, the law is applicable to all. Legal rules establish minimum requirements, while ethical decisions are boundless. This is a philosophical and rather general approach.

Unwritten moral rules. Every society is governed by its own verbal or unwritten code of moral norms, learned by people in the process of “socialization” in a family, with friends, in religious institutions, social groups, including the workplace, or in the process of formal education. In Islamic religion, in addition to “*shariat*” or Islamic law, social life is regulated by “*adat*”, a verbal code of rules of behavior, many of which can be traced back to pre-Islamic moral norms and sometimes even contradict Islamic norms (for example, the custom of blood feud in the Caucasus³).

Code of conduct/ethics. In many countries, the state and business entities establish their own ethical standards in internal documents, which are called business ethics codes or codes of conduct for the areas where state regulation is insufficient or too lenient from the perspective of business owners or managers. Some countries have also adopted codes of conduct for public officials to regulate their conduct

Codes shall satisfy a number of requirements. Firstly, codes shall be in full compliance with the national legal framework. Secondly, codes shall impose more strict and detailed standards, as compared with the legislation in force. Thirdly, codes shall take into account the specifics of a company’s activities. And last

² G. P. Lantos, An Advanced Instructional Module in Case Studies in Business Ethics by M. M. Jennings, West Publishing Company, 1993, pp.12-14

³ Islam, Encyclopedic Dictionary, Main Editing Bureau of Eastern Literature, Nauka Publishing House, Moscow, 1991, pp.13.

but not least, punishment for ethical violations shall be determined by a company's management, if the law does not stipulate otherwise. Chapter VI of this book discusses codes of conduct in detail.

At first glance, one might think that such business ethics codes are similar to the Soviet administrative regulations for enterprises and agencies. There is no reason to deny a certain similarity. However, there is also a significance difference. Firstly, each company *designs its own code* which reflect the *peculiarities of its activities*, while the above referenced Soviet regulations were designed by regulatory agencies and circulated downwards to all enterprises of a certain industry. On the contrary, businesses are free to set their own standards, provided they abide by the law. For example, businesses are entitled to decide on their own whether to perform health checks or random alcohol or drug tests of their employees. Secondly, in addition to establishing the obligations and duties of employees and the punishment for failing to fulfill these duties, codes also contain provisions defending rights of employees. Codes serve as an instrument to facilitate relationships with management, customers, partners, and other stakeholders.

Why should business strive to be ethical?

Since the Code of Hammurabi, written in the 2nd millennium B.C., businesses were governed by the principle "buyer, beware!" Why since the middle of the 20th century have more and more efforts been taken to introduce ethical principles and norms into business practices? Is it not the role of business to make money, while the role of the state is to ensure social justice by means of taxation and social programs? The answer is very simple – tough market competition, the development of civil society and state regulation made businesses—mainly in the Western countries—realize that the "law of the jungle" is no longer applicable. Businesses cannot make money at any cost, without considering the interests of other market players, because any business functions within a broader social setting and depends on the society it serves.⁴ Besides, business has realized that certain short term benefits might become quite detrimental in the long run. Dismissal of ethics may yield immediate efits, but might cause damage in the long term.

Western mass media recently covered a scandal involving KPMG, one of the biggest transnational audit companies, in which KPMG assisted Xerox, in return for payment, in the falsification of its revenues for 1997 -2000 in the amount of 6 billion dollars, which made Xerox look more attractive in the eyes of investors.⁵

Let's discuss some reasons why companies benefit from ethical behavior.

Firstly, a company's *reputation* might be damaged so seriously that a company can be driven out of the market. For example, every *force majeure* event in Baku (e.g., a heavy snowfall, earthquake, civil disorder) reveals that Azercell, a major cell phone company cannot cope with the increased volume of traffic in such a way as to provide reliable service to customers under such extraordinary circumstances. As a result of its inability to provide adequate service to its customers, Azercell's reputation suffers and every such event results in a corresponding increase of customers for their competitor, Bakcell.

Secondly, a company violating ethical principles cannot have a *good governance system*. For example, Barmek's entrance into the Azerbaijan market was followed by a scandal and the unexpected ousting of Siemens from this market. Barmek is regularly criticized by mass media for numerous violations of the rights of consumers (for example, for their general cut offs of power for residential areas, including to the residences of diligent payers). As a result, customers who cannot afford to pay are joined by those who do not wish to pay. It would be interesting to see how many customers this natural monopolist will be able to keep, should a competitor enter the market.

Thirdly, reputation is very important for *potential investors*. For example, the population of Azerbaijan does not trust banks with their savings, because people remember the epidemic of bankruptcies in the banking sector a few years ago. There are only a few local banks that are making efforts to gain 

⁴ R. C. Solomon, *Business Ethics in Companion to Ethics*, edited by P. Singer, Blackwell Publications Ltd Publishing House., 1991- 93, p. 358

⁵ N.Ismailova, N.Aliev, *One More Auditing Company Is Accused of Fraud*, Echo, 15 February, 2003.

credibility – the International Bank organizes campaigns to assert their credibility and Azerigasbank builds its reputation by supporting social programs and cultural events.

Fourthly, violation of ethical norms sooner or later leads to an accident, usually resulting in a *toughening of the state regulation*. It suffices to recall the tragedy in the Baku circus of January 2003, when death of two children forced authorities to toughen control over technical safety of entertainment industry.

Fifthly, *professionals seek to avoid companies with a bad reputation*. For example, the Minaret group, which a few years ago was engaged in various machinations with privatization vouchers in Azerbaijan, was forced to pay salaries significantly exceeding the average salary rates paid by international companies in Baku in order to attract professionals willing to work for them.

Sixthly, *ethics helps to increase profits*. According to estimates, it is five times cheaper to keep old customers than to make new ones⁶. For example, Azeurotel takes reasonable efforts to maintain its existing client base. This company notifies its customers in advance of all technical problems or preventive measures and indicates a concrete time when access to Internet will be unavailable. Another provider – Azeronline—sends no such notifications, despite the fact that many of their customers have problems with Internet access at least once a week.

At last but not least, in a country like ours, where the state, for a variety of reasons, is not able to provide the majority of population with a decent standard of living, the task of instilling and implementing ethical values must be largely borne by business in their own interests. Acting as socially responsible corporations, i.e., by creating competitive and well- paid jobs, supporting social programs, giving up super-profits by setting reasonable prices, refraining from polluting the environment, business can, to a certain degree, help *ease social tension*.

The myth of amorality of business

This myth is mainly based on the perception that the main function of business is to “make money”. A financial statement clearly shows profit, but how can we evaluate the moral foundations of a business? We will not argue about the importance of efficiency and profitability of business. However, a question arises: is it possible to make money today, while neglecting the interests of other market players and business stakeholders? In the West, the times of “wild capitalism” sank into oblivion long time ago. The post-Soviet countries are also witnessing tendencies towards a more civilized market.

Today people do not believe in financial pyramids like “Vlastelina” in Russia or “Vahid Bank” in Azerbaijan. In St. Petersburg, numerous shady deals in the construction business resulted in loss of credibility of this industry. People are afraid to prepay for housing, which makes construction business almost impossible. To remedy the situation construction firms from St. Petersburg established the Club of Honest Constructors. The Club members demonstrate their desire to work honestly and gain customer loyalty. The Club publishes “a white list” of honest, trustworthy firms⁷. Such an approach somewhat resembles the practices of medieval guilds with their statutes.

In the past BP and Shell came under considerable pressure from the general public in Britain for their operations in Angola and Nigeria. Producing oil and being opaque about their payments to the governments of these extremely corrupt countries, oil companies, in fact, supported dictatorial regimes and embezzlement of these countries’ resources. As a result, both companies toughened their ethical principles and assumed an obligation to be more transparent about their revenues in the countries in which they operate, including Azerbaijan.

⁷ E.A.Utkin, Business Ethics, Zertsalo Publishing House, Moscow, 2000.

⁸ A. Ossipova, Consultant, Honest Constructors’ Club, St. Petersburg, Presentation at Regional Business Ethics Conference, Baku, November 22-23, 2002.

Basic moral values of a civilized market

Today businesses operating in a civilized market, which our country shall strive to build, are guided by the following moral values:

- pragmatism and efficiency;
- balance of profit and social justice;
- freedom within the law and equal opportunities for all market players;
- respect of freedom of other people and tolerance to their errors.

Morality and mentality

It is quite a widely held opinion that businesses operating in the East, and in Azerbaijan in particular, are very little concerned with ethics. Some believe that nepotism and corruption are so deeply rooted in our culture and mentality, that it is useless to combat these phenomena. We will try to discuss whether corruption is an intrinsic component of Azerbaijan mentality. Firstly, no morality justifies corruption and a society whose members “believe that its leaders should prefer to promote their own private interests at the expense of the group” is yet to be found.⁸ Within a comprehensive corrupt system, people get involved in corrupt practices in order to survive and develop a certain degree of tolerance towards this negative social phenomenon. For example, in Italy public administrators are vested with more power when compared to their Northern European counterparts, in a manner very similar to Azerbaijan. Consequently, Italians display much more flexibility in their ethical judgements, and often strive to bypass laws.⁹ Secondly, this thesis is refuted by a rather big contingent of Azeris who work in different economic and legal environments in foreign companies within the country and abroad.

As for nepotism, we shall acknowledge that our culture is based on close family ties. However, firstly, observations show that today in Azerbaijan many businesses prefer to employ people on the basis of their professional competence, rather than on “insider-outsider” principle. Secondly, we should seek reasons for such an approach in the business environment, rather than in mentality. Inconsistent legal frameworks and corruption force many businesses to turn into “semi-Mafia” structures that cannot afford to trust outsiders.¹⁰ Such a situation is typical not only of Azerbaijan but can be observed in other countries as well.

According to an opinion survey in Russia, personal contacts are perceived to be the most reliable factor for career growth (88%) and only about one third of respondents (39%) believe in success of intensive efforts.¹¹

However, a certain degree of tolerance towards individual manifestations of unethical behavior and corruption does not mean that combatting against this negative phenomenon is hopeless. It suffices to recall that at the stage of formation of monopolies at the turn of the last century, predatory extraction of national resources, ruthless exploitation of employees and absence of ethical standards in business were the norm in the United States, to such a high degree that British investors refused to invest into the rapidly growing economy of their former colony. However, over time a combination of factors discussed above, resulted in introduction of commonly accepted norms and standards of business ethics in America.

⁹ J.Pope, *Confronting Corruption. The Elements of a National Integrity System*, TI Source Book, 2000, p. xix

¹⁰ R.D. Lewis, *Business Cultures in International Business: From Confrontation to Understanding*, Moscow, Delo Publishing House, 2002, p. 33

¹¹ R.Safaraliev, Chapter 2, *The Society, Law and Ethics*, In: *Corruption*, ed. by S.Bagirov, Publication of Transparency Azerbaijan, 2002

12 E.A. Utkin, *Business Ethics*, Zertsalo Publishing House, Moscow, 2000, p.133

Islamic ethics in economic relations

Though the overwhelming majority of Azeris do not devotedly observe religious norms, it is difficult to deny that religion has a significant impact on the cultural formation of a society. As we shall see, Islam provides an ethical framework within which modern business ethics might be grounded.

The Koran and Shariat (collection of Islamic legal norms and regulations) cover practically all aspects of Western business ethics. For example, Islam denounces corruption. The Koran says that when justice is administered by genuine Islam, a judge shall be above corruption and bribery and not be afraid of the power of the judged.

Islam distinguishes between admissible and inadmissible ways to earn a living. The honest way is allowed and is qualified as “*halal*”. Any income generation, which incurs direct loss to other people or implies use of forbidden methods (e.g. stealing, bribery) is referred to as a dishonest way - “*haram*” and is prohibited.

Islam encourages diligence and denounces idleness. Islam requires efficient use of resources, including human resources. It also clearly defines employer-employee relations. Employees shall respect property of their master and work diligently, while employer shall deal fairly and pay for labor in time. Corporate social responsibility is stated in Koran in the form of “*zakkat*”, or obligatory annual deduction for the poor, orphans and the needy.

The tax rate under “*zakkat*” constituted 1/10 of the harvest and 1/40 of other property.¹²

Islam prohibits “*riba*” - direct money lending against interest or use of money in a capacity of a market commodity. Islam also discourages money savings and many Islamic countries put a tax on bank deposits to encourage investment or turnover of funds¹³ rather than the payment of interest. Many Moslem societies establish special types of banks, or mutual aid trusts, which charge service fees only. There is no doubt that such a practice complicates raising capital for start-ups. More and more Moslems all over the world realize the need to adapt Moslem heritage to the changing life conditions and the increasing globalization of the world community.¹⁴ In addition, higher living standards require extra income, some of which can be generated by working women. Moreover, modern business development requires more extensive involvement of women into the production process, which is impeded by many Islamic regulations concerning the public role of women.

Ethical dilemmas and how to solve them

Ethical issues greet us each morning in the newspaper, confront us in the memos on our desks and bid us good night in the evening news. Dealing with these ethical issues is often perplexing. How, exactly, should we think through an ethical issue? What questions should we ask? The first step in analyzing ethical issues is obvious, but not always easy to do: get the facts. This first step is also among the most important and the most frequently overlooked. But having the facts is not enough. Facts by themselves only tell us what *is*; they do not tell us what *ought* to be. In addition to getting the facts, resolving an ethical issue also requires an appeal to values, which can exist on several levels: the society as a whole, an organization and an individual. And these values do not always coincide. Besides, a person has to decide for himself or herself, which of the three constants of an ethical act is more important: *the act itself, the ends, or the means*. Philosophers have developed four main consecutive steps for resolution of ethical problems.¹⁵

¹² Islam, Encyclopedic Dictionary, Main Editing Bureau of Eastern Literature, Nauka Publishing House, Moscow, 1991, p. 74

¹³ R.Maksud, Islam, Grand Publishing House, Moscow, 2001, pp. 204-205

¹⁴ Azim Nanji, Islamic Ethics in Companion to Ethics, edited by P.Singer, Blackwell, 1994, Hartnolls Ltd and Bodmin Publishing House, Cornwall, p. 116

¹⁵ Kenneth Blanchard, Norman Vincent Peel, The Power of Ethical Management, William Morrow and Company Inc. Publishing House, New York, 1988, p.27

Arguments against taking a certain course of action:

- Serious legal consequences;
- Substantial material losses;
- How shall I feel if I do wrong?

Arguments for taking a certain course of action:

- Chances to be caught are very little;
- I will be doing it for somebody else;
- If I do it, the other side will really suffer no harm;
- If I do not do it, somebody else will;
- Everybody does it.

What is of more value to me?

- The ends/consequences (murder can be justified, if it was not intentional);
- The means/methods (murder can not be justified under any circumstances).

What do I and other parties lose and gain in the:

- Short term;
- Long term.

SELF-ASSESSMENT QUESTIONS TO CHAPTER I. INTRODUCTION INTO BUSINESS ETHICS

The questions below are designed to assess your understanding of the material.

The notion of ethics and morality

- ◆ Please name types of ethics as a branch of study.
- ◆ Please define morality and give examples of moral rules.
- ◆ What is the difference between universal and specific moral norms?

Regulation of behavior

- ◆ Please explain the difference between the following types of human consciousness, responsible for the regulation of behavior:
 - religion;
 - philosophy (relative and absolute ethics);
 - law;
 - verbal moral rules;
 - codes of conduct/ethics.
- ◆ What is the difference between codes of ethics and Soviet administrative regulations?

Why shall businesses strive to follow ethical norms?

- ◆ What is the difference between the short term and long term benefit from an ethical point of view?
- ◆ How does the observance of ethical principles impact:
 - company's reputation;
 - system of governance;
 - opinion of potential investors;
 - change of governmental regulation;
 - human resources;
 - profit;
 - social environment.

Major moral values of civilized market

- ◆ Please provide examples from your business practice, illustrating that your company follows (or violates) the following moral principles:
 - pragmatism and efficiency;
 - balance of profit and social justice;
 - freedom within the law and equal opportunities for all market players;
 - respect of freedom of other people and tolerance to their errors.
- ◆ What other principles would you add to the list?

The myth of amorality of business

- ◆ Do you share a view of amorality of business in general?
- ◆ How would you qualify the business environment in Azerbaijan today from moral point of view?
- ◆ Do you believe that foreign oil companies working in Azerbaijan today will be transparent about their profits and payments to our government?
- ◆ If yes, will this help to reduce the level of corruption in the country? If no, why?

Morality and mentality

- ◆ Why is Italy, with its reputation of a corrupt country, one of the Big Seven (G-7) and other corrupt countries are among the poorest in the world?
- ◆ Comment on the notion of nepotism in Azerbaijani culture and business.
- ◆ What shall businesses do if imperfect laws do not always allow them to follow ethical principles?

Islamic ethics in economic relations

- ◆ Shall businesses in Azerbaijan apply principles of Islamic ethics?
- ◆ What does Islam say about:
 - corruption;
 - employer-employee relations;
 - money lending and banking;

- corporate social responsibility.

Ethical dilemmas and how to resolve them?

- ◆ What is an ethical dilemma?
- ◆ What are the three main constituents of an act and which of these are more important for you?
- ◆ Please name most the popular arguments pro (for) and contra (against) related to making ethical decisions.

CASE STUDIES FOR CHAPTER I. INTRODUCTION INTO BUSINESS ETHICS

Please read the cases below and chose your answer from the options provided. Please substantiate your answer. The notes to cases can be found at the end of the book.

1. Late at night a passer-by sees a child at a window of a burning house. There is no one else in the dark street.

- Must he or she try to save the child?
- Will your answer change, if we subsequently substitute a passer-by for the child's baby-sitter, a neighbor, policeman off-duty and fireman on duty? Please range all characters in ascending order in terms of their moral obligations.

2. An accident took place at a dairy plant during a night shift - an employee found a torn pack of washing powder in a milk tank after 1,000 packs of milk have already been packed. The employee notified the senior night shift man, but he recommended her to keep quiet about the accident. Next day the employee insisted on the accident being reported, but the boss neglected her warning again. The employee recalled that her neighbor plays tennis with the shop superintendent and asked him to relay the situation. Next day in accordance with instructions from the shop superintendent, the consignment of milk was destroyed and both people were fired – the senior night shift man for negligence and the employee - for using unofficial channels to file a grievance and for bringing a compliant against her boss over his head.

- Was the shop superintendent right?
- Was the employee right?
- Was there another way out of this situation?

3. My company manufactures food products, which I successfully sell in the local market through a network of shops. Last week a representative of a high ranking Government official came to see me to tell me that I have to sell at least 50% to another local company at a very low profit margin and this intermediary company will then sell my product. Do I:

- Do what I am told, even though my profits will be severely reduced?
- Go to a higher rank public official and pay him a bribe for "protection"?
- Turn for help to business association?
- Ignore the request and continue to do business as usual?
- Sell the business and leave the country, because it is impossible to work here?
- Go to the police?
- Do anything else?

4. I'm the in-house council for a company, engaged in information technology processing. As a lawyer of the company I have access to the company's confidential information. I have never abused my position to disclose any sort of such information. Due to the sale decrease at IT market, the company's Board of Directors has recently made a decision to reduce numbers of its IT specialists. While preparing notices on employment termination, which will be sent within two months to the employees, subject to redundancy, I've come across the name of my cousin, who works as an IT specialist in the company. Shall I:

- Warn my cousin on his redundancy before manager has sent the termination notices, so that my cousin could have enough time to look for another job?

- b) Keep information to myself?
- c) Start looking for a job for him myself?
- d) Have a word slipped out to the whole department?
- e) Do anything else?

5. A foreign company operating in Baku arranged a party for its personnel to celebrate Novruz Bayram. The party broke up late at night. An expatriate drives a car and offered to give a lift to several other staff members, living close to him. The last person to be dropped happens to be a young and nice looking secretary. The girl was scared to walk alone and the expatriate offered to see the girl to the door. Once they got out of the car, they were grabbed by the police, who claimed that the girl was a prostitute and suggested two options: take the girl to a police station to verify her identity or to buy her freedom for \$100.

What is the right thing to do under these circumstances?

6. An Azerbaijan employee of a foreign company operating in Baku circulated an e-mail message, commemorating the Black January of 1990 and addressed to all staff members. The employee received an official reprimand for abusing the office e-mail system and sending unauthorized material of non-business content. The employee accused the foreign company of disrespect for Azerbaijan history and culture. He submitted a grievance signed by about half of Azerbaijan staff members. The conflict was covered by local media.

- a) Was the employee right or wrong to circulate the material?
- b) Did he have a right to grieve?
- c) Was he entitled to seek assistance from his co-workers?
- d) Was the management right in punishing him?
- e) Was there another way out of this delicate situation?
- f) Is there a way to prevent things like that?

Sanar Mammadov

CHAPTER II. INTERNAL CORPORATE ETHICAL PROBLEMS

General provisions

In the domain of internal corporate ethical problems, relations between management and employees are of paramount importance. Management expects from their employees fulfillment of their obligations, a positive attitude towards their work plus loyalty to the moral and material values of the company. In return, employees also expect decent salaries, fair treatment and a healthy workplace environment. Below we will discuss these issues through the prism of employer-employee relationships.

The *Chief executive officer* should be able to prevent even minor unethical acts, which, however small, can have substantial consequences. A good manager, shall, first of all, possess an ability to avert crisis. An unsound work environment breeds lying, stealing, hypocrisy, flattering, lack of discipline, cheating, discrimination and other problems, which undermine the reputation of a company. Unethical behaviour evokes an *emotional response on the part of employees*. Research and psychological tests demonstrate that, if employees realise that their work is done for the common good and that a lot depends on their performance, they are more productive., The findings of several surveys illustrate this phenomenon.

According to estimates of the U.S. Chamber of Commerce, minor stealing in the work place wreaks annual damage of US \$40 billion to businesses.. The attitude of employees to their work is also of interest: the 1990 survey in Australia¹⁶ showed that the majority of respondents spend about 20% of the work time on problems outside their work scope. The following findings are interesting as well:

¹⁶ L. K.Treviño, K.A.Nelson, *Managing Business Ethics*, 1999, J.Wiley & Sons Inc. Publishing House, p.25

- One of every six respondents confessed that they take alcohol during work hours;
- Three of every four try to evade being seen by their management;
- Only one respondent in every four works hard.

A survey conducted by the «Working Woman Magazine» in the U.S.,¹⁷ showed that the overwhelming majority of respondents would not like to work for firms, whose names are mentioned in court trials, have poor reputations and violate norms of ethics.

Another survey found that employees cherish implementation of their company's norms of behaviour, fair treatment and respect to employees. These values were among the five top values. By comparison, a high salary was rated only number eleven.

Taking all of the above aspects into account, we can state that both internal problems and the methods used by employers to eliminate them are important factors both for employees and their management. Major internal ethical problems of businesses can be summarised in three major groups:

- human resources deficiencies;
- conflict of interests;
- violation of confidentiality principle.

Human resources

The key importance of fair human resource management is beyond any doubt. Employees, or human resources, constitute the most important component of business investment. Human resources determine the success or failure of any business.

A survey conducted the U.S. 18 showed that, according to managers and chief executives, 60% of all ethical problems emerge because of deficiencies of human resources management and drawbacks of the system of management in general.

Any business in any country of the world can suffer from a lack of professionalism of its employees. Speaking of professionalism, we mean not only competent but also diligent performance. Every firm strives to increase professionalism of its staff members with the help of training. No manager would wish to lose a highly professional and able employee. According to experts, the most effective and feasible way to avoid fluctuation of personnel is to create an environment where employees feel useful and valuable. In most cases, when employees believe that management does not care about them, they work less diligently.

Of course, the emergence of various kinds of problems in a business environment is inevitable and managers and human resource specialists encounter numerous human-resource related problems every day.

Biased attitudes or discrimination in the work place

As a rule, discrimination has little to do with professional qualities, but rather emerges from envy, enmity, and grovelling. A sample of discrimination is a biased attitude of older staff members towards young employees. For example, an employee with a long record of service in a particular company might express animosity towards a new and much younger boss to whom he or she must report.. This hostility might be “justified” by complaints of lack of experience of the new boss. In their turn, younger staff members often do not take into account recommendations of older people, claiming that older people are typically apt to think conservatively. The most widespread forms of discrimination are as follows:

- by sex;
- by religion;

¹⁷ Ibidem, p.27

¹⁸ Toffler, B. 1986. Tough Choices: Managers Talk Ethics, New York, John Wiley & Sons Publishing House, p 12

- by race;
- by disability;
- by age;
- by belonging to a certain social and cultural group, etc.

Such forms of discrimination can be manifested in the hiring, promotion, and dismissal from a job. All the above given forms of discrimination, regardless of their reasons, shall be considered as serious violations of ethical principles.

In Azerbaijan today, the most frequent form of discrimination is based on sex, with its extreme form being sexual harassment. Very often serious contradictions emerge between gender equality principles, as set forth by the legislation, which made possible a mixed-gender work environment, and actual male-female relations in the business environment. In Azerbaijan, the situation is aggravated by the fact gender inequality and discrimination by gender are not even widely recognized. Often the same men who reverently stand up when their female colleague enters a room would pay a woman less for the same job as their male colleagues. Both foreign and local firms give preference to young women in their hiring, which contradicts both ethical norms and labour code of Azerbaijan.

Sexual harassment

Sexual harassment is a form of discrimination. As a rule, the public perceives women as victims of sexual harassment, although men are not immune to such discrimination. Sexual harassment in the work place might take different forms: jokes of a sexual nature, verbal insults, ambiguous gestures, forced sexual relations. There are no official statistics in Azerbaijan with respect to sexual harassment, but facts testify to the widespread nature of this phenomenon. As a rule, victims of sexual harassment prefer to conceal such facts, as they are afraid of bad publicity and are often not able to prove the crime. Victims also do not believe that they will be able to defend their rights. As a result, a victim of sexual harassment is often forced either to quit or to tolerate the humiliating conditions in the workplace.

Please compare two newspaper announcements below.

- ◆ Waitresses are wanted at the White Club, a prestigious restaurant. Three shifts: 11.00 - 00.00; c 13.00 - 00.00; c 17.00 - 00.00. Personnel is given a lift home by an office car.¹⁹
- ◆ Dish washers are wanted at a restaurant: women up to 30 years of age of pleasant appearance.²⁰

The first ad looks quite serious: it states work time and some other conditions. The second ad seems, at the very least, strange. Why should a dishwasher be young and have a nice appearance? We believe that no comments are required here.

Now let's discuss other cases of corporate internal problems. The illustrative examples given below are typical of the workplace in Azerbaijan.. Some of these problems occur with considerable frequency, and some staff members believe they can be pardoned, because "everybody does so".

- use of office services and properties for personal interest;
- handling of personal business during working hours;
- giving or taking gifts in exchange for favourable conditions or other advantages;
- blaming other people for one's fault;
- misappropriation of the fruits of another's labour;
- faking illness in order to obtain sick leave;
- deliberate extension of lunch time;
- falsification of quality and quantity parameters of the work performed;
- deliberate delay of implementation of tasks assigned;
- hiring employees of competitors to learn their trade secrets;
- disclosure of company's confidential information.

¹⁹ *Echo* newspaper, 3 October 2003.

²⁰ *Birja* newspaper 4 November 2002.

Employment and task assignment

Western companies have designed a system of human resources management, which envisions certain criteria and rules regulating employment procedures. Both the employee and the employer agree on ethical and other rules to be followed upon employment, promotion, dismissal, job evaluation, building relations with other staff members, which shall be followed regardless of the colour of skin, age, sex and views of employees. The hiring and all other phases of employment and promotion or dismissal shall be based exclusively on the principle of professional ability. A good manager should always make professional decisions based solely upon the skills and professionalism of a job applicant.

At the same time, employees enjoy certain rights. All these conditions shall be explained to applicants for a job. If a proposal of temporary employment is made, an applicant shall be made fully aware of the temporary character of the prospective employment. At the same time, if an applicant is to pass a probationary period, he or she shall be informed of the duration of the probationary period and what will happen at its conclusion. If an employer does not specifically mention overtime, an employee shall be entitled to suppose that no overtime is envisioned. Employers should also clearly understand that efficiency of performance is closely correlated to clear understanding by the employees of the range and volume of their assignments.

Performance evaluation

Before proceeding to discussion of performance evaluation, let's have a look at a dilemma, which managers face every day.

Someone by the name of Etibar has worked for one of the departments of your company for quite some time. He is a nice guy, but he simply fails to fully cope with his assignments. You are a human resources manager and one day he asks you to give him a letter of recommendation, because he has found a new job. Having familiarised yourself with his dossier, you see that his previous boss had given Etibar quite a high assessment, while you would qualify his performance as no more than satisfactory. What kind of letter of reference would you give Etibar?

Let's look at international experience in this sphere. In the U.S. managers distinguish two different approaches.

1. Formal performance assessment

Many big enterprises annually conduct a formal assessment of their employees' performance with relevant documents added to their dossiers. As a rule, results of this formal assessment of employee's skills impact salary rates. Appendix II offers a sample of such a performance evaluation.

2. Informal performance assessment

Informal assessment implies consistent recording of performance of an employee within a year. In this case, a manager evaluates his or her subordinates' performance on the basis of routine implementation of tasks assigned. Routine observations are summarised in an annual assessment, therefore, every employee strives to perform his or her tasks with maximum diligence. Such an approach also prevents possible unjustified claims of staff members for increase of salaries.

Now let's review our case through the prism of the two above mentioned internationally accepted approaches. What positive results do you strive to achieve by taking this or that decision?

First of all, you can obtain precise information on professional qualities and productivity of each staff member on a daily basis. Secondly, you are in a better position to manage your subordinates. Thirdly, this will enable your subordinates better see their strong points and weaknesses to rectify the latter. And last, but not least, these records can come in handy, when you are asked to produce a letter of reference for your subordinates and to objectively judge their professional skills.

However, it is difficult to deny that performance evaluations are substantially influenced by subjective judgements.. Today, most Western companies prefer to issue a verification of employment on an official letterhead, but recommendations are more and more often written on an ordinary sheet of paper to underline the fact that the letter reflects the personal opinion of the referee, rather than the company's official position.

Disciplinary punishment

When it comes to disciplinary punishment, the majority of managers hesitate and prefer to take a wait-and-see position. Many managers close their eyes to weaknesses of their subordinates and hope that things will improve of their own accord. At the same time, the imposition of punishment in case of obvious violations of labour discipline is very important for a number of reasons. In some cases, such measures help to increase labour productivity, as well as to define precise standards of behaviour obligatory for all employees.

Psychological tests have been designed and research has been conducted to discover more efficient methods to introduce discipline in work teams. Imposition of disciplinary punishment is to be conducted in a professional and constructive manner. For example, if a manager shouts at a subordinate for arriving to work late, this measure is hardly likely to change the behaviour of the culprit. A more feasible way to achieve the desired results is to talk face to face and to discuss reasons and consequences of being late. The object of criticism should be the act rather than the individual. It is necessary to listen to explanations of the other party. Disciplinary punishment should be tough and consistent. It goes without saying that punishment cannot be more severe, than that provided by the relevant state regulation..

Rights of employees

Managing people should be based on such principles as: mutual respect, justice, honest labour, transparency, etc. These are the main moral values of any society. Respect for human rights implies following these basic moral values. Every individual, regardless of the position held, is entitled to the right to life, freedom of opinion, health, security and the right to property. People also have a right to a private life. In the business context, this means that every employee is free to spend his or her off-the-work hours as he or she pleases. If an individual has been hired by a company, this does not mean that his or her private life, rights, or personal secrets automatically become company property. Such integral rights shall not be forfeited within the work environment. Employers are not entitled to collect personal information about their employees, or to inspect their personal filing cabinets and desks without duly justified grounds and authorisation. The right of privacy in the workplace shall be mentioned specifically. Employees, for their part, are entitled to inquire how their performance is evaluated and to learn the nature of personal information in their personnel files.

Unfortunately, we have to state that many employers in Azerbaijan completely ignore the right of their employees to a personal life. Employees are forced to accept the work schedules compiled by their employers. Some employees find themselves in work conditions based on the principle: "we do not have fixed work hours, you will work as much as needed." Most enterprises in Azerbaijan do not pay overtime, despite the fact that the law prohibits overtime without due compensation.

Right for grievance

Based upon the above discussion, it should be clear that every employee has a right of grievance, which means a right to file a complaint to his or her supervisor and, if necessary, to the head of a company on legal infringements and ethical violations. A claimant should be protected against possible retaliation of the accused and each manager should, in his turn, create conditions for safe grievance filing. Procedures to file a grievance should be defined precisely and made known to all staff members in order to eliminate all potential misunderstanding. For example, an employee is entitled to make a complaint to his or her immediate supervisor. If not satisfied, an employee can proceed to the next line manager with a copy to immediate supervisor. Such procedures are designed to ensure subordination in a company, but at the

same time freeing the employee from the potentially subjective judgement of his or her immediate supervisor.

Safety regulations, labour protection and health preservation

Many companies have special programs on safety regulations, labour protection and health preservation. The main aim of these programs is to prevent accidents in the work place. Every firm is obliged to ensure safe labour conditions for its personnel. Staff members, in their turn, are to follow safety regulations. To create a healthy and safe workplace environment, company strategy in this area usually sets forth the below points:

- ensuring that equipment and tools are safe
- following safety precautions, monitoring their implementation and explaining these rules to personnel;
- organising special training programs on health care, labour hygiene and health protection for personnel;
- creating incentives for healthy life style of employees both in and out of the work place;
- consistently upgrading safety systems to minimise accidents and traumas.

Confidentiality

Any information of a technical or financial nature or of any other sort considered to constitute a commercial secret, (for example, information for internal use only) shall be classified as confidential. Personal information, records of a company's customers and personnel, as well as information on a country's security which might be available to a company's officials, should also be considered confidential.

In any competitive company that produces quality goods or services, management imposes strict rules to preserve confidentiality of their know-how to prevent leakage of information. Disclosure of such information is inadmissible from ethical point of view, as well as for commercial considerations, especially if information in question concerns the market product or service of a company. In short, any information that might be used by competitors to the ruin a company should be classified as confidential. In addition, employers shall not use confidential information for their own personal gain, nor should they pass this information to third parties. If an employee leaves a company, all confidential information shall be returned to the company.

Many companies have their own rules concerning confidential information:

- confidential information shall not be kept in places where it can be accessed by outsiders, for example, in a conference hall, reception or on the desk;
- outsiders shall not be allowed to move freely about the office;
- information on a company or its affiliates shall not be passed on to close friends or relatives;
- confidential information shall not be discussed in public places, such as elevators, corridors, reception areas and off of the company premises, (underground, bus stations, etc.);
- any requests for information, for example, from media or financial analysts, shall be forwarded to public relations department of a company.

These procedures may seem at first glance too severe and bureaucratic, but they are efficient enough and enable companies to survive in a tough competitive environment and ensure the long term stability of a company in a market. Today in Azerbaijan we do not have many huge companies, and therefore lack serious competition in the market. Therefore, this problem is not acute for our country. However, some enterprises, for example, SOCAR (State Oil Company of Azerbaijan Republic), which concludes multi-million contracts, should in our view, take this problem quite seriously.

Conflict of interests

All employees regardless of their professional and personal relationships, must come into contact with others. The ability of an individual to find a common language with other people—whether colleagues,



customers, consultants, suppliers, advertisement specialists, even family members and friends—defines the reputation of that person, and, what is more important, can affect the image of a company. Objectivity and fairness in dealings with others in the work environment are very important concerns. Violation of these principles in the work place leads to conflict of interests or collision of personal and business interests.

There are several types of conflict of interests. The most frequent types of these conflicts are: the possibility to derive personal gain from relationships with partners; abuse of personal relations in order to influence a decision making process; working for a competing firm; close personal and family relations with suppliers' firms, relations with competitors, etc.

Psychological surveys have found that, for the most part, conflicts of interest occur most frequently where one finds:

- a serious deficiency of managerial structures;
- a lack of clear distribution of rights and obligations of personnel;
- a lack of stability and harmony in the work regime;
- material problems of personnel, and, consequently, a lack of work incentives;
- an erroneous assessment of employees' performance;
- a psychological incompatibility among employees resulting from professional, personal, age and other differences;
- discord between different staff groups and consequent violations of accepted norms of behaviour

Many codes of ethics of foreign companies have special provisions to prevent conflicts of interest. Employees are instructed how to behave in individual cases. Summarising provisions of such codes, we can distinguish several areas, which are most frequently responsible for conflicts of interest.

1. Regulation on gifts and souvenirs

As a rule, companies prohibit accepting any gifts, except for:

- 1) items with a company's logo presented in an official setting, for example, a watch, tie, shirt, etc.;
- 2) inexpensive articles presented by companies during promotional campaigns;
- 3) charity donations;
- 4) articles of a cost under a fixed amount.

The World Bank establishes a limit of \$100²¹, and International Paper \$25 as the maximum value of an acceptable gift.²²

Should employees of firms and their family members not possess return gifts and souvenirs in the size of nominal cost of the gifts received, they should abstain from borrowing, advance payment or compensation to actual and potential customers of the firm.

2. Close friendly or family relations with employees of goods or services supplying firms

If employees or managers of a company have close personal or family relations with representatives of suppliers of goods and services, this can lead to a conflict of interest. For example, if an employee (chief executive, manager, department head) assigns tasks related to advertising to an advertisement firm of his or her friend, relative or classmate with personal gain in mind and not in the interests of the business, this contradicts ethical norms and principles of free competition. However, this does not mean that it is impermissible to have business relations with any firms where friends or family members are employed. If co-operation with this particular firm is reasonably justifiable and management has been notified of the existence of non-business relations and raises no objections, such practice is quite acceptable. The rationale here is that not every potential source of conflict of interest will grow into a conflict. This principle of conflicts of interest is still not applied in Azerbaijan today. Orders to companies where friends and relatives work are viewed as completely acceptable. People are guided by the principle that "it

²¹ World Bank Group. Living Our Values. Code of Professional Ethics, p.10

²² Ethical Behaviour and Personal Integrity Are The Core of Our Culture, International Paper Publication, p. 11

is better to bring benefit to somebody you know than to an outsider”. On the other hand, this practice can be partly explained by the suspicious and uncertain attitude of still fragile Azerbaijan businesses towards business relations with unfamiliar firms.

3. Working for a competing firm

Every employee holding a position in a company has access to certain information that might be of great value for a competing firm. This is why working for a competing firm might become a source of conflict of interest. Of course, this rule is not universal. For example, if a programmer works as a night-shift guard at a restaurant, this combination of jobs ethically might be acceptable, as it will likely not lead to a conflict of interests. Generally, if the first job does not jeopardize the second job, this situation will be acceptable. In any case, an employee should notify his employer if he or she holds another job.

The labor legislation of the Azerbaijan Republic regulates most of the above provisions, however, it can not foresee all nuances, set forth in codes of ethics, for example, work dress code.

SELF-ASSESSMENT QUESTIONS TO CHAPTER II. INTERNAL CORPORATE ETHICAL PROBLEMS

The questions below are designed to assess your understanding of the material.

Internal corporate ethical problems

- ◆ What are the main reasons behind internal corporate ethical problems?
- ◆ What principles guide relationships between managers and staff members?



Human resources

- ◆ How do you understand the term “human resources management”?
- ◆ What are the main problems of human resources management”?
- ◆ Explain reasons of discrimination in the work place.

Sexual harassment

- ◆ What is sexual harassment?
- ◆ What peculiarities of sexual harassment in Azerbaijan would you emphasize?
- ◆ Have you encountered any other unethical cases of personnel treatment in Azerbaijan companies?

Employment and task assignment

- ◆ What ethical rules shall be followed at employment?
- ◆ What rights are job applicants entitled to at employment?

Employee performance evaluation

- ◆ Explain methods of employee performance evaluation.
- ◆ What are the strong points of these methods?
- ◆ What methods of disciplinary punishment of employees can be applied?

Rights of employees

- ◆ What rights in the workplace are employees entitled to?
- ◆ How would you qualify the situation with employees’ rights in our country?

Confidentiality

- ◆ How do you understand confidentiality in the workplace?
- ◆ What are the rules for handling confidential information for staff members?
- ◆ What potential negative consequences can incur from passing over information to a competing firm?

Conflict of interest

- ◆ What reasons may lead to emergence of conflict of interest?
- ◆ What kind of situations in the workplace can be qualified as conflict of interest?
- ◆ What kind of circumstances eliminate potential conflict of interest ?

CASE STUDIES FOR CHAPTER II. INTERNAL CORPORATE ETHICAL PROBLEMS

Please read the cases below and chose your answer from the options provided. Please substantiate your answer. The notes to cases can be found at the end of the book.

1. You are in charge of a department of 6 people. You demand that your subordinates come to the office on time and you personally oversee when they arrive at work. One of your team members, a close relative of your company's president, ignores you every time and is often late in reporting for work. However, this person always politely gives his apologies for being late.

- a) What unethical moments do you see in this situation?
- (a) What way out of this embarrassing situation would you suggest?
- (b) Would you notify the president of your company of this entanglement?
- (c) What negative consequences is this situation pregnant with from ethical point of view?

2. You are manager of a small firm. A professional and diligent engineer, a young single woman, files a complaint against her boss. According to the woman, her department head has tried several times to take her out on a date with her and give her expensive gifts. She refused all his advances, but to no avail, as he did not stop. Their colleagues have noticed something and rumours are already circulating their department. Some people even believe that she is to share in the blame, because, according to them, she dresses provocatively and is made up. She asks for your help.

- a) What unethical moments do you see in this situation?
- b) What would you do as the head of this firm?

3. You are owner of a small café. You have a vacancy for cashier position. This job requires such qualities as: experience in this field, honesty, ability to work late hours. You look at the list of finalists you have interviewed in the last week. All of them seem to qualify professionally, but have some problems on the non-work related aspects. Give arguments pro and contra for every candidate and make a final choice?

- a) No. 1 is a nice looking woman of about 30. She has graduated from a junior college with major in accounting and used to work as cashier for a local bank which closed down. She seems honest, competent and reserved. She is a divorcee with a small child and has no relatives in Baku.
- b) No. 2 is a young girl of about 20. She does not speak Azerbaijan language well, which might be a problem. She completed accounting courses and has worked as cashier in a restaurant nearby. She would not tell you why she quit. She is pretty. You suppose she was harassed by her former boss.
- c) No. 3 seems to be very competent. He used to be a chief accountant in a local public institution. He is about 40. You have known him all your life to be an honest and decent man. He is your best friend's brother.
- d) No. 4 is a young man of about 25. He is a chief cashier at a big supermarket in the suburbs and wants to find a job closer to his home. He has good references, but he told you that he is a devout Moslem and he will need some space and breaks during his office hours to pray, which might be inconvenient.
- e) No. 5 is a young girl of about 25. She used to be an accountant at a hotel. She is competent, but you think that her dress, make-up, and manner of speaking are too provocative. You are not sure if this will be useful for your business or bring problems.

4. A human resources manager was assigned by his boss to collect information on employees, who will have to fill in questionnaires. However, the human resources manager is also to collect some of the information himself, using unofficial channels. The questionnaire has some questions on marital status, family members, relatives, scope of interests, friends, relationships and personal qualities of employees.

How ethical is this assignment, as well as collection of information of this type through unofficial channels?

5. A firm under a conventional name of Co sells medical supplies in Azerbaijan. Under a dealer agreement with a foreign pharmaceutical company, the Azerbaijan firm shall sell exclusively products of their supplier. The Co firm sells through its agents, who have established close relations with some

doctors, prescribing medications in medical institutions. The Co firm decided to give small presents and honoraria to these doctors, basing on the amount of prescriptions made, which, according to the firm, will assist them to form closer relations with doctors and increase the volume of their sales.

- (a) What unethical moments do you see here?
- (b) To what degree does the Co firm's decision respond to ethical requirements?
- (c) Can a direct payment of honoraria to doctors by suppliers be accepted?

6. The company where I am employed, has recently announced a job vacancy. The company administration has authorized me to conduct interviews with applicants and make the relevant selection. My old friend turned out to be among applicants and he asked me to assist him in getting this job. In fact, my old friend has two children and his wife has recently died. I have interviewed all applicants and found that three of them, including my old friend, are the best match for the vacant position.

- a) Shall I make a decision in favor of my old friend?
- b) What is the best way out of this situation?

7. You work full time for J-Consulting, an insurance company. Your friend has just quit a competing company because she is going to have a baby. Her boss is looking for someone to employ, but they need to fill in the gap immediately by hiring a part time consultant, until they find a suitable candidate. Your friend recommends you for the job. What shall you do:

- a) Refuse altogether?
- b) Request to keep the temporary arrangement confidential and work from home on week ends?
- c) Notify your boss of the proposal?
- d) Work from your current workplace in the evenings?
- e) Anything else?

Sanar Mammadov

CHAPTER III. CUSTOMER RELATIONS

Tough competition forces businesses to apply enormous efforts to ensure that their goods and services fully comply with the requirements and wishes of their customers. Experts all over the world undertake behavioral studies to understand customer preferences for certain types of products. Despite all these efforts, there appears to be no single recipe to win customers over, as it impossible to predict human behavior with 100% accuracy. It has been proven however, that people are not indifferent to good service and fair treatment.

Every customer has a right to choose the best quality product and service. It should be mentioned that before the 1960's there were hardly any laws to protect rights of customers. Before the second half of the last century, customers were not entitled to raise legal claims against manufacturers that were producing poor quality products.

The first legal document protecting the rights of customers was adopted in the U.S. under President J. Kennedy.²³ This document from 1962, sets forth 4 main rights for customers: a right for safety, compliance, choice and information.

These principles were subsequently expanded to form the basis for customers and manufacturer relations. In Azerbaijan, we have the "Union of Free Consumers", which takes certain steps in this direction.

In April-May 2003, the "Union of Free Consumers" conducted an opinion poll²⁴ aimed at finding out the degree of consumer satisfaction with the quality of water, gas and power supply, as well as the quality of the relevant services. The survey found that 47,8% of respondents were not satisfied with the quality of gas, 35,8 % were not satisfied with water quality and 29,8 % were dissatisfied with electric power. It is worth mentioning that only 5% stated that they had concluded contracts with the suppliers of the relevant

²³ L. K. Treviño, K.A. Nelson, *Managing Business Ethics*, 1999, J. Wiley & Sons Inc. Publishing House, p.81

²⁴ *The Role of Civil Society in Combat Against Natural Monopolies*, Report, Baku, May 2003

service. However, these contracts do not take into account the rights of the consumers. For example, Barmek requires timely payment for the power consumed but the company abstains from moral and material responsibility for the quality of electric power or the damage of electric appliances due to interruptions of power supply.

Obligations of businesses before customers

In this Chapter we will discuss the nature of relationships between businesses and customers, as well as analyzing the obligations of businesses to customers. It should be noted that these obligations cover a broad spectrum of businesses, while many professions are noted for their own specific duties to their clients. For example, the obligations of professionals (lawyers, doctors, teachers, auditors, architects, consultants, etc.) are very diverse and have their own peculiarities. We will review common principles only, while the special characteristics of professional ethics will be discussed in Chapter X.

Global experience recognizes seven main obligations of businesses to their customers. These obligations are shared by professionals as well and are as follows:²⁵

- ◆ Honesty
- ◆ Competence
- ◆ Keeping commitments
- ◆ Care
- ◆ Loyalty
- ◆ Fairness
- ◆ Confidentiality

Honesty in dealing with customers

Shall a baker warn his customer that the rolls are not fresh?

Businesses should strive to build credibility in the eyes of their customers. In this particular case, it means abstinence from deceiving customers and wasting their money. If a business attempts to deceive a customer (withholding change or offering wrong information about a product), this is dishonest from an ethical point of view. Such behavior evokes an adverse response. As discussed in Chapter V, a customer will feel deceived and will not return to this particular business in future.

Competence in dealing with customers

Shall a surgeon call for a conference of specialist doctors, if he is not sure of his diagnosis?

The competence of a servicing party is of vital importance for customers. A person rendering a service may well be honest, sincere, caring, loyal and just, but if the person does not have a sufficient degree of competence, he or she will not be able to adequately fulfill the task. If this is the case, the servicing party should immediately recognize its lack of competence and refer the customer to a more experienced firm.

Keeping commitments

Can an auditing firm delay submission of an auditor's report to its customer by one month?

Businesses shall execute commitments assumed duly and diligently. A business may supply quality goods or services, but fail to meet deadlines agreed upon. In this case, a supplier will be violating commitments to its customer.

Caring about customers

Shall a dress-maker tell a female customer that because of her size she'd better not have her skirt too short?

²⁵ M. D. Bayles, Chapter IV in Professional Ethics, Florida State University, Wadsworth Publishing House

Businesses shall care for and respect their customers. A servicing party may be rendering high quality services, but will be bound to lose customers, unless it is able to take care of them. By care, we mean a consistent response to customers' needs and wishes, the provision of advice and assistance to facilitate the best choice of goods and services. A customer will feel cared about and trust his or her supplier. Such customers are bound to become regular frequenters of a particular business. It is no wonder that many famous companies include the principle of care into their statements of mission.

Loyalty to customers

Shall an architect tell his customer that a construction company hired to build a house is over- charging for its services?

Businesses shall, first of all, protect the vital interests of their customers and be loyal to them. A failure to protect the interests of a customer may create irreparable damage to customer-supplier relations. Loyalty is a feature more peculiar to representatives of the highly skilled professions. For example, lawyers and doctors should always give priority to the interests of their customers in their relations with all other parties involved.

Fairness in dealing with customers

Can a cashier at a shop serve a woman with a small child out of turn?

The main aim of fair treatment is to ensure equal treatment to all customers, regardless of the customer's racial, national, ethnic or sexual attributes. The principle of fairness is especially important for professionals such as doctors, lawyers or teachers. Doctors take the Hippocratic Oath and are obliged to render help to any patient, regardless of their financial or status. As for the question framed, this principle might contradict our national mentality, which requires special attention to the aged and women with small children. This problem is discussed further in the Conclusion.

Confidentiality principles

Can disclosure of information on a patient who has undergone a plastic surgery be considered as violation of ethical principles?

Confidentiality is one of the fundamental rights of customers. Health care systems of many countries guarantee the anonymity of patients' diagnosis. Businesses, by guaranteeing the inviolability of customers' secrets, are guided by the principle that customer information is secret in the same way as business information is considered confidential. Many big companies consider confidentiality so important that they prohibit their staff members from sharing information on their customers with the public. Many professional businesses give serious guarantees of confidentiality of customer identity. For example, Western banking systems give strict guarantees of confidentiality of customer identity and their bank account details. A bank is not allowed to state that a certain company is their customer, unless a relevant court ruling is available. It is considered dishonest and unethical for a consulting company to pass information to their client on a competing firm.

In Azerbaijan, business partners do not follow the principle of confidentiality with respect to their customers. There have been cases when banks have passed their clients' business plans to competing firms. The majority of banks in Azerbaijan do not have an efficient system of guarantees of confidentiality for their customers, which partially explains the low level of credit in local banks by citizens of Azerbaijan.

We believe that the growth of economic activity and consequent increase grip of competition grip will force Azerbaijan businesses to follow these principles more strictly.

It should be mentioned that, despite a widespread perception that "the truth is always with a customer", customers also have two very important obligations to businesses: to meet agreements and to timely pay for goods and services.

SELF-ASSESSMENT QUESTIONS TO CHAPTER III. CUSTOMER RELATIONS

The questions below are designed to assess your understanding of the material.

- ◆ What rights are customers entitled to?
- ◆ Please describe the obligations of businesses to customers?
- ◆ What are obligations of customers to businesses?

CASE STUDIES FOR CHAPTER III. CUSTOMER RELATIONS

Please read the cases below and chose your answer from the options provided. Please substantiate your answer. The notes to cases can be found at the end of the book.

1. You run a Kodak shop and a female customer wants to hire a video operator with a camera to videotape a wedding tomorrow night. You understand this is very short notice and that your two best cameramen already have an assignment. The only person you can spare is an apprentice. You know he would do the job very well, but the customer wishes to have a professionally made tape. Do you:

- (a) Take the order?
- (b) Frankly tell the client of your problem and allow her to make a decision on her own?
- (c) Tell her to go elsewhere?
- (d) Take the order and frantically start calling your competitors to see if they can spare a good camera-man?
- (e) Anything else?

2. You own a small business and you need a loan for further company development. You are sure that the credit will allow your business to become more efficient because you plan to establish a network of new services that your competitors have not yet dreamt of. Thanks to this innovation, you will outsmart all your competitors. You have a designed a business plan and submitted it to a conventional bank X. A bank clerk promises to respond very soon. Some time later you receive a notification from a bank that the loan will be extended. However, you have a vague suspicion that your competitor has just started to render such a service.

- a) What unethical problems do you see here?
- b) How could your competitor have got this information?
- c) If the information leaked through a bank clerk, how ethical is his act? Please justify your opinion.

3. You are a department head in a consulting firm. You have just finished some marketing research for one of your most valuable customers – Trade Co. One evening, you are alone in the office late in the evening. A woman calls you and introduces herself as vice-president of Trade Co. She asks you to immediately fax her the resume of your research. You locate the material requested and see that it is classified “For internal use only”. The Vice President you report to is on his honey-moon and you would not dare bother the company President to authorize release of materials.

- (a) How ethical is the request of the Trade Co. vice president?
- (b) What shall you do?
- (c) What facts should you take into account or what questions should you ask the caller before making a decision?

4. You run a small beauty parlor and your customers usually book their appointments in advance. A client was booked for a haircut for 4 o'clock and another one for 4.30. The first client decided on the spot to have her hair dyed as well. The second client is already waiting. Shall you:

- a) Suggest the first client to book for some other time?

- b) Tell the hair master to blend the color and dye the first client yourself despite the fact that you are the owner and manager and this is really not your job?
- c) Make the second client wait?
- d) Suggest that the second client wait and offer her a face mask free of charge?
- e) Anything else?

Rena Safaraliev

CHAPTER IV. PROBLEMS OF EXTERNAL CORPORATE ETHICS

Unfair competition

Competition constitutes the backbone of market economy. However, a market can function efficiently and benefit consumers only in the environment of a legal, fair and free competition. Fair competition requires that *all players* - the state, the business as a whole and individuals follow certain rules.

Looking for a rare sample of more or less fair competition in Azerbaijan, one might consider the numerous small cafes and snack bars, which offer delicious food and cozy ambience for a modest price as the result of tough competition. We would abstain from qualifying competition in this sector as absolutely fair, as owners of these enterprises had different starting points: some earned their starting capital, some inherited it, while yet others stole or took bribes. Still, competition in this sector is really fair, as no powerful pressure from the outside can force a customer to chose a place to eat. This is the most reasonable explanation why the number of cafes and places for public festivities in Baku are extremely abundant.

The most frequently used methods of unfair competition in a developed market economy are as follows:

- enticing of key employees of competing firms;
- gathering of confidential information on competitors;
- dumping policies or charging below production cost;
- industrial espionage;
- subversive activity at competitor's production facilities;
- information wars or use of negative PR methods in media.

Our market, which is, to be frank, very far from civilized, does not resort to such intricate methods, except for negative PR. The main instrument of unfair competition in our market is corruption, especially, its following forms.

- Subornation of high rank officials is a quite common method. . According to some sources, “a shapka” or “kickback” to award a tender for public procurement might constitute up to 30-40% of the project cost.²⁶ Even high ranking public officials are forced to recognize that “we do have such public officials, who impede healthy business in Azerbaijan for their own mercenary interests. They put obstacles in the way of both foreign and local investors”.²⁷
- Pressure from above in a decision-making process is another common technique, for example, during the awarding of tenders. The Japanese Bank of Reconstruction and Development officially refused to recognize Sumitomo, a Japanese company, as the winner of a tender for construction of the gas pipeline Karadag – Severnaya hydro-power station. It should be recalled that the Bank financed construction of the pipeline in Azerbaijan. The tender was participated in by four Japanese companies and some media sources wrote of the unscrupulous conduct of Sumitomo and its informal agreements with Azerbaijan public officials.²⁸
- Patronage of certain industries by individual public officials or their direct involvement in economic activities is very often accompanied by abuse of public resources.

²⁶ R.Gajiev. Corruption and Economy, edited by S.Bagirov, Publication of Transparency Azerbaijan, Baku, 2002, p. 69

²⁷ X.Ismailova, One of the Major Problems – Abuse of Power by Public Officials, interview with Mahmud Mamedguliev, Deputy Minister of Foreign Affairs, 6 August, 2001, www.echo-az.com/echo-az/shtml

²⁸ S.Sultan oglu, Japanese Bank Said “No” to Corruption in Azerbaijan, *Yeni Aseer* newspaper, Banks and Business column, 15 September, 2001

- Creation of state enterprises under state regulatory agencies in the same sector shall also be qualified as a variety of unfair competition. Such enterprises are either monopolists or enjoy unfair advantages in this area compared to their competitors. Ministries of Culture, Education, Communication, and Healthcare issue licenses to private firms for business activities and, at the same time, have commercial enterprises reporting to them, in the same industry. For example, Azeurotel claims that Ministry of Communication creates obstacles for its normal work in pursuit of “preservation of monopoly in the sector of telecommunications”.²⁹

The imperfection of the legal base in Azerbaijan can hardly be denied³⁰, however, it is not the main reason feeding unfair competition. Lack of strong democratic institutions, namely free press, civil control and efficient judicial system, i.e., mechanisms of control over implementation of laws, foster a favorable environment for unfair competition in much more significant way.

Absence of fair competition results in extraction of super-profits by unscrupulous companies at the expense of consumers and deprives law abiding companies of an incentive for modernization and organization of an efficient management system. In the modern global economy fair competition is in some cases restricted by governments, who aim to support local manufacturers. This mechanism can be justified only under certain conditions and as an interim measure. For example, local legislation taxes imported finished products more heavily than import of raw materials and semi-finished products. It is difficult to disagree with expediency of this measure in the light of enormous volume of imports into Azerbaijan and insufficient rate of local production. Nevertheless, as local industries develop, for example, the food processing industry, tax advantages should be lifted, because local producers have to learn to compete with producers of adjoining countries.

The U.S government protectionism policy for American car manufacturers led to loss of positions of American cars to Japanese and South-Korean competitors in the global market.

Violation of anti-trust legislation

Classic types of violation of anti-trust legislation are: division of market, collusion, coordination of pricing policies and creation of monopolies. Market division takes place when several major companies reach an agreement to divide the market for their product, for example, region-wise. Coordination of pricing policies means that major manufacturers agree on the same artificial price for certain products and thus deprive their customers of a price-based choice.

Two cell phone companies - Azercell and Bakcell regularly introduce into market new diverse packages of goods and services, accompanied by well conceived promotional campaigns. However, these companies maintain a similar pricing policy. We hope that advent of a third operator, already being discussed by media for some time now, will benefit consumers.

Collusion is often resorted to at closed auctions. For example, a company reaches an agreement with competitors that they will recall their bids or set exaggerated prices to clear a way for this company in exchange for other concessions. Creation and sustenance of monopolies in spheres other than natural monopolies, like Barmek or Apsheron Regional Water Company shall also be qualified as a sort of unfair competition. Such enterprises, as Karadag Cement, Baku Steel, European Tobacco are recognized monopolists in their sectors of industry. It should be mentioned that in our country, the market is dominated by state monopolies, rather than private companies. However, the corrupt practices of some public officials very often contradict public interests, which these officials are duty-bound to protect, leading to a classic conflict of interest.

Industry self-regulation

²⁹ Letter sent by Azeurotel to their customers at 14.36 on 2 March 2003 by e-mail, stated that at 11.30, 1 March Ministry of Communication illegally cut the company off communication for the second time within 10 days.

³⁰ However, the country has a law on unfair competition and a law on anti-trust policy.

According to a research, conducted in St-Petersburg, 30% of respondents claim that they suffer losses from unethical behavior of their competitors.³¹

In theory, the most logical treatment of unethical competitors would be litigation. However, this method is not without its deficiencies: as mentioned in Chapter I, legal norms give us minimums and do not always cover all kinds of ethical misbehavior. Besides, legal procedures may drag on for years and considerable expense may be incurred. In addition, the fairness of our courts is disputable. In other countries, businesses wishing to follow ethical principles in addition to legal mechanisms (court litigation), would resort to professional self-regulation instruments as well.

One self-regulation instrument used by businesses belonging to a business association, is the adoption of program documents of various levels: statements, principles or declarations of business integrity or codes of conduct or ethics. The main difference between these two types of documents lies in the degree of their details. A code is a set of more detailed norms and principles, which takes into consideration the specifics of business activities of a company, while other documents state the basic ethical principles shared by all members of an association, which can be subsequently elaborated into a company code. An illustration here is a Sample Code of Integrity, designed by International Chamber of Commerce and approved by Council of Europe in December 1994,³² or the Declaration of Business Integrity in St. Petersburg, designed by Center of Business Ethics and Corporate Governance.³³ Another very convenient method for small companies is to design and adopt an industry code. Businesses, joining professional associations, can use industry codes without any changes or introduce minor amendments to them, but will not need to make any radical changes.

Courts of Arbitration, consisting of three impartial and independent persons, might be another option. Such courts, in fact, represent an attempt at pre-trial settlement. According to Azerbaijan legislation, verdicts passed by courts of arbitration shall be recognized by public courts and thus acquire a legal status. At the moment there is an independent non-governmental organization (NGO) in Azerbaijan, working to establish such a court.³⁴ Another NGO is also engaged in pre-trial settlement of disputes. For example, this organization successfully settled a dispute in respect of arrears in wages of *Resonance* newspaper and its founder, when the newspaper was closed down.³⁵

Finally, the compilation and publication of “black lists” of violators – as practiced by the World Bank - and expulsion from professional unions are possible.

Relations with authorities

In many countries businesses, in cooperation with the state, establish Coordination Councils to relay their concerns and share experiences with the government. One may note that in Azerbaijan there is the Entrepreneurship Development Fund and the Agency on Development of Small and Medium Size Enterprises, which can perform these functions. However, as these are state structures, they do not fully reflect the concerns of the business community. Recently a Coordination Council, comprised by representatives of business associations, has been established. We hope this Council will meet with the Ministry of Economic Development on a regular basis and make recommendations, publicize new initiatives, promote the interests of businesses, file complaints of illegal actions by state organs, share success stories, and ask for assistance to resolve delicate issues. In our opinion, meetings of the President of the country with businesses in the spring of 2002 have set a precedent for such cooperation. This series of meetings resulted in the adoption of a number of decrees and amendments to the Tax Code. According to A. Mammadov, chairman of the National Confederation of Entrepreneurs (Employers), presidential decrees, resulting from these meetings, “have taken into account all recommendations of businessmen,

³¹ Anna Ossipova, Presentation at a conference Managing Multi-profile Enterprises, under Business Education Project, 16 May 2001, St. Petersburg

³² For detailed information, please see www.coe.int.org

³³ For detailed information, please see www.ethics.russia.org

³⁴ Information provided by International Court of Arbitration NGO, funded by Eurasia Foundation, Project Coordinator Natiq Abdullayev, tel. 97 73 67 or 97 73 66, e-mail arbitr@box.az

³⁵ Information provided by Independent Legal Center NGO, Project Coordinator Aydin Kerimov, tel. 41 37 32, e-mail aydin@mail.ru

made at the meetings with the President”. Establishment of the National Fund for Entrepreneurship Development and adoption of the State Program on Small and Medium Enterprises Development for 2002-2005 serves as another illustration of this cooperation.³⁶

Political non-interference

As a rule, codes contain provisions on political non-interference and prohibition of financial support to political parties, even if legislation in force does not impose such restrictions. However, abstinence from political life, although valid for a company should not apply to its employees, who must be entitled to their own choice of party membership, should they wish to participate in politics.. For example, internal ethical regulation of Statoil specifically states that the company “does not support any political party or candidate, and this neutral stance forms part of the Group's image. Individual employees remain free to participate in democratic political life, without reference or connection to their employment with Statoil”.

However, the majority of codes specifically provide that membership in a political party shall not damage interests of a company. The vagueness and breadth of this provision evokes some reasonable concern. For example, it is not clear whether, under such a provision, if an employee of a plant manufacturing natural fur coats, would be allowed to join Greenpeace. It would also be interesting to find out if a company, contracted by the state, would allow its employees to join opposition parties?

SELF ASSESSMENT QUESTIONS TO CHAPTER IV. PROBLEMS OF EXTERNAL CORPORATE ETHICS

The questions below will assist you to check how well you have perceived the material.

Unfair competition

- ◆ Why does a market economy require fair competition?
- ◆ Please give illustrations of fair and unfair competition in Azerbaijan.
- ◆ What main methods of unfair competition are used in a developed market economy?
- ◆ What main methods of unfair competition are used in a developing market economy?
- ◆ What mechanisms ensure unfair competition?

Violation of anti-trust legislation

- ◆ What are the classic methods of violations of anti-trust legislation?
- ◆ Are these methods applied in Azerbaijan?
- ◆ If yes, please give examples.

Industry self-regulation

- ◆ Why do businesses of many countries resort to industry self-regulation?
- ◆ What program documents are used by businesses as instruments of industry self-regulation?
- ◆ What is a court of arbitration?
- ◆ Please give other instruments of industry self-regulation.

Relations with authorities

- ◆ What functions are performed by coordination councils?

Political non-interference.

- ◆ Why do companies stick to the principle of political non-interference?
- ◆ Does this principle cover individual employees?

³⁶ N. Gulieva, All Recommendations of Businessmen Were Taken Into Account, Echo newspaper , 04.10.2002

**CASE STUDIES FOR CHAPTER IV.
PROBLEMS OF EXTERNAL CORPORATE ETHICS**

Please read the cases below and chose any answer option. Please justify your choice. The keys to answers can be found at the end of the book.

1. My small company is bidding for a contract for repair of buses of a transport company. I know that my competitors are also bidding. I need this contract desperately, otherwise I will be facing ruin. I can:

- (a) Wait for the end of tender.
- (b) Try to make arrangement with competitors and ask them to overcharge in exchange for some other concessions.
- (c) Try to reach an informal agreement with manager of the client firm.
- (d) Ask a public official, a friend of mine, to exercise pressure on the client for a fee.
- (e) Anything else?

Will your answer change, if this company is:

(a) small; (b) medium; (c) big; (d) transnational?

2. My construction company has been awarded by a foreign company to construct a warehouse. I know that the company has received a permission from local authorities for a construction site. However, after announcement of results of the tender, my client was informed that the permission will be reconsidered. It is obvious that permission is being deliberately delayed. I understand that I might be ruined if I do not start this job soon. I can:

- (a) Leave the customer deal with authorities on their own.
- (b) My plan is to suggest to my client to increase my fee, so that I could deal with authorities they way things are often done here. Will my client:
 - a) Terminate my contract?
 - b) Tell me to forget my plan, but continue working with me?
 - c) Accept, but pretend that they have no idea of what I will be doing?
 - d) Readily accept?
 - e) Anything else?

Will your answer change if this company is:

(a) Norwegian; (b) American; (c) Russian; (d) Azerbaijan?

3. Our country has a unique law forbidding manufacture and sales of non- iodinated salt. No other country has such a law. What do you think:

- (a) What is the rational behind this law: protection of the nations' health or of interest of major manufacturers in competition with numerous small cottage-style industry producers?
- (b) What shall cheese manufacturers do if iodinated salt does not give the required production effect?

4. Two big local companies, abstergents manufacturers, agreed to capture the market and sell products at dumping prices for a year now. These companies are backed by high rank public officials, who can afford to lose money in short-tem in hope of monopolization of the market. Such policy has brought small companies to the eve of bankruptcy, as small companies need to repay loans to banks and can not afford dumping prices. What shall these small companies do:

- (a) Ruin quietly?
- (b) Suggest big companies a deal of acquisition or merger?
- (c) Go to media or court?
- (d) Ask informal structures for assist : business association or a coordination council?

(e) Anything else?

5. A computer firm is in an urgent need of a qualified sales manager. Sales volumes have considerably decreased for the last six months, because the previous manager failed to do his job well. The deputy director of the firm is looking for a candidate to fill this position. An applicant, holding a similar position in a competing firm, is the best of all candidates. He is ready to take this job for a higher salary, which you are ready to pay. However, during the interview he negotiated his salary and offered to bring a CD with information on all the customers of his current employee.

- a) Would you give the job to him? If yes, is it ethical towards your competitor? If no, is it ethical towards your firm, losing revenues?
- b) Can you refer to “all is fair in love and warfare” principles?
- c) What other ethical considerations might be involved?

Sanar Mammadov

CHAPTER V. LYING AND DECEPTION IN BUSINESS

Forms of lying

It is sad to recognize that in the modern world such values as faith, truth, and honesty are being eroded. Increasingly often, people encounter deception, fraud and falsification. Newspapers report such stories every day. In business and in ordinary life people try to benefit through lying. Why do people lie? Of course, we will not study the psychological or philosophical roots of the problem. Our purpose is to reveal common forms and examples of lying in business and to study their consequences.

The main goal of lying is to gain an advantage over the other party and to earn profit and influence in every day life or in business by withholding truth and falsifying information. People in the business world frequently resort to lying when trying to conclude a deal. Lying can be used to: conceal an objective reality (hiding the heart of the matter); make a realistic choice unclear (by creating deliberate obstacles to freedom of choice); represent a dubious affair as credible; apparently reduce costs; and artificially swell profits. Lying can take various forms.³⁷

- a) *Falsehood (bluffing) – false promises given to the other party in an attempt to present the non-existent as genuine.*
- b) *Falsification – presentation of false information as if were truthful.*
- c) *Deception – an attempt to force the opposite party to arrive at a wrong conclusion with a set of false arguments.*
- d) *Withholding information – presentation of only a part of the truth.*

A person trying to distort information should fully understand the potential negative consequences of his or her actions. In business, lying usually only yields short term benefits.

You can fool all the people some of the time, and some of the people all the time, but you cannot fool all the people all the time. (Abraham Lincoln).

«Falsehood lacks the courage of its conviction.» (An Azerbaijan proverb).

These expressions depict lying very well.

The business world has very strict rules concerning lying. People who tell lies must understand that they could lose credibility in the eyes of those deceived, and that the deceived party might never again apply for their service. In addition, in business circles, reputation runs before a person, and a person who is known to have lied may find his or her future attempts to do business with other people doomed to

³⁷ Gizerman and R.J Lewicki, *Negotiating in Organization*, Chapter 4, in *Lying and Deception*, p.70, Sage Publishing House, 1983

failure. Such a person may be rejected not only by business, but by society at large, as no ethical norms tolerate lying.

In some cases, lying can be justified. For example in a military scenario, use of false tactics towards an enemy, deliberate overestimation of military forces in order to mislead the enemy, and lying to get secret information on an enemy's weak and strong points, can all be justified by ethical norms.

Apart from lying, other examples of unethical behavior include the breaking of promises, cheating, and stealing.

Breaking promises and defaulting on contractual obligations

A promise is the consent of a person expressing his or her attitude towards a certain matter. In Azerbaijan, historically people took giving and fulfilling promises very seriously. The expression "a man's word" shows how valuable a promise was. A person who broke his promise or took it back was not considered "manly". All business activities at the turn of the twentieth century were based on "a man's word". Unfortunately, in the period of the so-called transition to a market economy, many people do not keep their word and even violate their written contractual obligations.

Stealing

No society tolerates stealing. Stealing involves the taking of somebody else's property. In democratic countries private property is sacred, and stealing and trespassing are especially serious crimes. Embezzlement of state or corporate property is also not acceptable. It should be mentioned that, unfortunately, some people have become accustomed to stealing and will continue to do so, even if they are paid decent salaries. Should circumstances allow, they would steal even a minor thing for which they may have no need.

Fraud and cheating

Fraud and cheating, like lying, aim to deceive. However, in contrast to lying, fraud and cheating imply certain actions. A person encountering fraud or being cheated risks being deceived. For example, you have purchased a car and the odometer indicates 40,000 km. However, in reality, this indication has been falsified by the car seller, and the car's actual mileage is 140,000 km. This is sheer cheating.

Fraud and cheating can take numerous forms. Specific examples are as follows: deliberate misrepresentation of taxes payable; falsification of business information (e.g., exaggeration of business expenditures); giving a short weight at a bazaar; extension of the expiry date of perishable goods; provision of false evidence to receive an inflated insurance claim; giving false information to obtain a job; etc.

Fraud and cheating, like lying and deception, undermine trust in human relations. A swindler will not enjoy his or her benefits forever and eventually will get caught. What is worse, he or she will lose credibility, which cannot be restored in the future. The realities of Azerbaijan provide us with many cases of fraud and cheating. Many swindlers who abused the trust of people, and in some cases took advantage of their ignorance, have either been caught or have had to flee the country.

Financial pyramid schemes from the early days of *perestroika*, such as Vahid Bank with its unbelievable rate of interest, or Minaret Group, which planned a fraud with privatization vouchers, have quickly disappeared. Another example is the group of swindlers who earned a lot of money on the so-called "beads swindle". Recently, a band of swindlers has repeated this swindle and was caught, in Bishkek.³⁸

Company's intellectual property

³⁸ Beads Swindler is Arrested, Echo, 19 June 2003

First, we should review the notion of property. Legal forms of property can differ, depending on the organization of a society and its state system. Classification based on the type of property distinguishes between material (real estate and movables) and intangible property.

Intellectual property is a subtype of intangible property and is protected by copyright and other instruments. This type of property differs very much from other types of property. Copyright protection also differs depending on the product variety and, in general, is very complicated. Appropriation of other people's ideas and written works is quite common nowadays, as it is very difficult to prove authorship of intellectual property – this task requires extensive efforts and time. On the other hand, the chances that somebody else will have a similar idea are quite high - this is why sometimes it is very difficult to tell with certainty who is the genuine author. However, there are universally accepted mechanisms to protect intellectual property by copyright, patents and other tools to safeguard commercial secrets.

Copyright. Initially copyright covered written products only. Today its sphere of application has expanded to embrace other forms used to express ideas: e.g., works of art, movies, audio and video products, computer programs. In developed countries, a copyright is valid within the lifetime of an author, and 70 years after his or her death. Nobody can use a copyright-protected product without special permission from the author or, if the author has died or sold the copyright, from other copyright holders, for example, the author's heirs.³⁹

We regret to state that in Azerbaijan cases of copyright violation can be observed practically in all areas, the most visible sector being that of show business. Sales of pirated audio and video discs are quite a common sight. Another example of copyright violation is the presentation of Azerbaijan songs by Turkish television channels as original Turkish products.

The Turkish cell phone company Turkcell used one of the songs by a popular Azerbaijan singer and composer, Brilliant Dadasheva, without referring to the author of the song. Only the personal intervention of Ms. Dadasheva changed the situation. The company settled out of court.

Patents. Patents differ from copyright, as patents protect inventions rather than artistic, textual or media products. Patents are valid for 20 years from the time of registration, and authorize patent holders to use their inventions in their own interests. At the same time, an inventor can sell a patent or issue a license for its use by another party.. A patent prohibits the disclosure even of components of an invention. After the expiry of a patent's term, the invention becomes societal property.

Production secrets. Secrets should in principle not be disclosed, but, unlike copyrights and patents, if secrets are disclosed they lose their status and are not protected by the law. The term 'production secret' usually refers to a product at development stage, which later is to be protected by a patent. Different enterprises might produce similar products and compete for a patent, but at the development stage, they should protect their secrets themselves both out of legal and ethical considerations.

Trademark. Intellectual property also includes trademarks and brands. In accordance with its marketing strategy, any enterprise tends to brand its products with a trademark. These trademarks are considered to be intellectual property and are protected by the law.

Truthfulness in advertising

We all see and hear persistent commercials, signboards and announcements every day on television and on the radio, in newspapers and on the streets. Every business believes it necessary to advertise and market their product. Unfortunately, many businesspersons resort to unethical methods. Advertisements sometimes aim to deceive shoppers and force certain products upon them. Misleading consumers in this way may ultimately give them a lower opinion of the advertisers.

³⁹ R.T. de George, Business Ethics, volume 1, Progress Group Publishing House, St.Petersburg – Moscow, 2001, p. 501

Let's discuss advertising from the point of view of business ethics. The main purpose of advertising is to create better conditions for the sale of goods. It goes without saying that the function of an advertisement is not limited to the provision of information. Through a commercial, the manufacturer attempts to lure a customer to buy his product in preference to another, by forming a certain positive opinion of the product among consumers. In other words, a commercial performs several functions at a time. Below we will try to discuss three unethical methods, used in advertising:

- false and/or deliberately confusing commercials;
- inducement to buy a certain product by use of advertising playing unfairly on the feelings of consumers;
- use of inadmissible methods of advertisement.

Many commercials stand closer to a lie than the truth. If a commercial provides false information and its main objective is to deceive potential customers, such a commercial should be viewed as amoral. If an advertising agency resorts to lying, there is no moral justification. There are examples in the advertising of numerous products sold in the market. For example, information given on the composition of many foodstuffs, such as vegetable oil, sausages, soft drinks, etc., does not always correspond to reality.

Some commercials deceive without uttering a single word. Customers judge the product's quality by a picture on the packaging, and believe that the product's contents correspond to the picture. However, we can find numerous illustrations to the contrary. For example, a product entitled "chicken broth", with an attractive picture of a chicken on the packaging, contains no chicken meat at all. Such marketing fails to meet any ethical standards.

Even without giving false information or confusing pictures, some types of commercial can deceive and confuse. Some commercials deliberately present information in such a way that ordinary people are likely to arrive at wrong conclusions. Makers of such commercials try to shift the blame onto the information recipients who came to the wrong (but intended) conclusions. Such claims cannot be wholly accepted. For example, many manufacturers of vegetable oils stress that their product does not contain any cholesterol. Strictly speaking, this is correct, but a customer not well versed in chemistry will still have an incorrect perception of this product. In fact cholesterol is only found in animal fats, hence vegetable oils are cholesterol-free by definition. However, producers of such commercials deliberately distort this information and the results of such deception are obvious. This trick can not be justified by ethical norms, because, even if this commercial does not lie, it definitely resorts to deception.

Attempts to influence a person's will through particular methods of advertising also contradict ethical principles. Encouraging people to perform certain acts, or influencing their will through lying, deception and all kinds of cunning ruses is amoral. But how can advertisements influence people's behavior in this way?

The results of a number of psychological tests provide evidence that in addition to visual and verbal information, human consciousness is affected by the sub^{conscious}. Producers of an advertisement can include any information into a video clip, film, television program or melody. A person seeing the advertisement may not realize that he or she has seen the information or been influenced by the advertisement, but this information has in any case been recorded into the memory. Such advertising is known as "subliminal" and can influence our wishes and behavior even beyond our own volition.⁴⁰ We are entitled to the right of choice; we are free to switch to another television or radio channel or turn over a page of a magazine or newspaper. But we can not get rid of a subliminal advertisement. Such an intrusion, distorting human free will, cannot be accepted by ethical standards.

There are numerous commercials which are apparently produced for children. They advertise, for example, sweets, chewing gum or vitamins. Though these commercials are ostensibly addressed to naive and inexperienced kids who can not tell a lie from the truth, in fact, they target parents. The main purpose is to get the children to force their parents to buy the product advertised. How acceptable is such

⁴⁰ Tom L. Beuchamp, Manipulative Advertising, in *Business & Professional Ethics Journal*, 3 (Spring / Summer 1984) pp. 1-22

advertising from an ethical point of view? Is it ethical to influence parents through their children? We think not.

Some commercials which have not been made in a professional manner may be in bad taste and evoke negative feelings from people. For example, the commercial advertising Uruguay butter in Azerbaijan was doomed to failure from the start. In the end, both the commercial and the product disappeared from our market.

Commercials in the Azerbaijan market are mostly translated from foreign languages. Poor quality translation, or a failure to take account of local traditions and customs, can lead to the failure of the product in the local market. For example, the plot of one commercial for washing powder is as follows: a daughter-in-law scolds her mother-in-law, because she does not use a particular brand of washing powder. In addition, the young woman pushes the older woman out of the way. To what extent can this commercial relate to Azerbaijan mentality? What kind of ethical standards could accept such behavior?

Summarizing our discussion above, we can state that advertising using unethical methods will be counter-productive in the response it evokes from society at large, and can have negative consequences for the advertiser, namely:

- refusal of customers to buy certain products;
- waste of funds spent on advertisement
- reduction of sales volumes;
- damage to the reputation of a company;
- degradation of public taste.

SELF-ASSESSMENT QUESTIONS FOR CHAPTER V. LYING AND DECEPTION IN BUSINESS

The questions below are designed to assess your understanding of the material.

Forms of lying and deception in business

- ◆ What forms of lying can you name?
- ◆ What are the negative consequences of lying and deception?
- ◆ In what cases could lying be justified from a moral point of view?
- ◆ How does the business world treat the breaking of promises, stealing and cheating?
- ◆ What is the fundamental difference between lying and cheating?
- ◆ What examples of cheating in our country can you give? Please justify your opinion.

Intellectual property

- ◆ What kinds of intellectual property can you name?
- ◆ What is intellectual property?
- ◆ What is copyright?
- ◆ What is a patent?
- ◆ What is the difference between production secrets, patents and copyright?

Truthfulness in advertising

- ◆ What methods of unethical advertising can you name?
- ◆ What methods are used in advertising to influence the will of people in order to make them buy certain products?
- ◆ What is subliminal advertising?
- ◆ What are the negative consequences of unethical advertising methods?

CASE STUDIES FOR CHAPTER V. LYING AND DECEPTION IN BUSINESS

Please read the cases below and chose your answer from the options provided. Please substantiate your answer. The notes to cases can be found at the end of the book.

1. The Alievs' family insured their real estate and their car for 10 years with X insurance firm. They did not have any problems for a long time. However, one day the head of the family, taking his car out of the garage, scratched the back left side of the car against a fence, but forgot to repair it. Some days later his car was struck by another car and the rear of his car was severely damaged. The family applied to the insurance firm for reimbursement of the repair expenses. The family decided to include the earlier damage into the list for their insurer. The Alievs' decided that the insurance firm would not pay attention to such minor details and would underwrite not only the serious repair, but also the earlier, minor one.

- (a) What ethical issues do you see here?
- (b) How correct is the Alievs' family's decision?
- (c) What do you think they should have done under these circumstances?
- (d) Do you think that the Alievs' acted unethically? Please justify your opinion.

2. You have been working for X factory for a number of years. The management has been promising to raise your salary for some time now. You are not satisfied with your salary rate, and nor are many of your colleagues. One day you and other workers file an official compliant, but after numerous discussions the management informs you that they are not able to raise your salary at the moment. You believe that you have not received fair treatment. Therefore, you take some tools and spare parts away from the factory and set up your own workshop. You can justify your actions: the management does not care about its workers, so the workers should take care of themselves, and should take advantage of the slightest opportunity to support themselves.

- (a) What unethical actions do you see in this case?
- (b) What do you think of the unfulfilled promises by the factory management?
- (c) Is the worker's decision right?
- (d) What do you think of the worker's self-justification?

3. In which of the cases below can stealing be justified?

- (a) A very poor family – neither of the parents is able to find a job. The family has no food. The head of the family decides to steal to save his wife and children from starving.
- (b) A person being chased takes the first available car and flees the site.
- (c) Many people believe that stealing from a friend or acquaintance or, in general, from an individual, is impermissible. However, they may believe that stealing from companies or corporations can be justified. These people defend their position as follows: "Companies and corporations earn huge profits thanks to the hard work of their employees, so the employees are entitled to reap the fruits of their labor as well."

Vagif Gaziev

CHAPTER VI. MECHANISMS OF IMPLEMENTATION OF PRINCIPLES OF BUSINESS ETHICS

Corporate documentation on ethics

Companies design several types of documents, defining their ethical principles. As a rule, shorter documents (one to several pages) are referred to as missions, declarations or statements of general principles. More detailed documents (from several to a hundred pages) are called Codes of Ethics or

Conduct. Some companies, for example, law firms, might have a substantial volume for a code. For the sake of convenience, we will stick to the term “Code of Ethics”. Codes are aimed at making staff members clearly understand principles of corporate ethics. Companies design strategies to ensure that employees behave in accordance with these principles and, in addition, expect similar behavior from their colleagues.

As a rule, codes state the *main goals and values of a company*. Codes are considered to form a foundation for the economic success of a company and are valued by government agencies, auditors, commercial structures, consumers, in a word, by all those stakeholders, involved in a company’s success. *Moreover, codes command the respect of a company’s staff.*

This was stated very convincingly by George Merck, son of the founder of Merck Corporation: “We try never to forget that medicine is for people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear.”⁴¹

Codes are very important for our country, because in many local companies people have no understanding of complexity of ethical dilemmas and possess a very vague notion of their responsibilities or the subtleties of building relations with management, colleagues, suppliers and others. A code is more than a list of rules. Provisions of codes ensure clear understanding of ethical norms, as applied in various situations, where laws fail to provide unambiguous answers.

Preparation of ethics code shall be delegated to experts competent in this area. Prior to the compilation of a code, it is recommended that a special questionnaire be prepared, addressed to all company employees, from rank and file staff members to managerial staff, to inquire into their opinions and wishes in respect to the future code. It is also highly recommended to discuss drafts of future codes with all employees in order to incorporate their comments. Codes establish general principles of the life of an organization and govern all personnel from chief executive to support staff.

Structure of codes

Codes consequently reflect relations of a company with all parties involved as described below.

Consumers - codes provide for timely supply of high quality goods and services.

Employees – codes ensure safe workplace and healthy work environment, guarantee fair and just treatment of every employee, respect for human dignity and rights.

Suppliers – codes stand for development of sustainable and mutually beneficial co-operation, based on the principle of fair competition.

Society and civil groups - this means an explicit desire to act as responsible citizens and contribute to the development of civil society. Support of cultural values and strengthening of civil institutions can serve as an illustration of this principle’s implementation. For example, Volkswagen supports numerous cultural programs. In particular, in 2000 this company announced a competition for a grant to study the history of a local community. Representatives of Azerbaijan also participated. The World Bank has supported programs aimed at introduction of civil studies at Azerbaijan’s secondary schools. There are many other examples of corporate support in such areas.

Competitors - codes require to abstain from unfair competition and prevent formation of monopolies in the market.

Investors – codes recognize the right of investors for profit.

In recent years many codes also cover another important problem, namely, the *attitude of a company toward environmental protection*.

A multi-national Chiquita Banana company states in its code that the company has invested \$20 million in a project on upgrading of infrastructure, control systems, monitoring of water quality, organization of special training on environmental protection for their employees. This activity has resulted in a different

⁴¹ Our Standards and Values, Publication by Merck Corporation

attitude of employees towards the environment and their ambition to reduce quantities of pesticides and restore depleting forestation.⁴²

The Code of Sequa Corporation underlines that all operations of the company shall carefully respect and protect the environment, including water, air and land utilization. The company's policy aims at strict implementation of the latest decrees of relevant federal, national and local regulatory agencies.⁴³

Political activities. Codes of nearly all major companies require that corporations not render illegal or biased assistance to political processes. Any allocation of funds with a purpose of political influence can be made only with permission of management. Of course, a company's employees are entitled to take part in political life as individuals, but they are prohibited to use their work time, property or finances of their company for personal political involvement.

Entertainment and gifts policy. Codes draw a strict line between an acceptable limit of entertainment and gifts and define what shall be qualified as a bribe. For example, BP internal regulations require that any gift or service accepted by a staff member be recorded in a special register. Management subsequently must make a decision with respect to such a gift or service. Every region has its own provisions, regulating procedures of gift giving and taking.⁴⁴ Many companies also set a gift cost limit, which can not be trespassed either for gifts to be accepted, or presented.

Out-of-office business activities. As a rule, codes clearly define out-of-office activities of their staff members. Most companies prohibit simultaneous employment with another employer in the same sector of industry. However, exception for research and teaching industries can be made.

Confidential information. Codes set forth notion of confidentiality. This issue is discussed in more detail in Chapter II.



Conflict between personal and corporate interests. No company shall be denied a right to act in its own interests, even if this principle contradicts personal interests of some of its employees. When does a conflict of interest emerge? As a rule, a conflict of interest occurs when company employees are involved in some external relations that may affect their business decisions or have the potential to do so. Chapter II discusses conflicts of interest and ways to eliminate them in more detail. Codes shall contain clear instructions for employees, enabling them to avoid conflicts of interest and, in case of emergence of such conflicts, to successfully solve ethical dilemmas.

Codes may include any provisions regulating relations with employees, customers, partners, investors, local communities or any other stakeholders, provided that such provisions do not contradict legislation in force. For example, Statoil internal ethical regulation states that "Local procedures will be detailed on the company's disciplinary actions and their compliance with local law and regulations."

Sample business ethics code for Azerbaijan companies is offered in Appendix 1, while Appendices 3 and 4 state fundamental ethical principles of respectively, Shell and Exxon/Mobil companies.

Communication on ethical violations. Whistleblower.

It shall be recognized that communication of ethics violations can be regarded as unethical in itself. Here we see a clear sample of a contradiction between universal and local ethics, discussed in Chapter I.

In Azerbaijan, any kind of complaining is viewed as "sneaking" or, at the very best, looking for trouble. A whistleblower is either hated or secretly admired, because "someone has to have the guts to speak the truth". There are many reasons behind such an approach, one of them being the "do not be conspicuous" principle, originating from the Soviet mentality and absence of deep democratic traditions.

⁴² CHIQUITA BRANDS INTERNATIONAL, INC. Corporate Responsibility Report

⁴³ Sequa Corporation Code of Business Conduct

⁴⁴ Ethical Conduct Section, Business Policies, June, 2000, BP publication

A whistleblower, or a person who voices concerns, evokes anxiety in the West as well. Very few managers in either private or public sector companies would be pleased to have a whistleblower. However, requirements of the modern economy differ very much from the recent semi-criminal past and demand that all employees be honest towards company matters and themselves. Employees are expected to inform management of all problems, errors or mismanagement in a timely manner, as concealing such issues could cause substantial material and moral losses.

Grievances can be of two types. An internal signal calls for internal investigation. External signals are used once all the hopes for a just and objective consideration within the company have been exhausted, and a complainant has no choice other than knocking at the doors of influential mass media.

On August 10, 1978 three teenage girls died in Indiana, when their Pinto Ford car was struck from behind and the fuel tank ruptured and exploded. They were the latest in the long list of people (180) to be burned alive, because due to a hasty release, the Pinto model was not tested for a strike from behind. Company research revealed that, had the company installed a special shield between bumper and fuel tank (worth between \$6.65 and \$11), the safety standard of the Pinto model would be comparable with other cars of its class. However, between 1971 and 1978 the company did not upgrade the model, as Ford's cost-benefit analysis revealed that it was 3 times cheaper to settle cases in courts than to upgrade the model. In addition, the company did not inform its customers that this model was less safe than other similar models. The period of 1976-1977 saw 13 explosions as a result of a strike from behind, which exceeds accident rate for other similar cars by a point of two. However, eventually, settlements of claims raised against Ford reached \$20,9 million, which was much more than expenses for upgrading the model. In addition to court penalties, Ford was forced to recall 1.5 million cars built between 1970-76, not to mention the impact of declining sales. Former administrator and designer Harley Kopp publicly criticized the model from the very beginning. He quit the company and went public, which saved many human lives. Can he be qualified as whistleblower? ⁴⁵

Ethical communication can be structured in a number of ways, depending on company's preferences: from a special ethics service to a hotline. Regardless of how a corporate ethics structure is organized, the following principles are strongly recommended to be observed:

- Some companies accept anonymous complaints, however, the company should politely explain to its employees that disclosure of their identity would certainly facilitate consideration of an application. In addition, guarantees of confidentiality of information shall be provided.
- An employee should be convinced that his or her application will be reviewed with all due respect and diligence. In any case, an applicant should be informed of the course and results of the subsequent investigation.
- Investigations should ensure that rights of both the claimant and defendant are protected.

Filing ethical complaints

Employees, filing grievances and complaints, shall be guaranteed that they are safe from possible retaliation. To convince employees of their immunity, companies publish booklets, reference books and other materials with names, addresses, and telephone and fax numbers, e-mail accounts of a corporate ombudsman or ethics officer and make these materials available to personnel. Employees have to be confident that every whistleblower, who has applied to a relevant department to file a grievance or signal evidence of fraud, corruption, abuse of finances, sexual harassment, persecution of subordinates and other violations, will be safe from reprisal by the accused.

It goes without saying that a complaint should not be based on idle rumors. When filing a complaint, an employee should provide exhaustive answers to a set of following questions: *who, how, when* and, if possible, *why*, as cases based on rumors or not substantiated with facts can damage reputation of innocent people.

⁴⁵ R. T. George, Business Ethics, vol.1, St-Petersburg, 2001, Progress Group Publishing House, pp. 405-407

Ethics infrastructure: who is a corporate ombudsman?

An ombudsman is a human rights defender. In Azerbaijan, the Law on Ombudsman was adopted by the Parliament in December 2001. Every employee of a company in need of help in regard to business ethics problems may apply to a corporate ombudsman and receive consultation, with confidentiality of his or her application guaranteed. If necessary, the ombudsman makes recommendations to company management to take certain measures. For example, at United Technologies, the ombudsman informs relevant parties of emerging problems and monitors the process of application review. Employees normally maintain telephone contact with the ombudsman. However, other types of communication (post, fax, e-mail) are also available. As a rule, the ombudsman is an outside consultant.

On the other hand, an ethics officer could be employed by a company and have a special ethics department at his or her disposal. If the ombudsman's duty is to receive and pass on an alarm signal, the ethics officer is directly involved in the investigation. Some companies might have both structures in place. Small firms normally delegate ethics officer's functions to human resources managers and ombudsman's services are provided by an outside consultant.

The World Bank has designed a Conflict Resolution System (CRS), a special program to settle ethical issues, which involves five independent departments:

- Office of Ombudsman;
- Office of Mediation;
- Office of Ethics and Business Conduct;
- Affairs Committee;
- Administrative Tribunal.

Moreover, the management of the Bank, being interested in swift and efficient settlement of any conflicts, offers a broad spectrum of assistance from other departments, such as:

- managers;
- human resources department;
- counselors on harassment problems;
- internal audit department ⁴⁶.

We believe that Azerbaijani companies should design and adapt their own codes of conduct. Global experience shows that the very existence of such a document, combined with demonstrated management commitment to principles of business ethics, can prevent many ethical violations.

SELF ASSESSMENT QUESTIONS TO CHAPTER VI. MECHANISMS OF IMPLEMENTATION OF PRINCIPLES OF BUSINESS ETHICS

The questions below are designed to assess your understanding of the material.

Corporate ethical documentation

- ◆ What is a code of ethics?
- ◆ Do Azerbaijani businesses need codes of ethics? Please, substantiate your opinion.
- ◆ Why codes, first of all, state company values and goals?
- ◆ What are the stages of code preparation?
- ◆ Shall codes of Azerbaijani companies, on the whole, follow main provisions of international companies or shall each company set its own ethics standards?

Ethical communication and grievances filing. Whistleblower.

- ◆ Who is a "whistleblower"?
- ◆ Will our companies be able to create conditions, where whistleblowers are safe from persecution? What shall be done to ensure their safety?
- ◆ What is the difference between a corporate ombudsman and an ethics officer?

⁴⁶ THE WORLD BANK GROUP, *Living Our Values*, World Bank Publication

- ◆ Will corporate ombudsmen and ethics officers be able to efficiently implement ethics principles of companies or will they become another “lip service”, as in many other instances in our country?

CASE STUDIES TO CHAPTER VI. MECHANISMS OF IMPLEMENTATION OF PRINCIPLES IN BUSINESS

Please read the cases below and chose your answer from the options provided. Please substantiate your answer. The notes to cases can be found at the end of the book.

1. A husband of an employee works for a competing firm. Shall she inform her management? Please justify your choice.

- a) There is no need to inform her employer. Everyone has a right for private life.
- b) It is not desirable to inform her management. She can quit her company and join the competing firm herself.
- c) She is obliged to notify her manager.
- d) She can informally inquire, what are her company’s policies in this respect.

2. Akif often uses office computer after work hours for the purposes of charity activities among local community on behalf of a grassroots non-governmental organization (NGO), of which he is a member.. Can this be considered as an abuse of company’s property? Is there any solution, given that Akif does not have a computer either at home or at the NGO office? Please justify your choice.

- a) He violates company’s polices and shall stop.
- b) Akif does not violate company’s policies, as his company supports charity activities as well. He can go on.
- c) He should have informed his immediate manager in advance.

3. How would you describe a “whistleblower”?

- a) A person who would not tolerate injustice.
- b) A demagogue who is used to sticking out for any purpose.
- c) A person who clearly understands that consequences of a crime he or she notices might be more detrimental for the common good than the threat directed against him.
- d) A dangerous type, a quarrelsome guy, whose ungrounded suspicions might do harm to innocent people.

4. Elnar, an employee of a construction company, is concerned with tactless behavior of Zakir, one of company’s managers. Elnar is particularly concerned with the way Zakir treats Gasym, a very meek person, who is scared to lose his job. Zakir likes to tell jokes degrading the national minority to which Gasym belongs. Indignant Elnar asks Gasym to complain to management. Gasym says that Zakir is not a bad guy, he simply lacks tact. In addition, director of the company is a native of the same region as Zakir. Elnar decides to file a complaint on his own and in case of a fiasco, he is ready to go public and apply to media. What do you think:

- a) Elnar is not authorised to file a grievance for somebody else. A complaint, if any, shall be filed by Gasym.
- b) Elnar can file a complaint, but to no avail. The director will support Zakir and Elnar will lose his job for his Don Quixote aspirations.
- c) Elnar is authorised to file a complaint and he is doing what every decent person should do. Business relations are not always governed by nepotism. Management is, possibly, unaware of Zakir’s cynical behavior. A clever director would get rid of a tactless person.
- d) There is no problem here. Every person has a right for freedom of expression. There are lots of jokes about other people, for example, Azerbaijan people.



5. You are a lawyer with a contract department of an IT company. Your job is to analyze competitive bids from potential suppliers. A representative of one of bidding firms invites you to a business dinner at a very expensive restaurant with a show.

- a) What ethical considerations are involved here?
- b) Can you accept the invitation? Please justify your choice.

Rena Safaraliev

CHAPTER VII. CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility

In 1889 Andrew Carnegie, founder of one of the biggest American corporations, the U.S. Steel company, set forth the classic definition of Corporate Social Responsibility (CSR) in his book “Strategy of Wealth.” Since then the notion of CSR has undergone considerable changes. CSR is understood as a set of obligations of businesses to society and the community they work in. CSR is not confined to strict boundaries, but changes over time in tune with changes in legislation as well with societal change. For example, if in the early 1970’s, environmental norms were more the domain of corporate social responsibility programs, today environmental standards are set forth by legislation of many countries and are mandatory.

Today we are witnessing a new tendency of CSR of multinational companies in extraction industries operating in transitional markets of highly corrupt countries, which are changing their attitude to declaring revenues paid to host countries’ governments.

Pressure from international organizations and NGOs within the framework of the Publish What You Pay Campaign,⁴⁷ forced oil companies such as BP and Shell to publish payments made to host governments.

State regulation

Western businesses have realized that if they do not accept social responsibility voluntarily, they will most likely be forced to accept it by governments at considerable cost to their public image. The Azerbaijan legal framework contains many corporate social responsibility provisions, such as environment protection and labor safety. However, these laws are little used in practice.

During the summer of 2003, a scandal emerged that revealed the illegal use of land plots under high voltage electric power transmission lines by farmers for agricultural purposes near Baku. At one such plot, grain caught fire and destroyed the power line. The accident cut off electric power to the capital for several days in the middle of summer. Besides causing serious environmental damage, many households and businesses, including restaurants, grocery stores, and warehouses, incurred substantial losses as a result of irresponsible behavior of all the parties involved: farmers, Azenergo staff, local authorities, and numerous inspecting agencies, for example, fire security.

Currently, the government of Azerbaijan does not provide an incentive for businesses to support social programs. In particular, legislation envisioning tax advantages for social expenses of businesses is inconsistent. Businesses supporting charity programs from their net profit are to be commended.

Elements of Corporate Social Responsibility

The notion of corporate social responsibility is rather broad, however, it includes several basic elements discussed below.

⁴⁷ Publish What You Pay Campaign, www.eurasianet.org

Crisis management

In the 1970's and 1980's a number of economic forces—soaring inflation, rising energy costs and expenses of compliance with legislation designed to reduce pollution and protect communities led Western businesses to re-examine social corporate responsibility principles as being too expensive. Milton Friedman, the voice of this sentiment, wrote that businesses should be allowed to go back to their basic function – to make money, while governments should take care of society's needs, using the money paid by businesses in taxes.⁴⁸ In order to maximize profits, businesses cut back on labor safety, equipment and personnel. And the inevitable occurred.

On 3 December 1984 a major leak of poisonous gas took place at the pesticide plant of Union Carbide, a U.S. chemical company operating in Bhopal, India. This accident took over 2,000 lives and seriously injured another 200,000 people. A subsequent investigation revealed that the management of the plant did not meet minimum safety standards: safety equipment was beyond repair, the night shift had only half the personnel required, the alarm system was out of order, and neither the local company staff nor the surrounding local community were aware of the dangerous products being processed at the plant, to say nothing of any precautionary measures. Such a simple thing as a piece of wet cloth, covering mouth and nose, could have saved thousands of human lives. Financial losses amounted to \$1.5 billion, and the company paid \$470 million to settle court claims alone. Enormous amounts were also spent to modernize equipment and upgrade safety equipment. However, it was the U.S. financial market that dealt Union Carbide the most severe blow—shares dropped so low, that the company incurred \$ 900 million in losses.⁴⁹

This case forced many companies to design their own crisis management programs, as an integral constituent of managerial responsibilities that stressed importance of labor safety. Efficient crisis management implies that a company has a crisis management plan, is able to quickly identify a crisis and take urgent measures to bring the situation back to normal.

Production process safety

It goes without saying that it is impossible to foresee all accidents, however, every company can assess the probability of accidents, take basic precautionary measures, and assign employees specific roles to play in a crisis situation. It should be acknowledged that Azerbaijan workers in many professions often do not adhere to basic rules of safety. It is still common to see a welder with protective glasses on his forehead, a driver smoking at a gas filling station, or even a surgeon operating without gloves. For example, how many offices, or even restaurant kitchens, have fire extinguishers? How many drivers carry iodine, bandages, and tourniquets in first aid kits? There are many easy steps a business or individual can take to ensure their own safety.

We have deliberately offered the simplest cases, as at the stage of economic development Azerbaijan is now it is difficult to talk of any serious crisis management plans, for example, in case of a fire at a grain field or an accident at a chemical plant. It should be stressed that the sad experience of some companies shows that violation of the production process safety considerably affects a company's financial balance.

Product safety

CSR dictates that businesses should be liable for product quality and truthful advertising of their goods and services. Azerbaijan media often covers numerous cases of sales of falsified goods, especially in the pharmaceutical market.

Recently many big drugstores and pharmaceutical wholesale warehouses announced that they do not sell Azfarma products. This company sells products of several leading Turkish pharmaceutical companies and experts explain this boycott as an unfair, anti-competition trick, rather than the evidence of the poor quality of Azfarma products.

⁴⁸ M. Friedman, *Capitalism and Freedom*, University of Chicago Press, 1963, p. 133

⁴⁹ St. Fink, *Crisis Management*, American Management Association Press, 1986, pp. 168-189

Lately, the Union of Free Consumers has been regularly informing consumers through the media of existence of various falsified goods in the market. However, Azerbaijan consumers face a huge challenges in the area of falsified goods.

Environmental ethics

In the 1970's, the West saw a series of environmental accidents, especially in the oil sector, which elevated environmental protection from a grass roots movement to the national agenda. In particular, in the oil sector, this resulted in the establishment of the Oil Spill Fund of \$1 billion and adoption by the U.S. Congress of Oil Spill Act in 1991. We deliberately stress the oil sector, as in our country we are particularly susceptible to environmental crimes due to the large oil and gas extraction industry.

Iran regularly raises allegations against Azerbaijan of environmental crimes in the Caspian, which have led to a drastic reduction of sturgeon.

At the moment in Zagatala we are losing valuable trees, which take many years to grow. Tracts of land are being deforested due to a high market demand for expensive decorative materials made of wood.

Impact of businesses on communities

Codes of ethics contain provisions that regulate corporate behavior in local communities. Unfortunately, there are many instances of printing houses and restaurants located at residential houses, engaging in business behavior that is disruptive to the day-to-day life of their neighbors.

Ethical attitude towards local culture and history

Ideally, businesses should show respect for the cultural heritage of local people. Conversion of the historic center of Baku – Icheri Sheher into a business center in neo-Arabesque style speaks of disrespect of local and foreign companies towards our history. To be fair, we should mention that it is difficult to shift all of the blame onto foreigners. Two skyscrapers of metal and glass, housing the Radisson hotel and Azerbaijan International Bank, belong to Azerbaijan companies. These two building make a sharp contract with the turn of the 20th century architectural masterpieces in the Fountain Square.

In planning for the Baku-Ceyhan pipeline, BP financed excavations by a group of Azerbaijan archaeologists, who managed in some cases to persuade BP to change the route of Baku-Ceyhan export pipeline, to by-pass ancient settlement sites near Gobustan.

It is obvious that funding from an independent source and discussion of results of their findings in media, would have been much more feasible. We regret to state that neither SOCAR, nor the government nor Academy of Science displayed much interest in this issue. In contrast, in late 1960's and early 1970's, the government of Azerbaijan showed much more persistency on a similar issue and upon initiative of the academician Igrar Aliev forced the central Soviet government to bypass the excavation site of Gabala – the capital of an early medieval state located in modern day Azerbaijan - Albania Caucasian, when the Gabala radar station, an important Soviet military facility, was built.

Business and education

Many companies either support educational programs or accept interns to train on-site, especially during summer vacations and holidays. This practice is mutually beneficial, as businesses obtain temporary employees for free and students get work experience. Some companies use educational elements very efficiently in their advertising, for example, the news program on ANS broadcasts weather forecasts against the background of music by Azerbaijan composers, with information about the piece ing on the screen. 

Excessive consumption and hunger

There is a whole range of problems considered in the framework of Western corporate social responsibility, which are of little relevance for Azerbaijan companies at the current stage of Azerbaijan's market development. First of all, there is *excessive consumption of resources* by a small group of developed countries when compared to the scarce access to resources in the developing world. Western society debates as to what degree the West should be held responsible for delivering humanitarian aid and contributing to development in the third world.⁵⁰ In our country the following question might be asked: how ethical it is to spend millions of U.S. dollars from the public budget to repair public agencies, while hundreds of thousands of Azerbaijan citizens still live below the poverty line?⁵¹

Capital repair of the Philharmonic Hall cost \$37 million,⁵² which seems to be extremely expensive, especially when at the same time, the government failed to raise funds to dredge the bottom of the river of Kura to prevent spring flooding, which subsequently caused enormous damage to the state and population in 2003.

Nobody denies the need to support national cultural heritage, but it should not be done at the expense of the country's poor population. 

Transparency and social reporting

Corporate social responsibility envisions regular reporting by businesses to the society through media or special publications. Namely, businesses should inform the general public of their activities that have an environmental or social impact⁵³. It is also important to publish an annual profit and loss statement with a social report attached. Transparency implies that business should discuss projects of vital social importance with the public at large. For example, in 2002-2003 organizations funding the export pipeline of BP held consultations with the general public and discussed the impact of the pipeline construction on the life of local communities. Local and foreign NGOs monitored the process of payment of reimbursement to local population for the land plots in Azerbaijan, Georgia, and Turkey.

Limits of corporate social responsibility

The obligations of businesses have reasonable limits. It is difficult to deny that an inefficient system of social protection, high level of unemployment, and low income of population, together with relatively low revenues of the private sector, do not allow our businesses to meet all needs of the poor. Business can only help the state to alleviate poverty, but they cannot substitute for an effective system of social protection. Another aspect to setting limits to social spending is the consequences of the so-called "dependency" syndrome. Many people will not hesitate to accept free aid, even if the needs of other people are much more desperate.

The Caspian Compassion Project eye clinics operating in Baku, offer low-cost, donor-subsidized service to poor people. The clinics staff has recently had to go to extra effort to sift out the patients in most need.

Often in this country people believe that their connections to well-off or well-connected people give them sufficient grounds to demand aid. We would like to quote a "cri de coeur" of one local businessman, who does not understand why he *must* pay for the education of the son of his neighbor in a private university, when free of charge higher education is available or cover funeral expenses of all his relatives, including providing them with ample food.⁵⁴

Internal procedures of companies

⁵⁰ N. D. World Poverty, in Companion To Ethics, edited by P.Singer, Blackwell Publications, 1997, pp. 273-283

⁵¹ According to different estimates, between 60 and 80% of the total population live below poverty line

⁵² E.Gousseinov, Luxurious Poverty in Monitor magazine, №21, 07.06.2003, p.35

⁵³ Please see a sample designed by Global Reporting Initiative at www.globalreporting.org

⁵⁴ Wealthy People Cry As Well, a letter of businessman Samir Mirzoyev, Echo newspaper, 15 March 2003

Most companies include corporate social responsibility into their codes of ethics and social deductions are included by their budgets. However, many companies do not have a clear policy. We would recommend that businesses design an internal document containing the basic provisions and directions of a company's social strategy. For example, this document might set out criteria for applicants for aid for one year. It is possible to restrict consideration of applications for medical treatment or supply of food and clothes to orphanages, houses for senior citizens and mental asylums.. Alternatively, a company may consider applications only from a certain vicinity or take care of a concrete facility, for example, an orphanage. Some businesses prefer to refrain from individual help and consider projects which benefit the general public, for example, organization of festivities, repair of schools, donation of books to libraries. It is reasonable to restrict the types of activities to which your organization will donate, for example, or to establish an upper limit for the cost of an individual project.

Arguments against social expenditure

The most common argument against engaging in philanthropy is a lack of time and skills to implement social programs. However, these difficulties can be overcome. First, a company can look for volunteers among its staff or their family members, who might wish to volunteer after office hours. Second, companies may seek partnerships with NGOs who have the necessary capacity and experience to effectively implement social projects. It is also often argued that the public is not well informed of social programs. This task can also be assigned to experts from media or NGOs.

Finally, companies need not preclude social expenditures due to the additional cost they represent, as even small donations can positively contribute to society. Small enterprises might also combine their efforts with other like-minded businesses.

In Moscow many small businesses donated towards the construction of the church of Christ the Savior, whereas the Church of Wives–Myrrh Carriers in Baku was repaired through funds donated by one person - Mr. Kurbanov, a Moscow businessman of Azerbaijan descent.

Russian surveys demonstrate that social spending often pays for itself through the positive advertising they provide for companies, and as a means for market expansion.⁵⁵ Many small businesses do not believe that they can organize a good project for the couple of hundred dollars they can afford to spend. This is not quite true. One million manat⁵⁶ is sufficient to organize a good New Year's party at an orphanage. Finally, many businesses can provide in-kind aid. A bakery can send day-old, but still edible products to local orphanages, or a photo shop can make free of charge photos of an orphanage party. A final argument against social spending, typical of all of the post-Soviet countries, claims that it is impossible to pay all taxes in full and still survive in the market. In addition, social costs might feed up interests of numerous auditing agencies.

Many Azerbaijan businessmen make donations not on behalf of their firms, but on their own behalf and view this as implementation of one of the five prescriptions of the Islamic religion – “zakkat”. We regret to state that this prescription is not followed by many newly converted Muslims.

Donations can also be used to educate and encourage staff in social responsibility. For example, BP organized a matching funds program in Azerbaijan. Every employee was offered to donate any amount affordable to the charity fund and BP added an equal amount.⁵⁷

The involvement of young people in social projects is a forward-looking strategy. It is a shame that while there are good examples of a tradition of social spending in Azerbaijan, it is currently mostly foreigners who feed our orphans and teach our children to collect toys for orphans. Azerbaijan people recognized Zeynalabdin Tagiev with gratitude, even during the dark Stalin period. The list of projects supported by Tagiev would fill a whole volume: the first public water pipe in Baku, the first secular school for Muslim girls, the first public illumination of streets, a school for boys, about 500 scholarships for Azerbaijan

⁵⁵ E.A. Utkin, *Business Ethics*, Moscow, Zertsalo Publishing House, 2000, p. 130

⁵⁶ Equivalent of about \$200 at time of publication.

⁵⁷ Matching Funds Program, BP Azerbaijan Business Unit

students to study abroad. Another example is the Khan's daughter Natavan, who built the first public water pipe line in Shusha.⁵⁸

Situation in Azerbaijan business

Similar to many other countries with a low level of business activity, local companies have practically no notion of corporate social responsibility. Except for foreign companies, CSR projects are supported mainly by joint ventures. In the box below are several samples of good corporate social responsibility approaches of companies in Azerbaijan.



- ◆ A Bakcell advertisement features a rich girl giving away her toy to a small beggar girl.
- ◆ McDonalds at the Fountain Square stayed open the entire night of the November 2001 earthquake. The restaurant offered shelter, and what is much more important, it inspired hope in frightened people through its uninterrupted service to the community.
- ◆ The Katell telephone company states in its advertisement that they accept payment on an installment basis from some categories of their customers: the disabled, war veterans and pensioners.
- ◆ Azercell supports Umud Yeri, non-governmental orphanage.
- ◆ Art projects are often supported by Karadag Cement plant and Shollar company.

The majority of Azerbaijan companies are at the charity stage and view their public projects as personal initiatives of their managers or owners, who wish to feel noble for a few pennies.

We believe it is time for Azerbaijan companies to realize their obligations towards society and design their own standards of ethical behavior towards society, if they wish to survive in the long-term competition and meet growing expectation of the public that companies behave responsibly.

There is one more point to mention. Charity of state agencies financed from the state budget is, mildly put, illegal, due to lack of legal foundation for such "charity activities".

SELF-ASSESSMENT QUESTIONS TO CHAPTER VII. CORPORATE SOCIAL RESPONSIBILITY

The questions below are designed to assess your understanding of the material.

What is corporate social responsibility?

State regulation

- ◆ How do Western countries encourage and/or require businesses to assume corporate social responsibilities?
- ◆ Please give examples of a responsible and irresponsible attitude towards corporate social responsibility by Azerbaijan companies and public agencies. What are the consequences for Azerbaijan society?

Crisis management

- ◆ Please give the main causes of Western industrial accidents of the 1970's.
- ◆ What is a crisis management program and what does it encompass?
- ◆ Do you have a crisis management program at your enterprise?

Production process safety

- ◆ Why is the production process safety principle included under corporate social responsibility?
- ◆ Please give samples, illustrating that Azerbaijan companies follow and/or violate this principle.

Environmental ethics

- ◆ What led to the elevation of environmental protection from a grass roots movement to a national agenda of Western countries?
- ◆ Please give examples of irresponsible attitudes towards the environment in Azerbaijan.

Ethical attitude towards local culture and history

⁵⁸ Manaf Souleimanov, *The Days Past*, Azerbaijan State Publishing House, Baku, 1990

- ◆ Why is respect for local culture and history included in the concept of corporate social responsibility?
- ◆ Please give samples illustrating respectful and disrespectful attitudes towards local culture and history in Azerbaijan by local and foreign firms.

Excessive consumption and hunger

- ◆ Please give samples of special problems, considered by Western corporate social responsibility ethics.
- ◆ Are these problems relevant for Azerbaijan companies at the current stage of market development?

Limits of corporate social responsibility

- ◆ What are the limits to corporate social responsibility?
- ◆ The “dependency syndrome” - how broadly is it spread and to what degree can it be justified?
- ◆ How should businesses efficiently prioritize their social spending and award funding?

Internal procedures of companies

- ◆ How can companies simplify the selection of social projects with the help of internal procedures?
- ◆ How and why should companies report to society on social programs?

Arguments against social spending

- ◆ Please give the most frequent arguments for and against social spending.
- ◆ Please justify the arguments you agree with and refute arguments you disagree with.

Situation in Azerbaijan business

- ◆ Please give examples of social projects funded by Azerbaijan businesses.
- ◆ What kind of social programs would you personally like to support or participate in?

CASE STUDIES FOR CHAPTER VII. CORPORATE SOCIAL RESPONSIBILITY

Please read the cases below and chose your answer from the options provided. Please substantiate your answer. The notes to cases can be found at the end of the book.

1. A private publishing house plans to publish a book, devoted to an investigation of activities of a terrorist organization that committed several terrorist acts in our country. The book is based on thorough analysis of facts and is eagerly anticipated by readers. One chapter describes in detail the fabrication of a bomb out of improvised means. The publisher is concerned that this chapter might be used by criminals and suggests its removal. The author is against the chapter’s removal.

- a) What would you do, if you were in the publisher’s position?
- b) Is the publisher responsible for the content of material published?
- c) Is this information really dangerous for the public at large?
- d) Is the publisher entitled to omit some details from the book?

2. A privately owned restaurant is located at the basement of a residential block and shares an emergency exit to the yard. The owner of the restaurant demolished internal support walls to increase capacity, installed a pump to suck gas and water directly from the general line, installed electric cable directly from the power distribution switchboard and built a furnace with a chimney, opening directly into the communal yard. In addition, a cook discharges cooking waste directly into the communal sewage system. The restaurant is open late and the band plays loud music until 3 o’clock in the morning. The owner claims that the restaurant has brought residents more benefit than inconvenience, by occupying a previously unoccupied and rat-infested basement, and because the owner repaired the road and installed benches and swings for children in the yard.

- (a) Who has more rights in this situation?
- (b) Should authorities prohibit building restaurants in residential houses?
- (c) How can this situation be resolved so that both parties are satisfied?
- (d) Should the owner make additional expenditures to eliminate inconveniences for residents?
- (e) Would you say that residents lost or benefited under the current circumstances?

3. A small kiosk sells magazines and snacks, including magazines with indecent cover photos. Children from a school on the other side of the street regularly buy stuff at the kiosk. The school principal is threatening to punish several 7th grade boys, who bought the questionable magazines and brought them

into class to look at. Parents demand that sales of such materials be prohibited at the kiosk, due to its proximity to the school. The owner of kiosk disagrees, as he cannot afford to lose his main source of income and he's not in violation of the law.

- (a) Is the school principal right?
- (b) Is the kiosk owner right?
- (c) Could this problem be solved to satisfy both the parents and the kiosk owner?

4. A company manager is considering several applications for financial support. The company is ready to spend a total of \$5,000. Which project would you prefer? Please give arguments for and against each applicant.

- (a) A 9-year-old child diagnosed with a congenital heart defect needs a critical operation. An operation in Israel will cost about \$20 thousand and you can fund only a part of it.
- (b) A young and gifted violin player received an invitation to participate in a prestigious international competition and requests funds for travel and accommodation for herself and her mother. Professors claim that she is talented and her prospects to win are high.
- (c) In a village not far from Baku, the community raised funds and began to construct a mosque. Unfortunately, construction had to be suspended due to lack of funds. Your company's business is not related to this village, but this is where you have your summer house and you personally know many locals.
- (d) A boarding house for mentally retarded children organized a children's theatre. Performances are designed to enhance the children's social adaptation, as plays teach them how to behave in the every-day life situations they will encounter upon finishing school, such as buying bread or crossing the street on their own. The school principal asks for funds to purchase costumes, decorations and equipment (a piano and music center).
- (e) The ten-year-old son of the company manager attends a public school, not far from home. The boy studies rather well, but creates many problems for his teachers and parents. Every now and then he breaks a window with a ball, or fights with some other boys. The school principal threatens to expel the boy, but hints that the matter can be settled, if the company repairs the school roof and yard.

Vagif Gaziev

CHAPTER VIII. INTERNATIONAL NEGOTIATIONS. ETIQUETTE AND PROTOCOL

What is etiquette and protocol

*Etiquette is a set of fixed norms of behavior or amenities, accepted by a society or a certain group of people. In the last century, the Vienna International Congress adopted a protocol – a set of rules, traditions and conventions to be followed by governments, foreign offices, public agencies. This international code is universally accepted by all countries and followed everywhere in a more or less similar way. Etiquette rules are not mandatory, but, as demonstrated by international experience, people having international contacts try to follow these rules.*⁵⁹

Politeness, tactfulness and affability form the core of etiquette. In Azerbaijan, people say that a sweet tongue will make a snake creep out of its hole. Etiquette regulates people's behavior in their private lives and workplaces, in public places and in the street, at various kinds of official events: receptions, ceremonies, negotiations. Business etiquette is more formal compared to every day etiquette.

People used to believe that the main provisions of etiquette are universal. Increasingly, the integration of more and more peoples into business and international relations necessitates introduction of amendments to rules of etiquette. Sometimes even well-brought up people find themselves in a predicament when they are expected to be well versed in *rules of international and*,

⁵⁹ G. N. Smirnov, Ethics In Business and Social relations, Moscow, URAO Publishing House, 2001

more often, local etiquette. Communication with representatives of many nationalities is not limited to knowledge of foreign languages, but also requires familiarization with various political views and rituals, national traditions and psychology, ways and habits, life and culture of the country being visited on a business or diplomatic trip.⁶⁰ National politesse represents a very intricate combination of national traditions and international etiquette.

Etiquette as a tool of conflict settlement

Knowledge of etiquette may help to find a way out of many difficult private life and business predicaments. According to Leo Tolstoy, “It does not really matter if you are clever or stupid, but you must be tactful”.⁶¹

It is very important to put yourself into the position of your partner. Whatever course a discussion may take, it is highly recommended to exercise self-control and abstain from all kinds of ruses, which is widely considered to be tactless and thus may undermine your company’s reputation. Sometimes negotiations may come to an impasse. When such a situation emerges among compatriots, sharing the same culture, parties usually resort to a tested expedient, which will allow them to retreat with honor. A dead end may be overcome by replacing negotiators or changing negotiation venue, announcing a recess or “reframing” agreements reached.

Arabs might take a break for a communal prayer and come back in a peaceful state of mind. Japanese people might involve senior management into negotiations, while Swedes and Russians might share a drink, where a Finnish person would go to a sauna.

Such methods are not always applicable in international negotiations. Moreover, the nature of an impasse might be interpreted wrongly by both parties, for example, when the French persist in a logic, which is not shared by Japanese. Anglo-Saxons would normally resort to a compromise. Scandinavians also share the English ways, while American readiness for a compromise is expressed in their tactics of mutual concessions, based on the “take and give” principle, originating from traditional barter deals so important in American business history.

Other cultures, however, do not see compromise in such a favorable light and are not convinced of irrefutable advantages of this tactics. The French believe that “give and take” is the English way to do business and believe it to be rough and uncouth. The Japanese view compromise during negotiations as a retreat from the consensus, achieved within their own company. They will generally ask for a deferment. Romanic people do not share the  approach towards a compromise. Italians and French with their respect for logic and concept of irrational world are proud of their flexibility. Their views are shared by Portuguese who have studied the Anglo-Saxon ways rather well during their long history of trade with Britain. Spaniards, obsessed with the idea of self-dignity, find it very difficult to compromise without a grave reason. Latin Americans also see a compromise as a threat to their sense of dignity and in some countries, for example, Argentina, Panama and Mexico, people persist in their unwillingness to compromise.⁶²

It should be counted that many people, who live in the post-Soviet space were exposed to the Soviet ideology, which encouraged  interfering into other people’s private affairs, as well as required categorical denunciation of other ways and habits. When encountering seemingly tactless behavior of ex-Soviets, do not rush to judge too strictly. However, we would claim that Azerbaijan people are more flexible than many other post-Soviets, partially due to their consistent business practices, even if in the shadow sector of economy, and thanks, to a certain degree, to their Islamic heritage. Compromise can be defined as a pursuit for the “happy medium”. According to a beautiful quotation by Henry Ford, “If there is a secret of success  is an ability to understand other person’s point of view and see things from your and his point of view”⁶³.

⁶⁰ Ibidem, p. 13

⁶¹ E.A.Utkin,, Business Ethics, Moscow, Zertsalo Publishing House, 2000, p. 152

⁶² R.D. Lewis, Business Cultures In International Business, Moscow, Delo Publishing House, 2001, p. 81

⁶³ E.A.Utkin, Business ethics, Moscow, Zertsalo publishing house, 2000, p. 152

However, a compromise shall not be viewed as panacea against all impasses. A compromise can be defined as something interim between what you strived to ideally achieve and the minimum gain worth the effort.

Negotiation etiquette norms

It is believed that during a discussion people should sit freely and upright, and not lean against a seat-back, refrain from drawing on a piece of paper or fiddling with a pen.

An American habit of sprawling out in an armchair showing the soles of their shoes during discussions and business conferences can bewilder an Englishman, embarrass a German and infuriate an Azeri.

A business discussion is a special form of debate, requiring strong self-control. It is important to follow rules for speaking. Firstly, be calm and avoid raising your tone. Even if you are forced to rebuff your opponent, calm speech and self-composure will produce a much better impression than impetuosity and a vexed tone. We would recommend to avoid direct negative assessments and abstain from sharp judgments. Secondly, a speaker shall remember that people have only a limited ability to concentrate on the spoken word. Hence, it is recommended to use brief phrases and make reasonable pauses.

Also it is useful to resort to other means to attract attention in addition to pauses: for instance, appeal to your listener. A speaker shall select language means with regards to the audience and the situation as a whole. Thirdly, it is important to speak slowly and in a simple language, especially if you are talking through an interpreter during international negotiations. And at last, but not least, we suggest a quotation from Cicero: «No one should look upon conversation as his own private main and oust the other party out, on the contrary everybody has to be given his turn in a discussion»⁶⁴.

Rules for listeners are no less important. An ability to listen is formed in the process of communication. The main objective of a listener is to conceive information, rather than produce a good impression on an interlocutor. In business circles people are apt to make mistakes because are unaware of the recommendations of communications experts. Firstly, if someone is talking to you, it is advised to stop whatever you might be doing and concentrate on listening to the information. Business etiquette has a rule *to give priority to listening before all other types of activities*. When listening, it is necessary to treat your interlocutor amicably, respectfully and patiently.⁶⁵ Secondly, try to abstain from interrupting, even if the speech evokes your indignation or a stroke of genius has just struck you and you have something very important to say. Thirdly, if there are many listeners, do not respond to a speech which is not addressed to you.

Rules of perception of information heard are no less important. Firstly, try to *critically analyze* the information received and draw relevant conclusions. It is important to analyze your opponent's point in addition to grasping the meaning and content of his or her speech. Secondly, we recommend to abstain from thinking over your next question and, moreover, preparing countering arguments in the process of listening, but rather concentrate on the issue being discussed.

Invitation to a dinner or reception

Organization of a breakfast or dinner begins with compilation of a list of invitees and sending out invitations. In Western countries, invitations might be sent out several months in advance, with 7-10 days being accepted as a minimum short notice. In some cases organizers may request for confirmation of attendance. Therefore, an invitation might have R.S.V.P. letters at the right bottom corner, which is an abbreviation from French expression «repondez s'il-vous plait» or «please confirm».

⁶⁴ Ibidem, p. 159

⁶⁵ Ibidem, p. 159

Many invitations will also have a reference to a dress code: full dress (a tuxedo with a bow tie for gentlemen and a long evening gown for ladies); cocktail party dress (a suit with a tie for gentlemen and a regular length evening dress for ladies); formal dress code (a business suit) and casual style for informal events.

If guests are supposed to sit at the table, it is recommended to prepare a table outline in advance. Location of guests at a table requires recognition of their office position or social status. Leaders of delegations and businessmen are known to have left receptions if they believed that they were given less honorary place than they thought appropriate and to have complained of disrespect to media.

Honorary places at a table are considered to be: a place opposite the front door, and if the door is at the side wall, places at the side of the table near the wall overlooking onto the street. The places to the right and left of the head of the host delegation are considered to be, respectively, the first and the second most honorary places. Places at the corner of a table are considered to be the least honorary, so it is not recommended to offer them to guests, especially, ladies. If need be, these places shall be occupied by employees of the host party. If a breakfast or lunch is combined with bilateral business discussion, is possible to have two delegations sit at the opposite sides of a table with heads of delegations placed in the middle.

Table manners

Rabbit “Are you leaving already”?

Winnie the Pooh: “Why? Is anything left?”

The British believe that people shall not put elbows on a table, but rather their hands. Sprawling out or leaning against a seat back is considered to be bad manners. However, this is exactly what Americans and Mexicans do, while keeping hands under a table is prohibited. This tradition, probably, dates back to the times when one could get easily get shot in a saloon.

Many British are shocked when they hear from their U.S. host “Did you get enough?” after a first dish. Use of the simple past tense instead of the present perfect (Have you had enough?) the British interpret as “you will be served no more food.” Americans usually are offering you to help yourself, so do not worry and say “I’d like some more!”⁶⁶

Norms of etiquette prescribe how to use forks and knives at meal, but Americans, for example, do not eat with a knife in hand. Firstly, they use a knife to cut off a piece of meat with their right hand helping with a fork in the left hand, secondly, put a knife on the table and eat with the help of a fork with their right hand. Most probably, at the Wild West it was too dangerous to sit next to somebody with a knife in hand. The French manner to soak a roll in coffee or sauce is well known, while Japanese might consider such manners not quite civilized.

“The East is a delicate matter!”

In our country some dishes (kebab, kutab and others) are known to be eaten by hands. If you share a meal with foreigners, we would suggest warn your guests in advance. In Europe people eat fowl with hands, but may not guess to apply the same principle to kutabs. An Arabic meal is a genuine ceremony. In Moslem countries people are prescribed to eat with their right hands, because the left hand is considered to be unclean and is meant for dirty tasks, for example, to collect garbage. Eating a lamb hinder leg with one hand can be an ordeal, especially if it sheds melted fat. A host can treat you to choicest bits and it would be impolite to take them yourself or refuse the offer. A host can make balls of rice and offer them to you, but mind not to touch a lamb on the communal plate – this is the host’s privilege!⁶⁷

The Kyrgyz and Kazakhs preserved an ancient Turkic custom to cut a lamb into 24 pieces, with

⁶⁶ R.D. Lewis, *Business Cultures in International Business*, Moscow, Delo Publishing House, 2001, p. 214

⁶⁷ *Ibidem*, p. 211

each piece to be served in strict accordance with the hierarchy of guests. The most honorary guest will be served the head, especially eyes, while a woman will get lamb' tail.

In some countries people would turn a glass upside down to show their delight with the cuisine, while in Azerbaijan this jest might end up in brawl with a teashop keeper, who can demand explanation.

“Comrade, let's light up!”

Different customs are not *unanimous in their attitude towards smoking at the table*. In some countries cigarettes will be served to signify permission to start smoking. In Britain smoking is allowed only after dessert was served, while in some business clubs smoking is strictly prohibited.

The rules of leaving the table also differ in different societies. In some cultures people may stand up after a hostess and other ladies withdrew, in others – after the most important guest left. *Cocktail parties* are less formal. People may come and leave any time they please, however, this does not concern guests in honor of whom the cocktail party is organized.

“Silence is not always gold”

The French say that silence drives people away more than distance. G. Flober strongly recommends to exclude politics and religion from social discussions.⁶⁸ When talking to somebody from another firm, with which you hope to establish business relations, it is prudent to avoid delicate topics, such as politics, religion, equality of women, vegetarianism, as well as somebody's income and private life. A potential customer may be alienated by your views. One of a good catches to prevent such embarrassment is to try the ground with probing questions. A question “Have you ever lived in this region?” is a good way to probe if you can praise or speak poorly of a certain place.

“I am sorry for being late”

It is recommended to show up strictly on time, as people might be offended with your being late. However, there is nothing unusual for Latin Americans to be late a couple of hours (it is so nice to be able to refer to other people!), British and Americans are usually on time and Germans arrive several minutes earlier. In many African countries the notion of time is very elastic. Azerbaijan people find nothing blameworthy if somebody is 15 minutes late for a business meeting and up to one hour for a social event.

Think for yourself to follow or not to follow rules

Americans, thanks to their disarming simplicity, invented bad manners and saved people from many problems related to conventions. They are followed by many Europeans or Asians, who traveled or studied in the U.S. Still, the Germans, British, Japanese and French would stick to their etiquette rules.

Rules of etiquette are not mandatory, but as demonstrated by international experience, people participating in international relations and contacts prefer to follow certain rules. Sincerity helps to overcome barriers. Europeans, Asians and people from Central and Eastern Europe and CIS regularly meet each other at international conferences and, in most cases, they manage to avoid offending each other, because people indulge the mistakes of others. For example, we were pleased to mention that Americans working in oil companies in Baku stopped going to the Opera House in jeans and with a bottle of beer, although it is difficult to perceive that this would be possible in America.

Jonathan Swift wrote that “A person who puts the least number of people into embarrassing situation has the best manners”⁶⁹. Therefore, people visiting other places, shall give preference to local traditions, rather than international etiquette norms, because the proverb recommends “When in Rome do as Romans do”!

⁶⁸ E.A.Utkin, Business Ethics, Moscow, Zertsalo Publishing House, 2000, p. 167

⁶⁹ Ibidem, p. 146



SELF-ASSESSMENT QUESTIONS TO CHAPTER VIII. INTERNATIONAL NEGOTIATIONS. ETIQUETTE AND PROTOCOL

The questions below are designed to assess your understanding of the material.

Etiquette and protocol

- ◆ What is etiquette?
- ◆ Why do people need to follow rules of etiquettes?
- ◆ Under what circumstance rules of etiquette are used?
- ◆ Are rules of etiquette universal? Why?

Etiquette as a tool of conflict settlement

- ◆ Why conflict settlement helps to receive material and moral benefits?
- ◆ How can etiquette assist in settling a conflict?
- ◆ How do different people view compromise?
- ◆ In what cases it is impossible to reach a compromise?

Negotiation etiquette norms

- ◆ Please give etiquette rules for discussion
- ◆ What are peculiarities of behavior of various peoples during negotiations?
- ◆ Please give rules for speaker, listener and for perception of information.

Invitation to a dinner or reception

- ◆ What is the minimum acceptable notification time for invitations and why?
- ◆ What is the standard dress code for ladies and gentlemen for business lunch or dinner?
- ◆ Is the dress code something redundant or useful?
- ◆ What would your response be, if someone is not dressed properly?

Table manners

- ◆ How are people prescribed to sit at a table?
- ◆ What are rules for eating?
- ◆ How do people eat in Azerbaijan and other countries?
- ◆ Is smoking at table acceptable?
- ◆ Which topics are usually a taboo?

Think for yourself to follow or not to follow rules

- ◆ Is it mandatory to follow norms of etiquette?
- ◆ Why you should know norms of etiquette accepted in the country you are visiting?
- ◆ Which etiquette is more preferable to follow: universal or local?
- ◆ How shall people respond to ignorance of etiquette norms?
- ◆ Can local etiquette norms be preferred to international standards and vice versa?

CASE STUDIES FOR CHAPTER VIII. INTERNATIONAL NEGOTIATIONS. ETIQUETTE AND PROTOCOL

Please read the cases below and chose your answer from the options provided. Please substantiate your answer. The notes to cases can be found at the end of the book.

1. You have been invited by one of your foreign partners. Being a very busy person, you have never had time to familiarize yourself thoroughly with rules of etiquette and protocol. However, you do not wish to disgrace yourself and would like to represent your country and your firm with dignity. What would you do:

- (a) Study all rules of international etiquette to be in good shape?
- (b) You think that in this case you should learn norms of local etiquette of the host country?
- (c) You follow neither of one principles of above and believe that everything will be clear once you are on site?
- (d) Presume that your country's norms would do?
- (e) Anything else?

2. In the course of a business discussion, you have had a misunderstanding and the other party seems alienated. What do you do?

- (a) Terminate negotiations?
- (b) Suggest solve disputable issues during a business dinner?
- (c) Try to find new and more solid argumentation to persuade the other party?
- (d) Invite a third party to intervene, for example, your lawyer or investor?
- (e) Anything else?

3. You talk to an importunate person at a buffet diner. His or her loose monologue is real torture for you, but etiquette forces you to make yourself to look happy. Which way out of this “captivity” would you prefer:

- (a) Continue to listen in hope that the end will come soon?
- (b) Get rid of the bore by introducing him or her to somebody else?
- (c) Apologize and get away under a pretext of fetching one more sandwich?
- (d) Tell the person straightforward what you think of him or her?
- (e) Anything else?

4. During a business trip to a European country, Tural was invited to a business breakfast and served some pork. His region prohibits him to touch pork. Which of the below given options would be appropriate from the point of view of etiquette?

- (a) Politely refuse with reference to Islamic prohibition?
- (b) Politely refuse with reference to doctor’s prescription?
- (c) Declare he does not like pork?
- (d) Loudly express his indignation with shortsightedness of organizers?
- (e) Anything else?

Rena Safaralieva

CHAPTER IX. CORRUPTION AND BUSINESS

The basic concept of corruption

Corruption is defined as the “abuse of [public] office for private gain.” Recently many researchers have suggested expanding the notion of corruption to include corrupt practices within the private sector, political parties, and non-governmental organizations, such as embezzlement and misappropriations. Many researchers agree with a set of basic theses concerning corruption, formulated by Jeremy Pope, the author of the very first comprehensive research of this negative social phenomenon⁷⁰:

- ◆ there are neither corruption-free countries, nor countries completely overrun by large-scale eternal corruption;
- ◆ individual anti-corruption measures can reduce the level of corruption only temporarily;
- ◆ punitive measures are the least effective in fighting corruption;
- ◆ anti-corruption efforts should aim towards the creation of conditions under which public officials must make decisions based on transparent norms of law;
- ◆ an independent judicial system and strong independent media are the best guarantees against violations of the law by public officials;
- ◆ complete defeat of corruption is unattainable, however, it is possible to considerably curb corruption;
- ◆ grand corruption (large scale embezzlement by the ruling elite) and petty corruption (small unofficial fees collected by petty officials) require different solutions;

⁷⁰ Jeremy Pope, *Confronting Corruption: Elements of a National Integrity Systems*, Publication by Transparency International, 2002

- ◆ corruption has many forms, of which bribery is the most common, but not the only type;
- ◆ other examples of corruption include nepotism, abuse of office, and using commercial information for private gain.

Corruption vis-à-vis ethics

One can question the relation of ethics to corruption, if corruption, according to the legislation of many countries, is a criminal offence and ethics, as discussed in details in Chapter I, is more a realm of personal choice. The newly adopted Azerbaijan anti-corruption law defines corruption as

“Corruption – use by a public official of his/her own status, or the status of the organ represented, or functionary authorities and/or possibilities emerging from such a status and authorities resulting in illegal acquisition of material and non material values, advantages and benefits, including illegal offer and/or promise or giving of such above referenced to material and non material values, advantages and benefits by individuals and legal entities”.⁷¹

Some corrupt practices, such as bribery, are in the domain of criminal law, while others, such as the abuse of office information for personal gain are regulated by administrative law. The third group is subject to civil law, as in the concealment of vital information from public knowledge. Last but not the least, is a category of ethical violations. These are not covered by written legal norms of a given country or company, but are not tolerated by universally accepted moral principles. An example is the unnecessary collection of personal information on employees. The large variety of forms of corruption does not allow corruption in all of its myriad manifestations to be covered by law.

The “gray” zone of economic activity and ethics

No society condones drug trafficking. Such deeds are unanimously condemned to the criminal sphere and the so-called “black zone of ethics”. If we consider unqualified compliance with the law and ethical principles as a “white zone” of ethics, there is still a broad intermediate field. Many businesses must maneuver in a “gray,” or semi-legal field, without engaging in purely criminal activity. Often this is necessary as businesses are forced to by-pass laws due to their extreme inconsistency and severity. To compound the problem, public officials also take advantage of this system. For businesses, these unofficial payments combined with an unbearable tax burden result in frequent double accounting and tax evasion. This in turn has negative consequences for the state budget.

According to Fazil Mammadov, Minister of Taxes, Hayal company is guilty of the biggest financial abuse among private sector firms, with tax evasion in the amount of 300 million manat.⁷²

Moreover, even public enterprises and institutions function in a “gray” zone as the result of corruption and insufficient state financing. Such a reality has found its reflection in ethics. Many people claim that there is a big “gray” zone or a neutral ethical field between the black and the white, where one can easily move, even if this field does not fully coincide with the law.

Estimates of the level of corruption in Azerbaijan

It should be mentioned that attitudes towards corruption differ significantly, depending on a country’s national culture and business environment, as well as its legal framework. In Italy, where public bureaucracy can postpone any decision for months, people do not consider it too much of a sin to “grease” a public official.⁷³ As for Azerbaijan, bribes to public officials are considered mandatory for any business transaction, from registration to paying a share for protection. The difference is that in Italy people talk about it, but in Azerbaijan businesses are tight-lipped. Rare attempts to disclose corrupt practices result in harsh consequences for those who reveal of corruption.

⁷¹ The Anti-corruption Law of the Azerbaijan Republic was adopted on January 13, 2004, but will enter into full legal force as of January 1, 2005

⁷² Daily News of Great Silk Road International News Agency, Azerbaijan, 12 October 2001

⁷³ R. D. Lewis, Business Cultures In International Business: From Confrontation To Mutual Understanding, Delo Publishing House, Moscow, 2001, p.

U. Jafarov, a military journalist, was sentenced to 3 years and 3 months of imprisonment for disclosing corruption in the army.⁷⁴

Jan Mirza Mirzoyev, recognized as a political prisoner by many international organizations, including the Council of Europe, is serving a term in prison for going public about corruption in the army.⁷⁵

The rate of corruption in Azerbaijan is extremely high. According to the information provided by Transparency International, Azerbaijan scored 125th out of 133 countries surveyed in 2003.⁷⁶ This data corresponds with local research-73.2% of Turan news agency respondents believe that corruption in Azerbaijan is very high.⁷⁷ However, other research reveals a slight decline in the level of corruption. A joint World Bank and EBRD study of commercial entities in Azerbaijan showed that the instances of bribery was reduced by nearly half over the last 3 years. If 59.9% of 1999 survey respondents stated that they give bribes, in the 2002 survey only 27.5% of all respondents responded affirmatively to this question.⁷⁸

Organized crime

Organized crime in transition economies differs from the classic Western Mafia model, which originated in the criminal sphere (arms trade, contraband). In transition economies organized crime has developed largely as an offshoot of the legal economy. The money makers of the Soviet shadow economy, the so-called “tsekhoviks,” stimulated the formation of a new economic “gray zone,” or informal sector that did not fail to attract attention from leaders of criminal groups and allowed them to turn into a powerful sector of organized crime. After the demise of the socialist system, an active growth of both groups led to confrontation among themselves, as well as with the state. This process yielded different results in different transition countries. In Russia shadow capital merged with criminal groups. In Azerbaijan the state managed to prevent criminal leaders from active penetration in economic life. According to a survey conducted by Intermedia in Central and Eastern European countries,⁷⁹ Azerbaijan has the lowest rate of Mafia-related violent crime in the region with a score of 12, while Russia scores the highest with a score of 65.

“Dirty” and “shadow” money laundering

The large turnover of shadow money in such a corrupt environment is hardly surprising. If we are to follow the model of black and gray economies, we must also distinguish between “dirty” (criminal or corrupt money) and “gray” money, (i.e., money earned through legal economic activity, which then evaded taxation). According to analysis by Ayman Ospanova, a member of Fiscal Analysis Group of Tax Administration and Fiscal Reforms of USAID, the total scale of the shadow economy in Azerbaijan constitutes 60.1% of GDP. For comparison, in Russia this indicator is 42.2%, while the average number for developed countries is 12%.⁸⁰ Western experts suggest that 50-55% of Azerbaijan GDP is earned in the shadow sector.⁸¹ Such enormous capital needs to be laundered, partially by means of investing into the local economy (as evidenced by the many luxurious houses and festivities in Azerbaijan) or abroad.

According to the Turkish newspaper, Millet, Ruslan Mansimov, an Azerbaijan businessman fleeing the

⁷⁴ M. Mammadov, Military Journalist Intends To Continue Denunciation of Ministry of Defense, Serial newspaper, 15 February 2003, 7 February 2003

⁷⁵ Corruption Penetrates All System Of Armed Forces, Interview with Alekper Mammadov at the Internet Forum of Zerkalo newspaper, 25 January 2003

⁷⁶ More details can be found in Corruption Perception Index 2003, www.transparency.org

⁷⁷ Expert survey by Turan News Agency, April 2001

⁷⁸ N. Gulieva, The Level of Corruption In The Country Has Reduced, Echo newspaper, 11 January 2003

⁷⁹ Extent of Crime and Corruption: Perceptions of Elite in Central and Eastern Europe and the Caucasus by J.Martyniuk and N.Japaridze, Clean Future Issue, Summer 1999

⁸⁰ I. Gasanova, Economy That Casts a Shadow, Echo newspaper, 14 December 2002

⁸¹ G.Gasanov, Candidate of Economics, Associate Professor, Azerbaijan State Economic University, Informal Sector of Economy, Point of View column, Echo newspaper, 19 March 2002

Russian Mafia, spent \$900,000 in bribes to purchase Turkish nationality and a new passport. The source claims that the Azerbaijan was worth \$1 billion, of which \$650,000 was invested into Turkish economy.⁸²

Unfortunately, Azerbaijan legislation does not have a single legislative provision concerning money laundering, despite recently joining the international Convention on Money Laundering, Identification and Confiscation of Revenues Derived by Illegal Means.⁸³ The Azerbaijan banking sector has also not experienced any scandals connected to money laundering. According to leading economists, this is due to the fact that all corrupt transactions are concluded outside of the bank sector, besides “shadow” money can be invested by firms into their own projects.⁸⁴

Can corruption be justified?

Corruption occurs for a number of reasons: an underdeveloped legislative framework, weak civil society, and nascent private sector. All these make corruption particularly widespread in transition countries. In addition, neither civil society nor the private sector may be experienced in or strongly committed to fighting corruption. Some experts view corruption as a positive mechanism, under certain conditions. For example, French researcher Marie Mendras believes that corruption acts as a kind of lubricating mechanism of social and economic relations to compensate for deficiencies in the state machinery".⁸⁵

If this argument has some validity during the early stages of political and economic transition, 10 years of independence is believed to be a sufficient amount of time for transition countries to design legal frameworks and create a favorable business environment, as demonstrated by the experience of the countries of Central and Eastern Europe.

Below are findings of research from Azerbaijan. In 1999 the Entrepreneurship and Market Economy Development Assistance Foundation (EDF) conducted an expert survey to analyze corruption-related problems⁸⁶. The question asked: *What portion of revenues are Azerbaijan businessmen and women compelled to pay as bribes?* According to 54% of respondents, resources spent by Azerbaijan businessmen on bribes constitute up to 40-70% of revenues, while 33.5% of respondents spend upwards of 70% of aggregate revenues on bribes. This situation, naturally raises the cost of doing business as well as undermines the state budget.⁸⁷

Zulfia Gousseinova, head of Sharg clothes factory organized a press conference and appealed to the President of the country to protect her against harassment by the Prosecutor's office, which allegedly solicited a bribe of \$40,000 and brought the enterprise to the verge of bankruptcy by persistent interrogations of employees.⁸⁸

Corrupt countries and international business

⁸² X. Ismailova, A Passport for \$ 900 thousand, Echo newspaper, 5-6 March 2002

⁸³ This Convention of Council of Europe can be found at www.coe.org

⁸⁴ Commentaries by I. Ahmedov and N. Imanov to article Money Laundering in Azerbaijan by N. Gulieva and N. Ramiz oglu, Echo newspaper, 4 April 2003

⁸⁵ Marie Mendras, Enrichment and Clientele – Patronage Relations in Russia, Constitutional Law: Eastern European Survey No 1(22), 1998, p. 122

⁸⁶ The survey covered 263 respondents from Baku, Sumgait, Nakhchevan, Ganja, Sheki, Ali-Bayramli, Lenkoran. Experts were comprised by 20 MPs, 16 leaders of political parties, business associations and trade unions, 25 editors and economic commentators from leading mass media sources and news agencies, 48 businessmen, 25 attorneys and staff of law enforcement bodies, 15 economists, including researchers, a group of doctors and teachers, representatives of other professional groups. All respondents were nationals of Azerbaijan. The survey was funded by Center for International Private Enterprise – CIPE, US.

⁸⁷ S. Bagirov, The Problem of Corruption in Azerbaijan, report by EDF, 1999

⁸⁸ N. Gulieva, Businesswoman Accuses the Chief Prosecutor's Office of Corruption, Echo newspaper, 15 January, 2003

International businesses willing to work in countries with rampant corruption operate in a difficult situation. Mining industries especially (oil and gas, ferrous metals, diamonds, forestry, etc.) face a difficult challenge: how to work in countries that are rich in natural resources, but are notorious for corruption (for example, Azerbaijan, Angola, Nigeria), while following the strict anti-corruption legislation of their home countries.

In due time, companies operating in transitional countries are exposed to pressure from the public in their home countries, who demand measures be taken to reduce corruption in the countries in which they work. It is expected that BP/AMOCO and Netherlands Royal Dutch/Shell will take active steps in this direction⁸⁹ in response to pressure from civil society. For example, the Caspian Revenue Watch project, funded by Soros Foundation is one of the first attempts of the civil society to monitor expenditure of the Oil Funds in Azerbaijan and Kazakhstan.⁹⁰

Oil companies operating in Azerbaijan work under PSAs which are ratified by the Milli Majlis (Azerbaijan Parliament) and thus acquire the status of the law. Foreign companies outside of the oil sector, like local companies, face arbitrary interpretation of the inconsistent legislation by local public officials. Immunity granted to international companies also extends to subcontractors. In addition, multinationals have already demonstrated their firm stance towards corrupt practices and are harassed to a much smaller extent than local companies. Unfortunately, outside of the oil sector, foreign companies are not that well protected, which is likely one of the factors behind the low level of foreign investment in the non-oil sector of Azerbaijan. As mentioned above, corruption has left its stain in all countries. It suffices to recall the scandals surrounding the U.S. companies Enron and Arthur Andersen.

Multinationals, as a rule, are willing to subcontract to local companies provided the latter meet all the requisite professional criteria and adhere to Western business ethics principles and standards in their practices. This is very important for investing companies, as even a remote affiliation with an unethical business might undermine their hard-earned reputation and affect profits.

According to Transparency Azerbaijan research, issues of particular concern to international companies in regards to contracting are:

- bribery;
- gifts and entertainment;
- facilitation payments;
- tax evasion;
- non-compliance with legislation.

International organizations and companies can help local businesses, if the latter demonstrate their commitment to help themselves.

International anti-corruption legislation

Until very recently the tax regime in many countries turned a blind eye towards companies paying bribes as a means of conducting business abroad. In Germany, for example, legislation allowed companies to deduct bribes as legal business expenditures, while domestic bribery, was viewed as a major criminal offence. Many governments applied a double standard in their policies on bribery. In 1977, the U.S. Congress adopted the Foreign Corrupt Practices Act which declared bribes paid to foreign public officials as a means of doing business as a criminal offence.⁹¹ Adoption of the Anti-Corruption Act by the US Congress put US companies in a disadvantageous position, as compared with companies from other countries.

⁸⁹ Alec Appelbaum, Battle Lines Forming in Struggle over Corruption in Caspian Basin, July 20, 2001, in Business and Economies, August 15, 2001, Eurasia Net Business and Economics, www.eurasianet.org/departments/business/articles/eav072001/shtml

⁹⁰ More details can be found at www.eurasianet.org

⁹¹ More details can be found at <http://www.usdoj.gov/criminal/fraud/fcpa.html>

According to the US Department of Commerce⁹², between mid-1994 and late-1997, 39 out of 139 commercial international contracts world-wide totaling 64 billion U.S. dollars have been concluded due to bribes. U.S. companies have lost contracts totaling 11 billion US dollars due to their refusal to pay bribes.

Following the U.S. initiative, the OECD developed the International Anti- Bribery Convention, which was adopted in 1997 and ratified two years later.⁹³ This Convention makes bribery to foreign public officials a criminal offence. This Convention was ratified by the parliaments of all 29 member countries, as well as five non-member states. Among other international instruments designed to combat corruption, the Council of Europe Criminal and Civil Law Conventions, which our country has recently joined, should be mentioned.⁹⁴

The anti-corruption legal framework in Azerbaijan

In June 2000, the president of the Azerbaijan signed a decree tasking the government to draft a national anti-corruption law and program. Despite the fact that the adoption of this law and program constitutes an integral part of obligations of Azerbaijan to join the Council of Europe⁹⁵, the program has not yet been finalized,⁹⁶ and adoption of the Law was delayed.⁹⁷ According to experts, the Law contains some minor deficiencies, for example, the Article 10.1 prohibits public officials from accepting any gifts of over 50 conventional units (i.e., U.S. dollars), however, this prohibition does not extend to officials' immediate family members and relatives. Nevertheless, adoption of the Law is a significant step in combating corruption in our country.

Transparency International and Transparency Azerbaijan

Transparency International (TI) leads the international anti-corruption movement. This international non-governmental organization has national chapters and chapters in the process of formation in over 100 countries world wide. It is funded by subsidies from governments of many countries and private sector donations. Initially a working group was established with headquarters in Berlin, Germany. Mr. Peter Eigan led a group of enthusiasts who recognized the need to combat this negative social phenomenon. Transparency International releases several types of products, the most well known being the annual Corruption Perception Index. TI does not expose individual cases. Rather, in an effort to make long-term combat against corruption, TI focuses on prevention and reforming governance systems.

Transparency Azerbaijan (TA) is the national chapter of TI in our country. The main goals pursued by TI are gradual enhancement of transparency in the systems of public and private administration and reduction of corruption by means of joint efforts of all sectors of the society: all branches of power, public sector, civil society and media.⁹⁸

⁹² Let's Clearly Agree And Recognize That Corruption Is A Crime, Commentary of W. Daily, U.S. Minister of Commerce, U.S. Information Service, U.S. Embassy in Azerbaijan, 19 November 1997

⁹³ Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, www.oecd.org

⁹⁴ See site www.coe.int.org

⁹⁵ See Opinion 222, concerning obligations of Azerbaijan before Council of Europe, www.assembly.coe.int/documents/adopttext/ta00/eopi22.htm

⁹⁶ The deadline to adopt the law expired in January 2000 and the program in January 2003

⁹⁷ Please see footnote 2 above

⁹⁸ More information can be found on: Transparency International www.transparency.org (in English); Transparency Azerbaijan www.transparency-az.org; www.admin.coris.web.org. (the last two sites have information on corruption in Azerbaijan and beyond in English, Azeri and Russian)

SELF-ASSESSMENT QUESTIONS TO CHAPTER IX. CORRUPTION AND BUSINESS

The questions below are designed to assess your understanding of the material.

Basic notion of corruption

- ◆ Define of corruption and list its forms.
- ◆ Is the complete elimination of corruption possible?

Corruption vs. ethics

- ◆ Define the black, white, and gray zones of economic activity?
- ◆ What can businesses do to reduce the gray zone?
- ◆ How does ethics relate to corruption, if corruption, according to legislation of many countries, is a criminal offence whereas ethical issues are often unregulated?

Estimates of the level of corruption in Azerbaijan

- ◆ What are the current estimates of the level of corruption in Azerbaijan, according to external and internal research?

Organized crime and money laundering

- ◆ What is the difference between organized crime in the West and that in transition economies?
- ◆ What is the level of organized crime in Azerbaijan and why?
- ◆ What is understood under laundering of dirty versus shadow money?
- ◆ Please give the advantages and disadvantages of corruption and their proportion.

Corrupt countries and international business

- ◆ What challenges do companies face working in corrupt countries?
- ◆ What issues are of particular concern to international companies in respect to hiring local contractors?

Anti-corruption legislation and activities

- ◆ Please list international legal instruments designed to combat corruption.
- ◆ Does Azerbaijan have a legal framework to combat corruption?
- ◆ What organizations lead the global campaign against corruption?

CASE STUDIES FOR CHAPTER IX. CORRUPTION AND BUSINESS

Please read the cases below and chose your answer from the options provided. Please substantiate your answer. The notes to cases can be found at the end of the book.

1. My company has a good clientele base and potential for expansion. I was awarded a tender from a large company to cater for their 120 employees, who work at a facility in a suburb, 120 km away from the city. I will need to rent land in this suburb and construct a small warehouse close to the facility. I have a well designed business plan, but lack funds. I went to a private bank for a loan and realized that an employee of the bank's credit department expects a "kickback" of \$10,000 for a \$50,000 loan. What should I do:

- a) Pay the "kickback", because this is the way business is done in Azerbaijan?
- b) Inform the bank management of extortion?
- c) Try to look for another bank?
- d) Ask my customer for advice?
- e) Anything else?

2. You own a private clinic . Some of your staff doctors are partners and some are employees. The latter are paid accordingly to the income they generate for the clinic. Patients are told the cost of services rendered by a doctor after examination and requested to pay at the cash desk in accordance with a fixed price list, depending on the diagnosis, doctor's qualifications, and equipment used. You have noticed that employee doctors exaggerate the cost, while some patients push money on the top of the official price directly to doctors. You yourself had experience with unsolicited bribes and know that



patients believe that if they do not “grease” the doctor, they will not get good service. That is not your policy, though, and the partners do not want non-partner doctors to earn extra. Do you:

- (a) Ignore the extra payments?
- (b) Prohibit doctors from accepting extra payments with the threat they will be fired?
- (c) Post a price list and notices asking patients not to pay extra?
- (d) Make a uniform payment for all patients, regardless of their diagnoses, which is higher than the average payment (if they want to pay more, why not)?
- (e) Anything else?

3. I am a highly paid local environment consultant for a foreign oil company. I have been contracted several times before and am now negotiating a new contract. I want the contracting officer to employ my daughter as a secretary in his department and am willing to reduce my fee by 20%, equivalent to 6 months’ of her salary. I think this is a good deal - the company will have a secretary, effectively for free. I know there is a vacancy at the department, her English is not bad, she can use a computer, and she’s just as bright as other young people working for other foreign companies. So, this is not a bad deal for the company, and I don’t think this constitutes corruption, as no money will change hands. Still, I hesitate. Should I:

- (a) Directly suggest a deal?
- (b) Inquire about the vacancy and hint that I have a qualified daughter?
- (c) Send my daughter’s resume to HR?
- (d) Forget about the whole thing?
- (e) Anything else?

4. I own a small company, consisting of a shoe manufacturing workshop and a retail shop. I recently increased my production capacity and opened a second shop, increasing my total three months turnover to over 125 million manat. I therefore no longer qualify for a simplified rate of 4% of turnover anymore. My accountant suggests to re-register a second shop in my wife’s name. As for the workshop shop, I should either register it in accountant’s name or register my employees as individual craftsmen, who will be taxed at 10% of profit. Should I:

- a) Calculate the cheapest option?
- b) Pay taxes as due?
- c) Try to come “to terms” with tax officials?
- d) Look for “protection”?
- e) Anything else?

5. I’m a procurement officer for a foreign oil company. A particular company advises me that if I continue to purchase office supplies through them, I will receive 10% of the value of monthly orders in cash on the last day of every month. They have assured me that they will never tell my boss, no one will ever know. I receive a good salary but, of course, a few extra dollars each month is always welcome and will benefit my family. I have a sick mother and her medical expenses are high. What do I do:

- (a) Agree?
- (b) Refuse and report the incident to my manager?
- (c) Refuse and keep the whole thing to myself?
- (d) Anything else?

6. You are a senior cartographer with a land survey firm. An international oil company hired your firm to do land survey and select the most optimum route for a pipe line, which this company plans to construct. The oil company has just received your report. You cannot be sure that you are the single source of advice to the oil company, as they might have ordered this service from a number of your competitors as well. So, you have no chance to know the final route. However, due to geographic features of the regional landscape (rivers and ravines), you are sure that a particular section cannot be bypassed in anyway. You are tempted to drop a word and lend some money to a friend of yours to buy

land in this particular vicinity. You understand that you might be wrong and then you both might lose money, however, you feel that the reward is worth the gamble.

- a) Can you leak this information out?
- b) Is it legal and/or ethical?
- c) Is it ethical?

Rena Safaraliev

CHAPTER X. PROFESSIONAL ETHICS, FREE PROFESSIONS AND CORPORATE CULTURE

Notion of professional ethics and free professions

Professional ethics can be viewed as a system of professional norms, shared by representatives of a certain profession, as opposed to a universal or standard set of business ethics. Behavioral standards may vary appreciably from profession to profession. An auditor, for instance, makes note of errors and deficiencies in accounting books, and assists his or her customer in correcting them. A tax inspector, however, is not obligated to aid a company that is being audited.

A representative of a free profession is a self-employed professional, one who sells either intellectual services or artistic talents, and maintains an irregular income.⁹⁹ Be that as it may, free professions are typically associated with a high-income and social prestige. A representative of a free profession may have at his disposal a small team of workers executing support services.

The boundaries between professional businesses and representatives of free professions are diffused. For example, a self-employed doctor, executing his duties with the help of a nurse and secretary, is the archetypal representative of a free profession. Several doctors maintaining an establishment of their own, however, who are assisted by support personnel, qualify as a professional business. Another example is a full-time correspondent opposed to a freelance journalist.

Freelancers are bound by the same ethical obligations as their colleagues working in professional business. For this reason, they often unite to form professional associations, etc. If this were not so, society would not possess an efficient mechanism guaranteeing that representatives of free professions follow ethical norms and rules. Although some may argue that market instruments are capable of providing sufficient levers for enforcing ethical principles on freelancers, this is unfortunately not the case. The complexity of services rendered by representatives of free professions disqualifies the possibility.

In most cases, customers have the bare minimum of knowledge required to make the “right choice”, in terms of services and commodities that are available on the market (i.e. laundry services, food stuffs). In terms of high-tech merchandise, such as household appliances, a customer can rely on a company’s advertisements or reputation. Nonetheless, when faced with an abundance of professional services provided by free professionals - doctors, lawyers or architects - a customer will face difficulty in not having the appropriate amount of knowledge to make an educated choice. This factor imposes a larger number of strict moral obligations on representatives of free professions, as compared to their colleagues employed by professional firms. If a doctor prescribes an expensive German medication, a patient may not be aware that cheaper products of similar quality (i.e., Russian or Turkish) may also be available on the market. Consequently, it is state licensing of professionals is quite logical, given that the ultimate goal of licensing is to protect customers against poor, unprofessional service.

⁹⁹ Some authors believe that people who render non-intellectual services (plumbers or carpenters) also qualify as representatives of free professions. See R.T. de George, “Business Ethics”, Volume One, Progress Group Publishers, Moscow- St.-Petersburg, 2001, pp. 819-820. We do not share this opinion, as we do not recognize differences between the ethical obligations of a self-employed repairman and a repairman working for an employer.

Unfortunately today in Azerbaijan, licensing is more a form of unofficial tax than a guarantee of professionalism. The reduction made in 2002 of the types of activities requiring licensing from 240 to 30 inspires only cautious optimism.

Professional obligations

The average citizen encounters two potential problems when receiving professional assistance, of economic and geographic nature, respectively. The former is the more poignant of the two, and raises a number of complicated questions.¹⁰⁰ Do professional services need to be available on an equal opportunity basis? In other words, can a society manage to maintain an equal level of education throughout the nation, from the capital to the provinces, regardless of price? What services should be provided at no cost, and similarly, on a paid basis?

To some extent, it is clear that education, healthcare, and legal protection services should be available free of charge. Unfortunately, at present, there is virtually no free education or healthcare in Azerbaijan. If a significant portion of the educational sphere is ostensibly free of charge, medical institutions legally charge a fee for their services, because according to legislation most medical facilities are self-financed. Over the last five years, state-appointed lawyers failed to receive even the slightest reimbursement for their services, although the payment is stipulated by law.¹⁰¹

In this way, we stand face to face with a serious question: How should professionals be paid for their services, so that these services be made readily available to those in need? Each country resolves this issue independently, through its own means, through legislation and financial support. However, there is one essential point. Ethical principles should impose the obligation of providing services and not being paid, through some sort of means, on professionals. Providing available services is an obligation that must be fulfilled by a profession or society, as a whole. It is not a burden that needs to be shifted onto individual professionals.

A famous Russian doctor and writer, V.V. Veresayev, wrote in the 1910s that it is quite simple to denounce doctors, who do not wish to treat the poor free of charge. It is much more difficult, however, to make the whole of society provide free medical service to the poor.¹⁰²

Due to the high cost of professional services, in many professions there are certain economic norms limiting competition among professionals, and maintaining an ethical balance between competitors. For example, competitive bidding is prohibited in many professions. Artwork can be sold at an auction, but it is impossible to imagine universities accepting students on the basis of competitive bidding, instead of judging applicants according to their scores. A number of professionals charge percentage fees or have the rich subsidize the poor. Such practice is applied, universally, within corporate social-responsibility programs. Many lawyers work several hours per week pro bona. In Azerbaijan, such an approach is utilized by human rights defenders. It would be beneficial for other professionals to follow in their stead. For example, a photographer's studio could make photos for senior citizens free of charge, shops could sell basic foodstuffs at a discount several times a week, and food manufacturing companies could deliver a certain quantity of their products to hospitals at no cost, etc.

Every business tries to expand its publicity through the medium of advertising. Quite often, ethical principles are breached in the pursuit of broader publicity.

Another problem pertaining to publicity is solicitation or direct personal contact with a perspective client. Soliciting engineering services does not give way to great concern, but can one imagine a lawyer hearing of the death of an individual in a plane crash, and offering, free of charge, his services to the family of the deceased in making a claim against the airline?

¹⁰⁰ M. D. Bayles, Chapter 3, Professional Ethics, Florida State University, Wadsworth Publishing Company.

¹⁰¹ Article 20 of the Law of the Azerbaijan Republic, "On Barristers and Barrister Practice", provides a state-guarantee on the payment of fees to barristers working free of charge at a rate of 1500 AZM per hour (under \$0.3).

¹⁰² V. V. Veresayev, Doctor's Memoirs, Xudojstvennaya Literature Publishing House, Moscow, 1986, p. 273.

Should professionals be allowed to reject clients on ethical grounds? There is no one answer for representatives of varying professions. A construction company can certainly reject an offer to build a plant that would serve as an environmental hazard, but can a doctor refuse to prescribe a medication that will alleviate pain in the short-term, and kill the patient in the long-term?

Notion of corporate culture

Ethical norms and principles, common standards of business practice, and professional norms constitute an integral part of the broader notion of “corporate culture”. Other components include a clear vision of the company’s niche in the market, and a well-designed marketing strategy, including a clearly formulated slogan of its goods and services, a logo, the company’s name, office design, dress code, organizational structure, system of interrelations between employees, relations with partners and management style. A company’s ability to create a corporate culture is very important for its success in the market. Unfortunately, very few businesses in Azerbaijan realize the importance of a corporate-culture strategy in terms of economic success.

Opinion polls conducted among Russian businesses reveal that less than half of Russian managers are concerned with this issue.¹⁰³

An analysis of Azerbaijan businesses reveals several examples of corporate culture successfully implemented in Azerbaijan.

Azercell and Bakcell are noted for their sound marketing strategies and their respect for Azerbaijan history and culture. Gunay restaurant has a clear slogan, which well reflects the company’s niche in the market. This immense restaurant specializes in organizing wedding parties, with its slogan calling upon the public to get married. In principle, the AZAL (Azerbaijan Airlines) logo would be rather decent, if not for the fact that it is a copy of the logo of Turkish Airlines. CELAMIG (Center for Laser Microsurgery), a private optometry clinic, designed a schematic model of the human eye as their logo. R.I.S.K firm attaches stickers with both their name and logo to office equipment as a guarantee of quality service.

But very few Azerbaijan firms have an appropriate, euphonic name (i.e., AZEL, electronics, Milk-Pro, dairy products). There is a widely spread practice of naming firms after family members, even if the name in no way correlates to the type of services rendered or assists the consumer in understanding the company’s activities. At least, however, they cause no real difficulties. In some cases, company names, especially shops, confuse customers. It is very difficult, for example, to see a correlation between Sherlock Holmes and the activities performed by a trading firm. Names such as “Blinnaya” or “Russkoye Loto” confuse customers as to what language is being used.¹⁰⁴ These numerous, seemingly minute aspects of a company’s name, in truth, play a crucial role in sound marketing policy.

There was a time when Soviet foreign trade agencies attempted to introduce the automobile, “Jiguli”, into the European market. They were surprised to learn that the word has no ring to the European ear. Additionally, in some languages, the name of the make was associated with the word “swindler”. The Soviets, in turn, changed the name of the automobile to the more euphonic “Lada”, and the brand was successfully assimilated by the market.

The Russian abbreviation for AIOC (Azerbaijan International Operating Company for Azeri-Chirag-Deep Water Gunashli Fields) is AMOC, the English and Russian word defined as “a fit of insane love”.¹⁰⁵ Most probably, this is why Russian-language newspapers, in Azerbaijan, prefer to use the English abbreviation.

Finally, we approach the very significant topic of management style. According to surveys, it is sad to report, an authoritarian-bureaucratic approach dominates most businesses in post-Soviet countries. All

¹⁰³ E. A. Utkin, *Business Ethics*, Zertsalo Publishing House, Moscow, 2000, p. 74.

¹⁰⁴ Transliteration of Russian words in Azeri Latin script.

¹⁰⁵ The word “amok” is well-known from a novel written by Stephan Zveig, by the same name.

decisions are made somewhere up at the top of the ladder, and mechanically implemented somewhere at the bottom. Most managers remain true to the old Soviet principle that “initiative must be punished”.

Many U.S. employers operating in Azerbaijan claim that their Azerbaijan employees are extremely well-educated, but show a lack of initiative, and are reluctant to execute managerial functions.¹⁰⁶

The world of modern business welcomes a new type of leader, one who encourages initiatives from the bottom up, and who is prepared to overlook his subordinates’ errors in designing and implementing novel ideas. The genuine value of this new brand leader does not lie in the fact that he or she is a skilled decision maker, but that the person is able to utilize the initiatives of his subordinates to the company’s benefit.¹⁰⁷

We sincerely hope that Azerbaijan businesses will soon realize the significance of designing and implementing corporate-culture strategies.

SELF-ASSESSMENT QUESTIONS TO CHAPTER X. PROFESSIONAL ETHICS, FREE PROFESSIONS AND CORPORATE CULTURE

The questions below are designed to assess your understanding of the material.

Notion of professional ethics and free professions

- ◆ Please describe the concept of professional ethics and its underlying essentials.
- ◆ Please define the phrase, “representative of a free profession”.
- ◆ What are the differences between the ethical obligations of representatives of free professions, and professional businesses?
- ◆ Why should representatives of free professions unite to form professional associations?
- ◆ Is state licensing necessary for representatives of free professions?

Professional obligations

- ◆ What potential problems are faced by the average citizen who wishes to receive professional aid?
- ◆ What services should be available on an equal opportunity basis?
- ◆ What services should be available free of charge? On a paid basis?
- ◆ Should ethical principles impose the obligation to render services free of charge on professionals?
- ◆ What measures are taken by professionals to limit competition in their given field?
- ◆ What restrictions should be imposed upon professional businesses in the spheres of customer solicitation, advertising, and professional freedom?

Notion of corporate culture

- ◆ Please define the components of corporate culture.
- ◆ Please summarize how the components of corporate culture are implemented by your company. What components of corporate culture should your company introduce?

CASE STUDIES FOR CHAPTER X. PROFESSIONAL ETHICS, FREE PROFESSIONS AND CORPORATE CULTURE

Please read the cases below and chose your answer from the options provided. Please substantiate your answer. The notes to cases can be found at the end of the book.

1. A nurse working at the optometry department of a hospital has learned that she needs to undergo minor surgery for a small bone tumor on her foot. She has already made arrangements for the surgery with a surgeon from another hospital where she used to work. The nurse does not want to take leave so as not to lose pay, and decides to change shifts with her colleagues. She can work extra nightshifts and receive several days off. The nurse believes that her surgeon is suggesting too lengthy a rehabilitation period after

¹⁰⁶ Azerbaijan Investment Climate. STAT-USA on the Internet US Department of Commerce, www.strategies.gc.ca

¹⁰⁷ F. Askerov, Business Ethics Required, Caspian Business News newspaper, March 17, 2003.

her operation. She approaches a surgeon from another department of the hospital where she currently works, and asks how many days a patient needs to recover from such an operation. The second surgeon asks why she is interested in the information, and offers to perform the identical operation at a lower cost.

- a) Was the nurse correct in approaching the surgeon who she was not planning to be operated upon by?
- b) Was it just to approach another surgeon for a free consultation?
- c) Is the second surgeon ethically in the right for taking someone else's customer?
- d) Should the nurse agree to a more acceptable price, even if she considers the smallest difference in cost significant given her wage, situation, etc.?

2. There is a long queue at a private bank. A customer at the end of the queue is a woman whose baby is crying.

Should the cashier request the queue to allow the woman to be served out of turn?

Airport personnel announce a slight delay at the boarding bridge, and request the passengers to wait several minutes before they are admitted onto the plane. The weather is wretched; it is raining with a severe wind. There are small children and pregnant women among the passengers.

Should they be admitted onto the plane beforehand?

3. Are the following slogans appropriate for businesses? If yes, for what types?
We make the world (a) smaller (b) cleaner (c) nicer (d) kinder

We are (a) reliable (b) merry (c) fast (d) funny

Our principle is (a) the customer is always right (b) we know what you need (c) our customers are our friends (d) we know better what you need

4. Which of the following names sounds the best for an Azerbaijan business? Why?

(a) Bilgeiz (b) Navuhodonosor (c) Sanara (d) RSTJ-Production (e) Rusalka (f) Azgaspromkonversiya

5. The management of a small construction firm arranges a trip to the country for its personnel and their families. The party will stay at a hotel. Most of the staff members are young and single, meaning expenses for family members will not be substantial. Two young women request permission to bring their mothers along or, otherwise, they will not be allowed to stay the night. The management tries to avoid the extra expense, and, moreover, the presence of the mothers is not welcomed by the youths. Eventually, the two young girls stay behind.

- a) Was the management's decision ethical?
- b) Could the problem have been solved differently?

6. You are in your mid-20s, and have just been promoted to the position of "Team Leader". Your team consists of four people, all of whom are at least 10 years your elder and have been working with the firm much longer than you. You are trying your best to be friendly with your workers, but notice that the team avoids reporting to you. When the slightest problem arises, they approach your boss, who is in his mid-50s. You speak with them and come to the conclusion that they are hesitant to report to someone of such a young age.

- a) What can you do to remedy the situation?
- b) Should your boss help you? If yes, how?
- c) Should you seek assistance from someone else, for example, the Human Resources Department?

NOTES TO CASE STUDIES FOR CHAPTER I. INTRODUCTION INTO BUSINESS ETHICS KEYS TO CASE STUDIES

1. We should find out what moral obligations are these people bound by. All characters, except for the fireman on duty, *shall try to save the child*, while the fireman *must save*, because, firstly, he is best trained and equipped for the job, secondly he is bound by professional and contractual obligations. Others have different degrees of moral obligation. A passer-by is bound by a general obligation of an adult to protect children, imposed by any society, otherwise mankind will not be able to ensure its sustainable survival. A neighbor is bound by the same obligation before the family he knows, the baby-sitter has contractual obligations, but lacks training of a policeman, who is bound by his professional obligations, shared by all people wearing a uniform, even when they are off duty. We tried to cover this issue from a moderate point of view, while radical ideologies can offer opposite answers. For example, Soviet ideology required “to die, but save a friend”, while individualistic credo stands for “every man for himself”.

2. This situation can not be solved fairly. The senior night shift man was wrong by any measure, when he preferred short term profit, which wrought damage to the reputation of the company in the long term. In addition, he set a bad example to his subordinates. The employee is right in essence, but it is difficult to agree with her principle “the ends justify the means.” If every employee files a grievance over the head of his boss and use informal channels, the whole system of subordination and management of any company will be disrupted. The best way to prevent such a situation is to establish procedures to file grievance and complaints. These procedures shall be adopted by management and made known to all staff members. They can be stated in company’s code of ethics and/or employee’s contracts. For example, an employee files a complaint to his or her immediate supervisor verbally followed by a grievance in writing. In case of no due response, an employee shall be authorized to go to the next level management with a copy to immediate supervisor. Such a system will not allow employees: (a) to violate subordination; (b) to anonymously spread slander of their bosses out of personal motives. Most probably, after a written complaint is filed, an immediate boss will take a serious measure and solve the conflict on his or her own, as the conflict might become known to the management.

3. Every business is free to make its own decision. Of course, some people would prefer to give in and some – to leave the country. Few people would try to act: go to the police, court or media. However, there are some cases when businesses managed to defend their positions in courts. Many businesses are afraid to protect their rights on their own and this is the area, where business associations can be useful.

4. We have here a classic conflict of interest. Option (a) testifies to your readiness to help your relative, but is it worth to risk your career for another person, even a very close one? Option (b) contains no risk for you, but this is not a very nice thing to do. Option (d) can cause panic in the whole department and will not benefit anyone: neither your relative, his colleagues nor yourself. If you really wish to help your relative, without putting yourself at a risk or harming your company’s interests, option (c) is viewed as the most optimal.

5. This is a very unpleasant and, unfortunately, quite a common situation. For a number of reasons, of which rural mentality of the majority of police staff members is not the least common, it is very difficult for them to perceive that the girl is not a prostitute. However, this gives them no grounds to take her to a police station, as they do not have any even circumstantial evidence: the girl is not dressed provocatively, she was not grabbed at a night bar, etc. Some people might say that the girl could have been more careful and avoided such a situation. We would respond that there were cases, when more mature and cautious women found themselves in such a situation with their own husbands. It goes without saying that a foreigner can not pay a bribe to the police, as he risks to get punished, if it were known to his management. However, to leave the girl to face the police alone is even worse. In this embarrassing situation he should chose the smaller of the two evils – to pay and try to find out names of policemen or, at least, to remember them. We are far from recommending to encourage corruption, so we would suggest take measures afterwards: file a complaint with the nearest police station, write letter to a newspaper, etc.

6. This case is based on a real event. It is difficult to believe that the incident was inspired by this reason only. More probably, Azerbaijan employees of this company were not happy with the way their company treated them. In addition, we are not familiar with a code or any other internal document of this company. We also do not know, if the employee tried to apply to a respective department of the company, authorized to copy all. We are unaware, if the employee did similar things in the past and what was the company's response. It is difficult to say without the full picture, if the employee was guilty technically. However, we believe that the company should not have punished him so severely, moreover, that the reprimand evoked a strong negative response of other staff members. However, it is obvious that foreign companies operating in Baku shall commemorate memorable dates of their countries, as well as of Azerbaijan. It is understood that a reasonable balance should be achieved. The January 20 deserves to be commemorated, the same as July 4 for an American company, for instance. Companies may have tough policy in this respect and forbid copying unauthorized dissemination of any non-business information. In any case, such issues shall be foreseen in an internal document, for example, code of ethics and made known to all staff members.

NOTES TO CASE STUDIES FOR CHAPTER II. INTERNAL CORPORATE ETHICAL PROBLEMS

1. The very fact of employment of a close relative of the company's president in itself provides a reason for a conflict of interest. The department head can impose disciplinary punishment on all employees reporting to him or her, regardless of their family connections. If need be, the president can be informed. From ethical point of view, this situation can lead to the following consequences:

- Disturb normal relations between all employees;
- set a precedent for discrimination of employees;
- form an unhealthy attitude, like "if the president's relative can be late, why shall I come in time?";
- damage discipline.

2. Sexual harassment in the workplace is understood as unethical behavior of the opposite sex with a sexual tinge: jokes of a sexual content, verbal and physical insults, forced sexual relations. Such behavior is impermissible. Any manager who has received information on sexual harassment should organize a serious investigation and subsequently take severe measures.

3. This situation does not have a concrete answer. The cafe owner is free to choose any of the candidates. However, the following order of preference could be recommended: (c), (a), (b), (d), (e). The (c) candidate meets all requirements in terms of age and professional experience. Religious beliefs are not much of a problem and a request to allocate space for prayers is not difficult to meet. Every employee deserves respect, regardless of religion, race or ethnicity. The only weak point of candidate (b) is her language problem. The fact that she quit her previous employment because she could not tolerate unethical treatment, but still would not complain, speaks of her integrity. Candidate (a) has several problems. She has a child that might demand much of her attention and she may ask for frequent sick leaves, which contradicts your requirements. On the other hand, a single woman with a child to support would work diligently to keep her job. Candidates (d) and (e) are less attractive in comparison to others, as provocative appearances and family connections might create problems. In addition, candidate (e) is overqualified and might have a problem with his reduced status.

4. This unofficial questionnaire ordered by the company head to a human resources manager is impermissible from an ethical point of view. Heads of companies are not authorized to collect unofficial information on their employees. At the same time, all employees have a right to privacy.

5. This case is typical for Azerbaijan realities. Practically all pharmaceutical companies have such kind of arrangements. However, from an ethical point of view, direct relations between sales agents and doctors who write prescriptions, as well as honoraria in proportion to medications prescribed is wrong. At the same time, representatives of companies are entitled to distribute promotional materials: brochures, information lists, as well as pens, note pads, note books promoting company's goods and services. Still, prescription of medications of one firm means violation of rights of consumers, because patients trust

their doctors and abuse of their trust cannot be justified. As for doctors, they place themselves at a risk to lose their credibility in the eyes of patients.

6. We have a clear conflict of interest here. You are torn between your loyalty to your friend and your company. The company was not fair in assigning you to do this task alone. You have to submit a list of candidates and delegate the decision making right to somebody else. It is even better to call a commission, comprised by three people and you can be one of them. You should inform other members of the commission of your relationships. It is quite possible that they would vote for your friend. If he is otherwise competitive with other candidates, the company may give preference to him just because he is your friend, as the company will be able to have an idea of what kind of person he is and evade the problem of psychological incompatibility within the work team. On the other hand, it would be unfair towards your friend simply to delete his name from the list only because of his connections and because you do not wish risk your position within the company. In any case, you should not be the ultimate decision maker.

Option (d) is not to be acceptable, as you are not authorized to use property of your employer to work for another employer, even after work hours. Working from home – option (b), does not involve abuse of office time and property of your main employee. However, this option is not acceptable either, as a competing firm is involved. Of course, if a shop security guard works as a school guard after work hours, no conflict of interest emerges. In your case, you should notify your boss, who, quite probably, might allow you to work temporarily for the second firm, if your company is on good terms with their competitor and provided that your work does not give you access to company's commercial secrets. However, majority of firms would not allow their employees to work for another employer in the same industry, moreover, for a competing firm, except for teaching and research.

NOTES TO CASE STUDIES FOR CHAPTER III. CUSTOMER RELATIONS

1. The Kodak shop owner faces a very difficult choice: either take the order and find ways to meet all requirements of a customer or recommend a competitor and lose this customer. Choosing option (b), the owner could win a customer with his sincerity and persuade the customer that a novice cameraman could have coped with the task well. The owner can also consider calling some other firm and inquire if they have a time slot. Option (a) would lead to breaking trust of the customer. In addition, one might question what kind of service a business provides if it takes orders that it lacks the capacity to fill.

2. Unfortunately, this case is typical for Azerbaijan and some other countries. No doubt the competitor – client of the same bank received this information from a bank officer, who violated one of the vital rights of customers – the right for confidentiality of information. Violation of this principle, especially in the banking sector, is impermissible and can not be justified by any ethical reasons. Such unethical act can undermine reputation of the bank, damage its image and result in loss of customers.

3. The request of the vice president of the firm is unfair from ethical point of view, as she wishes to receive confidential information without providing sufficient credentials. On the other hand, it is quite possible that vice-president is trying to test if your firm is trustworthy. In any case, under these circumstances an employee shall follow confidentiality rules and abstain from providing the requested information. A reference to the confidentiality article of company's business ethics code shall serve as a justification for refusal.

4. From your point of view, optimal options are listed in descending order: (d), (b), (a), (c). We recommend to try the most optimal option and then move further down the list, if need be. Option (d) is the most optimal for you. But will the second customer accept it? Option (b) will help you to keep both customers, provided that you can cope with the task. Options (a) or (c), will, most probably, cost you a customer. If you have to chose between the two clients and there are no other factors involved, you should give up the first client, because customers also have obligations before businesses. Your first client violates customer's obligation to follow arrangements.

NOTES TO CASE STUDIES FOR CHAPTER IV. PROBLEMS OF EXTERNAL CORPORATE ETHICS

1. Option (a) is fair competition. Option (b) is secret agreement and your chances that competitors will agree are very slim. Option (c) is an attempt to buy an employee of your client, which firms with a solid reputation would not tolerate. Option (d) is one of the forms of corruption and speaks of weakness of the client company. If you choose any option, except for (a), you will not be able to make any substantial profit this time, as an unfair deal will cost you quite a sum, nor in future, as your company's reputation will be damaged. Practice shows that in Azerbaijan today, big companies have more chances to oppose unfair and illegal methods of doing business than medium and small companies.
2. Analysis shows that if option (b) used to be the most preferable in the past, today there is a tendency, especially among foreign companies, in favor of option (a). As for the response of the client company, again, in the past they preferred to pay exorbitant honoraria to "consultants", which also included informal payments. Today a client will, most probably, go for option (a) or (b). As for origin of a client company, Bribe Payers Index of Transparency International ¹⁰⁸, ranges countries in the order of frequency of their companies' involvement in corrupt practices abroad. According to this research, participation of a Norwegian company in a corrupt deal is the least and of Russian – the most probable. Our country is not covered by this research.
3. It is difficult to say unambiguously what motivates this law: caring about the nation's health, protection of interests of big companies or an error of legislators. In any case, we have to recognize that this law simply does not work today.
4. In the past small companies were forced to chose options (a) and (b). Today there are cases of successful application of option (c). There are pre-requisites for future success of option (d).
5. In this case, in addition to ethical considerations, you should also take into account: (a) response of your deceived competitor; (b) your willingness to trust your company's confidential information to an unscrupulous man. Attempts can be made to avoid the leakage of information. Employment contracts should have a relevant article on non-disclosure of confidential information. If need be, this article can be used as a justification to bring court litigation against the alleged perpetrator.

NOTES TO CASE STUDIES FOR CHAPTER V. LYING AND DECEPTION IN BUSINESS

1. Of course, this decision of the Alievs' is wrong. They did not break the law, but still tried to deceive an insurance company by providing false information. Lying is incompatible with ethical norms. However, the final decision is to be made by the insurance company. The most correct way is to tell the truth.
2. In this situation management of the plant must also share the blame – it is wrong to give unsubstantiated promises, which leads to unhealthy work attitude. In any case, appropriation of instruments and spare parts by employees also cannot be justified. Firstly, this is stealing, and therefore a criminal offense. Secondly, this worker sets a bad example to his colleagues.
3. Samples offered in this case shall be judged separately, In the first case, ethics can justify the head of the family because he chose the least of two evils. Besides, problems which forced him to steal must be solved by society at large. However, from legal point of view, stealing is a criminal offense. As for the second case, any person, fleeing for his or her life, can resort to any means available. This act shall not be qualified as stealing, provided that the car is returned to its owner later. In the third case, it is wrong to distinguish between stealing from individuals and corporations. In both cases it is stealing.

¹⁰⁸ See for more details Bribe Payer's Index at www.transparency.org

**NOTES TO CASES STUDIES FOR CHAPTER VI.
MECHANISMS OF IMPLEMENTATION OF PRINCIPLES OF BUSINESS ETHICS**

1. The best option under these circumstances is (c). It is best if management learns from you, rather than hearing from another source. Option (d) is also an appropriate way to start with inquiries. However, if you withhold information, your reputation may be damaged. Options (a) and (b) would not do at all, as management is entitled to be aware of relations of its staff members with employees of competing firms to be able to ensure maximum confidentiality of commercial secrets.
2. Under these circumstances option (c) is the most appropriate option. Regardless of the type of activities, the computer belongs to the company and Akif *should* inform his manager. In case he is being paid for this job, he *must* inform his manager.
3. Depending on circumstances and individuals involved, every option can be justified.
4. Despite your sympathy for Elnar, the most appropriate option here is (a). Other options are ranged in descending order of their preference: (c), (b), (d)
5. Beyond any doubt, this is a bribe in disguise. A night club with a show is not the most suitable place to conduct business negotiations. In addition, the invitation is extended by a dependant party. You should either reject the invitation, or pay from your company's funds, if these kind of expenses are allowed. Many companies establish an upper limit for an acceptable cost of a business dinner.

NOTES TO CASE STUDIES FOR CHAPTER VII. CORPORATE SOCIAL RESPONSIBILITY

1. A publishing house shall not have any legal liability for materials published; this does not, however, does not eliminate ethical obligations. It goes without saying that publication of such materials will harm interests of society at large. If the publishing house refuses to publish the book, they will avoid moral burden, but will not be able to guarantee that the book will not be published elsewhere. The publishing house should try to cajole the author to delete dangerous details and, in case of failure, to inform relevant state censorship bodies. In the early 1990s many criminals in the USSR learned from media that a certain medication mixed with champagne resulted in an instant, temporary black-out of a victim.
2. The restaurant owner obviously violates rights of residents. The problem is whether benefits compensate inconveniences. In this case, shattered peace and quiet cannot be compensated by advantages. The majority of the above-mentioned inconveniences can be resolved at an extra cost to the owner by installation of sound proofing, a waste treatment facility, power generator, etc. Unfortunately, this situation is quite typical for Azerbaijan.
3. The kiosk owner is wrong to place magazines with indecent cover photos in a conspicuous place, especially in the vicinity of a school. In many countries, customers wishing to buy this type of product, must apply extra efforts, e.g., using a ladder to take the publication from an upper shelf, where this material cannot be picked up children, or ordering by catalogue. On the other hand, the school principal should have paid attention to this fact long time ago. Finally, people must clearly understand where they draw a limit line for indecency. During the Inquisition, it was believed that demonstration of naked flesh in art was so indecent that many Renaissance art works were painted over and restored later.
4. The manager faces quite a challenge. Every applicant, except for the blackmailing school principal, has irrefutable advantages. This is exactly why companies are recommended to design their own social policies, basing them upon their ethical principles. It is easier to follow company policy and avoid such a poignant choice, for example, by limiting consideration of projects to support art.



NOTES TO CASE STUDIES FOR CHAPTER VIII. INTERNATIONAL NEGOTIATIONS, ETIQUETTE AND PROTOCOL

1. Option (a) is acceptable, but not very useful. It is quite probable that in the country of your destination preference is given to local etiquette, rather than international norms. Option (b) is fine, if you have a strong memory and can memorize all required information in a couple of days. Option (c) is seen as the most appropriate, as organizers will inform of every event in advance. Option (d) is the least desirable.

2. Under these circumstances option (a) is the least recommended, while option (b) seems to be the most optimal. Practice shows that informal situations can ease tension and help to more easily resolve the most of difficult problems. Of course, option (c) is quite appropriate, provided that your behavior is not viewed as a retreat from your position and you have enough patience to overcome resistance of the opposite party. Option (d) is quite agreeable, if you are certain of success of the new players.

3. Except for (d) (which is rude and tactless), all other options are viable.

4. The best option here is (a). We live in a secular world and organizers might be unaware of your religious beliefs. However, if guests come from Moslem countries, organizers, as a rule, would never offer pork. Option (b) is to be avoided, as this is lying and organizers may change their attitude towards Tural, if they learn of his insincerity. Options (c) and (d) are impolite and may antagonize his partners.

NOTES TO CASE STUDIES FOR CHAPTER IX. CORRUPTION AND BUSINESS

1. It is not recommended to involve a client in your problems. Only a couple of years ago, it was impossible to take a loan without a “kickback”, especially from a state bank. There was little use in informing management of the bank, who participated in this kind of deals through their subordinates. It is good to note that for a number of reasons this practice is on the decline. Some of these reasons include: strengthening of private banks, more balanced policy of the Azerbaijan National Bank, availability of cheap credits on favorable terms provided by international organizations, scarcity of reliable local companies, who would make credible customers, in a word, competition. This has led to a significant change of the situation. Today, it is quite feasible to inform management of the bank or, even better, to go to another bank.

2. Here we see quite an interesting case, testifying to the deep ingraining of corruption into our mentality. People do not believe that they will receive decent service unless they offer a bribe. It is recommend to strictly prohibit all doctors from manipulating numbers under the threat of losing a job. Additionally, it is advised to place a price list with fixed prices in the lobby. Introduction of a common, more expensive tariff for all doctors and services might be very convenient for hospital's records keeping, but may be unacceptable for patients. In any case, this organization lacks a well perceived system of internal procedures, while corruption flourishes in absence of a good management system. It may also be recommended to introduce a more organized system of patients' record keeping with the help of coupons. For example, patients pay at the cashier's desk and receive a detachable coupon, which they surrender to a doctor. Accordingly, a doctor is paid on the basis of coupons collected.

3. Even if from a point of view of an average Azeri no cash change hands, and hence there is no corruption, we see two forms of corruption here: abuse of office position for personal gain and nepotism, i.e., the two forms, most commonly found in the West. No respectful firm will agree to option (a), in addition, you might damage your own reputation with the firm. You can resort to option (c) and option (b), in principle, is not overly reproachable, if you do not suggest a deal. The majority of Azerbaijan people firmly believe that it is impossible to find a job with a foreign company without protection or a bribe, which is explained, first if all, by non-transparent procedures of hiring. For example, the majority of foreign companies do not register job applications, nor do they acknowledge acceptance or refusal of applications, which feeds all kinds of rumors.

4. Even if option (a) is not quite ethical, it is not illegal, while option (b) is more ethical, but not economical. Options to try to come to “terms” with a tax official and “look for protection” are the least reliable, as it is unknown, how long these people will be able to act as “patrons” to you, to say nothing of the cost. In addition, these options are neither ethical nor legitimate.

5. No doubt, this is corruption. The best way is to inform your management and, probably, they will decide to reject this supplier in future. In principle, there is nothing illegal in refusing and keeping this information to yourself. A majority of codes encourage, but do not force employees to report corruption related offers. To agree is not only illegal, but very dangerous. To pay your commission fee, the supplier will have to increase its prices, which your management will sooner or later notice. To avoid such situations, companies normally announce a tender and make a decision on the basis of minimum three bidders. Such tenders are organized periodically, normally once a year.

6. We observe a classic case of corruption here – abuse of office information for personal gain. This information belongs to the client company, who paid for the job. By releasing this information and concluding the deal, you reach into pockets of the oil company, who will have to redeem the land from you at a higher price. A conscientious company shall inform its employees and contractors of confidentiality of information and relevant sanctions for its disclosure.

NOTES TO CASE STUDIES FOR CHAPTER X. PROFESSIONAL ETHICS, FREE PROFESSIONS AND CORPORATE CULTURE

1. Under these circumstances the behavior of the nurse hardly qualifies as ethical. Firstly, she should have trusted her doctor, instead of double checking his advice with another specialist, who can not pass a proper judgment without due analyses at hand. Secondly, it is not ethical to ask specialists for an informal and free of charge consultation. Many professionals, especially doctors and lawyers, complain of potential patients and clients, who try to receive free of charge consultations, especially in an informal setting, for example, at a party. It is unethical for a doctor to examine somebody else’s patient, and to entice a customer. As for financial considerations, the nurse should have seen more than one doctor, made her decision, and then made appropriate arrangements for her operation fixed.

2. Western business ethics suggest that to let a woman with a child out of her turn means to violate the principle of fair treatment of customers. However, from the point of view of Azerbaijan mentality, the baby is, most probably, whimpering because it is hungry or cold and the queue will, most likely, approve of the decision to have her served out of turn. The same refers to the second case. However, the airport staff may not offer a courtesy for security reasons.

3. The slogans “we know what you need” and “we know better what you need” are obviously inappropriate.

4. We would recommend to give up options (b) Navuhodonosor, (d) RSTJ- production, (f) Azgaspromkonversiya, because these names are not euphonic, i.e., they are not pleasing to an ear. Option (a) Bilgeiz¹⁰⁹; sound better, even if the word is familiar to educated people only. However, it is little associated with business. Option (e) Rusalka is a direct transliteration from a Russian word for “mermaid” and hence, not very appropriate. Option (c) Sanara is fine from phonetic point of view.

5. The management of the firm did not act ethically with respect to the young women. Firstly, they did not take Azerbaijan mentality into account, namely, that young women are normally not allowed to stay overnight outside of their homes. Management should have inquired, if everybody could participate before organizing the trip. Secondly, it is not fair to discriminate against employees; in this case, married employees were placed in a more favorable position than single staff members. If the firm did not wish to accommodate the two elderly mothers, management should have announced in advance that the trip is intended for staff members and their immediate family, namely, spouses and children. In any case, this unpleasant situation took place because the firm was not considerate of needs of their employees.

¹⁰⁹ This is how many people in the East refer to the biblical Queen of Sheba.

6. Such a situation is typical for a patriarchal society, including Azerbaijan society, where one of the main components of social status is determined by age. It is often very difficult for people of mature age to change their attitudes and acquire skills necessary to find a well paid job. Besides, older people, who were not taught to work hard by the Soviet system, find it difficult to adapt to the hard work required by the market economy. Additionally, they are used to a system of administration, where all decisions are made at the top and blindly followed at the bottom, and are reluctant to make their own risky choices. All these factors combined lead to a better success rate for young people in business. The market economy evaluates people by their contributions, while respect to age is mostly left to the sphere of social relations, for example, in a family. In this particular situation the boss is to share the blame, as he cut short all attempts to apply directly to him bypassing the immediate supervisor. However, the boss still can help to rectify this situation.

CONCLUSION

If we want to have positive results in the promotion of business ethics, we cannot blindly transfer Western, alien principles to our local context. We must take into account the specifics of our culture, our ways of thinking and local realities. When borrowing ideas developed by other cultures, it is essential that, whenever necessary, we adapt them to our own situation and reject those principles that are unacceptable to us. For example, it cannot be denied that the requirement of fair treatment of customers, regardless of personality or financial status, is a well-founded principle and one that should be adopted by Azerbaijan business (today in Azerbaijan a well dressed person will receive far better treatment than somebody who is plainly or poorly dressed). However, while a Western doctor may tell a patient outright that he or she only has several months left to live, this is a practice that would be considered unacceptable in our culture. Of course, it is a matter of common sense to allow a patient to have some time to settle financial and personal affairs. However, in Azerbaijan, it is widely considered the family's privilege to decide whether or not to let a patient know if he or she is dying.

The change in the businesses environment over time will gradually result in the change of some ethical standards. Azerbaijan businesses are faced with the challenge of borrowing from Western business experience. Azerbaijan businesses must decide whether the foreign ethical principles and practices are appropriate to the local context and, where they are not appropriate, must adapt them to reflect local realities if they contain potential usefulness for business development. In areas where local realities impede free market formation, businesses should strive to improve the business environment, which is conditioned by the active cooperation of all three main groups of society: the state, business, and civil society, with support from the international community.

Sample Business Ethics Code for Private Businesses

RENA SAFARALIEVA

Transparency Azerbaijan

This document is compiled on the basis of similar documents of well known Western companies and organizations: *Royal Dutch Shell, Johnson and Johnson, Harvard Pilgrim Health Care, Ritz Carlton Hotel company, American Bar Association, Transparency International and other.*

Management of Azerbaijan companies are recommended to use this document as a sample and introduce any changes as they deem necessary.

Sample

Purpose of the Document: This documents states main ethical principles which our company follows in its business relations with all stakeholders involved: our employees, customers, partners, suppliers and

community we live and work in. Our management assumes an obligation to follow the below stated principles. This document will be used to guide us in resolution of ethical dilemmas. Violation of the principles stated herein will be considered by our management who will decide on administrative measures to be applied.

1. We respect the right of our employees for:

- Workplace and health safety
- Professional improvement
- Reception of vital information on corporate activities (i.e., on anticipated structural transformations, on annual financial statement)
- Right for privacy and respect as human being
- Inadmissibility of sexual harassment in the work environment
- Competent management and grievances (i.e., in case of unfair decision of a direct supervisor to apply to the next in line manager)

2. We believe that our customers are entitled to:

- Excellent service
- High quality goods and products
- Fair and unbiased treatment
- Sustainable improvement of the quality of goods, products and services and price reduction, when possible
- Fair and unbiased advertisement of our goods and services

3. We have a responsibility before the society we live and work in:

- We follow legislation, rules and the government's decrees
- We comply with environmental regulation
- We create safe and reasonably well paid working places
- When possible, we support community development projects in the sphere of culture, science, arts, health care and other social needs
- We care about the vulnerable layers of the society (unemployed, disabled, old people, etc)

4. We bear responsibility before all stakeholders:

- We fulfill our commitments before our partners timely and with diligence
- We protect shareholders' investments and provide an acceptable return
- We accept the right of our partners for profit

5. Special provisions of corporate external and internal policy

- We do not render direct financial or any other support to political parties and movements
- We work in the spirit of free competition
- We keep our accounting records in strict compliance with local and/or international accounting standards
- We are transparent about our annual financial statement
- We conduct an annual independent audit of our company's assets and liabilities
- We have an internal audit system
- We do not accept conflict of interests
- We do not offer or accept bribes or gifts that can be interpreted as such in our relations with any parties involved
- We comply with confidentiality principles in our business transactions
- We do not accept alcohol use during office hours or use of non-medically prescribed drugs



Performance Evaluation Form

PERSONAL DETAILS

Performance Year:	
Name:	Job Title: Date Started Job:
Employee Number:	Level:
Team Leader Name:	Job Title: Date Started Job:
Business Unit: Team / Work Group:	Stream: Location:

PERFORMANCE RECORD

Performance Record	Date	Employee Signature	Team Leader Signature
Objectives Agreed			
Interim Reviews			
Final Review			

SECTION A: PLANNING PERFORMANCE – WHAT WILL YOU DO?

List your objectives under the headings that apply to you. Use as much space as you need. For each objective describe successful outcomes, performance measures and completion date.

Core Objectives – The main tasks or roles and accountabilities for your job.

Special Objectives – Other activities or special projects in addition to your main tasks.

Developing Others – Actions to transfer knowledge, coach, mentor, lead or support others.

Learning & Development - Actions to help achieve your objectives and develop competencies.

SECTION B: INTERIM REVIEWS – HOW ARE YOU DOING?

Aim to review your performance against your objectives with your team leader every quarter. If you wish, make notes to prepare for your discussion and record agreed outcomes. You can add or update comments at future interim reviews.

Notes on Performance - To assist discussion.

Agreed Outcomes and Actions – Following the discussion.

SECTION C: FINAL REVIEW – WHAT DID YOU DO?

At the end of the year review your performance against your objectives with your team leader. Comment on 'what' you have achieved and 'how' you have done so. Also note other achievements not covered by your objectives.

Employee Comments

Team Leader Comments

Agreed Actions To Improve Your Performance In The Year Ahead.

SECTION D: MANAGING YOUR INDIVIDUAL NEEDS

These questions are to help you and your team leader discuss your individual needs when you plan performance and during performance reviews. Written comments are optional.

Motivation And Recognition

- What aspects of your job give you the most, and the least, satisfaction or enjoyment and why?
- Can you think of ways to make your job more satisfying or enjoyable?
- What type of recognition is most meaningful to you?

Your Work & Personal Commitments

- How do you feel you are managing your work and personal commitments?
- Can you think of ways in which this can be improved?
- How can your team leader or others help you manage your commitments more effectively?

Feedback To Your Team Leader

- How has your team leader helped you manage your performance, development and individual needs?
How can your team leader help you in future?

SECTION E: AFTER YOUR FINAL REVIEW

Use this section to record any further final comments. If your BU or Function uses a specific way of assessing performance, include that information below team leader comments.

Employee Comments

Team Leader Comments / Summary Evaluation or Rating

Next Line Manager – Signature, Date and Optional Comments



Royal Dutch/Shell Group of Companies

STATEMENT OF GENERAL BUSINESS PRINCIPLES

Introduction

This document reaffirms the general business principles that govern how each of the Shell companies which make up the Royal Dutch/Shell Group of Companies conducts its affairs.

The Group is a decentralised, diversified group of companies with widespread activities, and each Shell company has wide freedom of action. However what we have in common is the Shell reputation. Upholding the Shell reputation is paramount. We are judged by how we act. Our reputation will be upheld if we act with honesty and integrity in all our dealings and we do what we think is right at all times within the legitimate role of business.

Shell companies have as their core values honesty, integrity and respect for people. Shell companies also firmly believe in the fundamental importance of the promotion of trust, openness, teamwork and professionalism, and in pride in what they do.

Our underlying corporate values determine our principles. These principles apply to all transactions, large or small, and describe the behaviour expected of every employee in every Shell company in the conduct of its business.

In turn, the application of these principles is underpinned by procedures within each Shell company which are designed to make sure that its employees understand the principles and that they act in accordance with them. We recognise that it is vital that our behaviour matches our intentions.

All the elements of this structure – values, principles and the accompanying procedures – are necessary.

Shell companies recognise that maintaining the trust and confidence of shareholders, employees, customers and other people with whom they do business, as well as the communities in which they work, is crucial to the Group's continued growth and success. We intend to merit this trust by conducting ourselves according to the standards set out in our principles.

These principles have served Shell companies well for many years. It is the responsibility of management to ensure that all employees are aware of these principles, and behave in accordance with the spirit as well as the letter of this statement.

C A J Herkstöter

Chairman of the Committee
of Managing Directors
March 1997

1. Objectives

The objectives of Shell companies are to engage efficiently, responsibly and profitably in the oil, gas, chemicals and other selected businesses and to participate in the search for and development of other sources of energy. Shell companies seek a high standard of performance and aim to maintain a long term position in their respective competitive environments.

2. Responsibilities

Shell companies recognise five areas of responsibility:

a. To shareholders

To protect shareholders' investment, and provide an acceptable return.

b. To customers

To win and maintain customers by developing and providing products and services which offer value in terms of price, quality, safety and environmental impact, which are supported by the requisite technological, environmental and commercial expertise.

c. To employees

To respect the human rights of their employees, to provide their employees with good and safe conditions of work, and good and competitive terms and conditions of service, to promote the development and best use of human talent and equal opportunity employment, and to encourage the involvement of employees in the planning and direction of their work, and in the application of these principles within their company. It is recognised that commercial success depends on the full commitment of all employees.

d. To those with whom they do business

To seek mutually beneficial relationships with contractors, suppliers and in joint ventures and to promote the application of these principles in so doing. The ability to promote these principles effectively will be an important factor in the decision to enter into or remain in such relationships.

e. To society

To conduct business as responsible corporate members of society, to observe the laws of the countries in which they operate, to express support for fundamental human rights in line with the legitimate role of business and to give proper regard to health, safety and the environment consistent with their commitment to contribute to sustainable development. These five areas of responsibility are seen as inseparable. Therefore it is the duty of management continuously to assess the priorities and discharge its responsibilities as best it can on the basis of that assessment.

3. Economic Principles

Profitability is essential to discharging these responsibilities and staying in business. It is a measure both of efficiency and of the value that customers place on Shell products and services. It is essential to the allocation of the necessary corporate resources and to support the continuing investment required to develop and produce future energy supplies to meet consumer needs. Without profits and a strong financial foundation it would not be possible to fulfil the responsibilities outlined above. Shell companies work in a wide variety of changing social, political and economic environments, but in general they believe that the interests of the community can be served most efficiently by a market economy. Criteria for investment decisions are not exclusively economic in nature but also take into account social and environmental considerations and an appraisal of the security of the investment.

4. Business Integrity

Shell companies insist on honesty, integrity and fairness in all aspects of their business and expect the same in their relationships with all those with whom they do business. The direct or indirect offer, payment, soliciting and acceptance of bribes in any form are unacceptable practices. Employees must avoid conflicts of interest between their private financial activities and their part in the conduct of company business. All business transactions on behalf of a Shell company must be reflected accurately and fairly in the accounts of the company in accordance with established procedures and be subject to audit.

5. Political Activities

a. Of companies

Shell companies act in a socially responsible manner within the laws of the countries in which they operate in pursuit of their legitimate commercial objectives. Shell companies do not make payments to political parties, organisations or their representatives or take any part in party politics. However, when dealing with governments, Shell companies have the right and the responsibility to make their position known on any matter which affects themselves, their employees, their customers, or their shareholders. They also have the right to make their position known on matters affecting the community, where they have a contribution to make.

b. Of employees

Where individuals wish to engage in activities in the community, including standing for election to public office, they will be given the opportunity to do so where this is appropriate in the light of local circumstances.

6. Health, Safety and the Environment

Consistent with their commitment to contribute to sustainable development, Shell companies have a systematic approach to health, safety and environmental management in order to achieve continuous performance improvement. To this end, Shell companies manage these matters as any other critical business activity, set targets for improvement, and measure, appraise and report performance.

7. The Community

The most important contribution that companies can make to the social and material progress of the countries in which they operate is in performing their basic activities as effectively as possible. In addition Shell companies take a constructive interest in societal matters which may not be directly related to the business. Opportunities for involvement – for example through community, educational or donations programmes – will vary depending upon the size of the company concerned, the nature of the local society, and the scope for useful private initiatives.

8. Competition

Shell companies support free enterprise. They seek to compete fairly and ethically and within the framework of applicable competition laws; they will not prevent others from competing freely with them.

9. Communication

Shell companies recognise that in view of the importance of the activities in which they are engaged and their impact on national economies and individuals, open communication is essential. To this end, Shell companies have comprehensive corporate information programmes and provide full relevant information about their activities to legitimately interested parties, subject to any overriding considerations of business confidentiality and cost.



EXXON MOBIL CORPORATION Guiding Principles

Exxon Mobil Corporation is committed to being the world's premier petroleum and petrochemical company. To that end, we must continuously achieve superior financial and operating results while adhering to the highest standards of business conduct. These unwavering expectations provide the foundation for our commitments to those with whom we interact:

Shareholders. We are committed to enhancing the long-term value of the investment dollars entrusted to us by our shareholders. By running the business profitably and responsibly we expect our shareholders to be rewarded with superior returns. This commitment drives the management of our company.

Customers. Success depends on our ability to consistently satisfy ever-changing customer preferences. We pledge to be innovative and responsive, while offering high quality products and services at competitive prices.

Employees. The exceptional quality of our workforce is a valuable competitive edge. To build on this advantage we will strive to hire and retain the most qualified people available and maximize their opportunities for success through training and development. We are committed to maintaining a safe

work environment enriched by diversity and characterized by open communication, trust, and fair treatment.

Communities. We pledge to be a good corporate citizen in all the places we operate worldwide. We will maintain the highest ethical standards, obey all applicable laws and regulations, and respect local and national cultures. Above all other objectives, we are dedicated to running safe and environmentally responsible operations.

To be successful, ExxonMobil must be at the leading edge of competition in every aspect of our business. This requires that the Corporation's substantial resources -- financial, operational, technological, and human -- be employed wisely and evaluated regularly.

While we maintain flexibility to adapt to changing conditions, the nature of our business requires a focused, long-term approach. We will consistently strive to improve efficiency and productivity through learning, sharing, and implementing best practices. We will be disciplined and selective in evaluating the range of capital investment opportunities available to us. We will seek to develop proprietary technologies that provide a competitive edge.

We will achieve our goals by flawlessly executing our business plans and by strictly adhering to these guiding principles along with our more comprehensive Standards of Business Conduct.