



Chapter 9

ETHICS & GLOBALIZATION



CHAPTER OBJECTIVES

- After exploring this chapter, you will be able to:
 1. Understand the ethical issues arising in global business.
 2. Explain the issue of ethical relativism in a global environment.
 3. Explain the challenges in developing a global code of ethics.
 4. Analyze the ramifications of the UN Global Compact.
 5. Explain the OECD Guidelines for Multinational Enterprises.



Understand the Ethical Issues Arising in Global Business (1 of 2)

- When doing business on an international scale, the concept of business ethics changes dramatically.
- Business transactions in different countries in different languages and different cultures inevitably force North American companies to revisit ethical principles
- **Less-Developed Nation:** A country that lacks the economic, social, and technological infrastructure of a developed nation
 - These nations are crushed by globalization: No one wants to do business in countries where illiteracy is high, where modern infrastructure does not exist and where social chaos reigns.
- **Developed Nation:** A country that enjoys a high standard of living as measured by economic, social and technological criteria.
- **Utilitarianism:** Ethical choices that offer the greatest good for the greatest number of people.

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Understand the Ethical Issues Arising in Global Business (2 of 2)

- **Globalization:** The expansion of international trade to a point where national markets have been overtaken by regional trade blocs (Latin America, Europe, Africa), leading eventually to a global market.
 - For the 'less-developed' nations, the concept of globalization has a different meaning:
 - *“Among countries, the big losers are in Africa, south of the Sahara. They are not losing, however, because they are being crushed by globalization.... [T]hey are losing because they are being ignored by globalization. They are not in the global economy. No one in the business community wants anything to do with countries where illiteracy is high, where modern infrastructure (telecommunications, reliable electrical power) does not exist, and where social chaos reigns. Such countries are neither potential markets nor potential production bases.”*
- **Multinational Corporation:** A company that provides and sells products and services across multiple national borders
 - Most MNCs have chosen to ignore all ethical standards in the pursuit of the almighty dollar on the basis of two arguments:
 - If they didn't pursue the business, somebody else would.
 - They are operating in full compliance with local laws and regulations, which conveniently happen to be far less restrictive than those they would face in their own country

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Explain the Issue of Ethical Relativism in a Global Environment

- **Ethical Relativism:** Where your ethical principles are defined by the traditions of your society, your personal opinions, and the circumstances of the present moment.
- Policies and procedures are hard to follow when your customers don't have comparable policies in their own organization.
- Leaves companies with a tough decision.
 - Stand by the Western principle of ethical conduct
 - Submit to practical reality of a local market and “grease up the appropriate palms” to get things done.

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Explain the Challenges in Developing a Global Code of Ethics (1 of 2)

- Globalization can be seen to benefit developing countries:
 - Globalization brings unprecedented improvements in wealth and standards of citizens as they leverage their natural resources or low costs of living to attract foreign investors
 - For more economically advanced nations, access to these resources enables lower production costs that equate to lower prices and higher income standards for their customers
- Advocates for the downside of globalization argue that it is merely promoting the dark side of capitalism onto the global stage:
 - Developing countries are ravaged for their raw materials with no concern for the longer-term economic viability of their national economies.
 - Workers are exploited.
 - Corporations are free to take full advantage of less restrictive legal environments.

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Explain the Challenges in Developing a Global Code of Ethics (2 of 2)

- ❖ **Global Code of Conduct:** A general standard of business practice that can be applied equally to all countries over and above their local customs and social norms.
- ❖ Companies take advantage of the less stringent laws and regulations of local markets to increase revenue, cut costs, maximize profitability, and grow market share.
- ❖ Richard DeGeorge developed guidelines for organizations doing business in less developed countries:
 - i. Do no intentional harm.
 - ii. Produce more good than harm for the host country.
 - iii. Contribute to the host country's development.
 - iv. Respect the human rights of their employees.
 - v. Respect the local culture; work with it, not against it.
 - vi. Pay their fair share of taxes.
 - vii. Cooperate with the local government to develop and enforce just background institutions.
 - viii. Majority control of a firm includes the ethical responsibility of attending to the actions and failures of the firm.
 - ix. Multinationals that build hazardous plants are obliged to ensure that the plants are safe and operated safely.
 - x. Multinationals are responsible for redesigning the transfer of hazardous technologies so that such technologies can be safely administered in host countries.

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Analyze the Ramifications of the UN Global Compact

- ❖ **UN Global Compact:** *“The Global Compact is not a regulatory instrument – it does not “police”, enforce or measure the behavior or actions of companies. Rather, the Global Compact relies on public accountability, transparency and the enlightened self-interest of companies, labor and civil society to initiate and share substantive action in pursuing the principles upon which the Global Compact is based.”*
- ❖ A voluntary corporate citizenship initiative endorsing to key principles that focus on four key areas of concern: the environment, anticorruption, the welfare workers around the world, and global human rights
 - Over 2000 companies and more than 80 countries have made the voluntary commitments to set core ethical values in 10 key principles.
 - Sends a strong message to your stakeholders that the organization is committed to ethical corporation conduct wherever they do business

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The UN Global Compact (1 of 2)

Human Rights:

1. Businesses should support and respect the protection of internationally proclaimed human rights.
2. Businesses should make sure that they are not complicit in human rights abuses.

Labor Standards:

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. Businesses should uphold the elimination of all forms of forced and compulsory labor.
5. Businesses should uphold the effective abolition of child labor.
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.



The UN Global Compact (2 of 2)

Environment:

7. Businesses should support a precautionary approach to environmental challenges.
8. Businesses should undertake initiatives to promote greater environmental responsibility.
9. Businesses should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption:

10. Businesses should work against all forms of corruption, including extortion and bribery.



Explain the OECD Guidelines for Multinational Enterprises

- ❖ **OECD Guidelines for Multinational Enterprises:** Guidelines that promote principles and standards of behavior in the following areas: human rights, information disclosure, anticorruption, taxation, labor relations, environment, competition and consumer protection.
- Even though it is a governmental initiative backing credibility to the issues are being promoted, the guidelines carry no criminal or civil enforcement. It is not regarded as legally binding.
- The OECD covers a broader series of issues than the UN Global Compact while carrying the same core values.



OECD Guidelines (1 of 4)

- I. **Concepts and Principles:** sets out the principles which underlie the Guidelines, such as their voluntary character, their application world-wide and the fact that they reflect good practice for all enterprises.
- II. **General Policies:** contains the first specific recommendations, including provisions on human rights, sustainable development, supply chain responsibility, and local capacity building, and more generally calls on enterprises to take full account of established policies in the countries in which they operate.
- III. **Disclosure:** recommends disclosure on all material matters regarding the enterprise



OECD Guidelines (2 of 4)

- IV. ***Employment and Industrial Relations***: addresses major aspects of corporate behavior in this area including child and forced labor, non-discrimination and the right to bona fide employee representation and constructive negotiations.
- V. ***Environment***: encourages enterprises to raise their performance in protecting the environment, including performance with respect to health and safety impacts. Features of this chapter include recommendations concerning environmental management systems and the desirability of precaution where there are threats of serious damage to the environment.

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OECD Guidelines (3 of 4)

- VI. ***Combating Bribery***: covers both public and private bribery and addresses passive and active corruption.
- VII. ***Consumer Interests***: recommends that enterprises, when dealing with consumers, act in accordance with fair business, marketing and advertising practices, respect consumer privacy, and take all reasonable steps to ensure the safety and quality of goods or services provided.

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OECD Guidelines (4 of 4)

VIII. **Science and Technology:** aims to promote the diffusion by multinational enterprises of the fruits of research and development activities among the countries where they operate, thereby contributing to the innovative capacities of host countries.

IX. **Competition:** emphasizes the importance of an open and competitive business climate.

X. **Taxation:** calls on enterprises to respect both the letter and spirit of tax laws and to co-operate with tax authorities.

❖ **Review Questions:**

1. Define the UN Global Compact and briefly discuss its main areas of concern and principles.
2. Define globalization and briefly explain the issue of ethical relativism in a global environment.