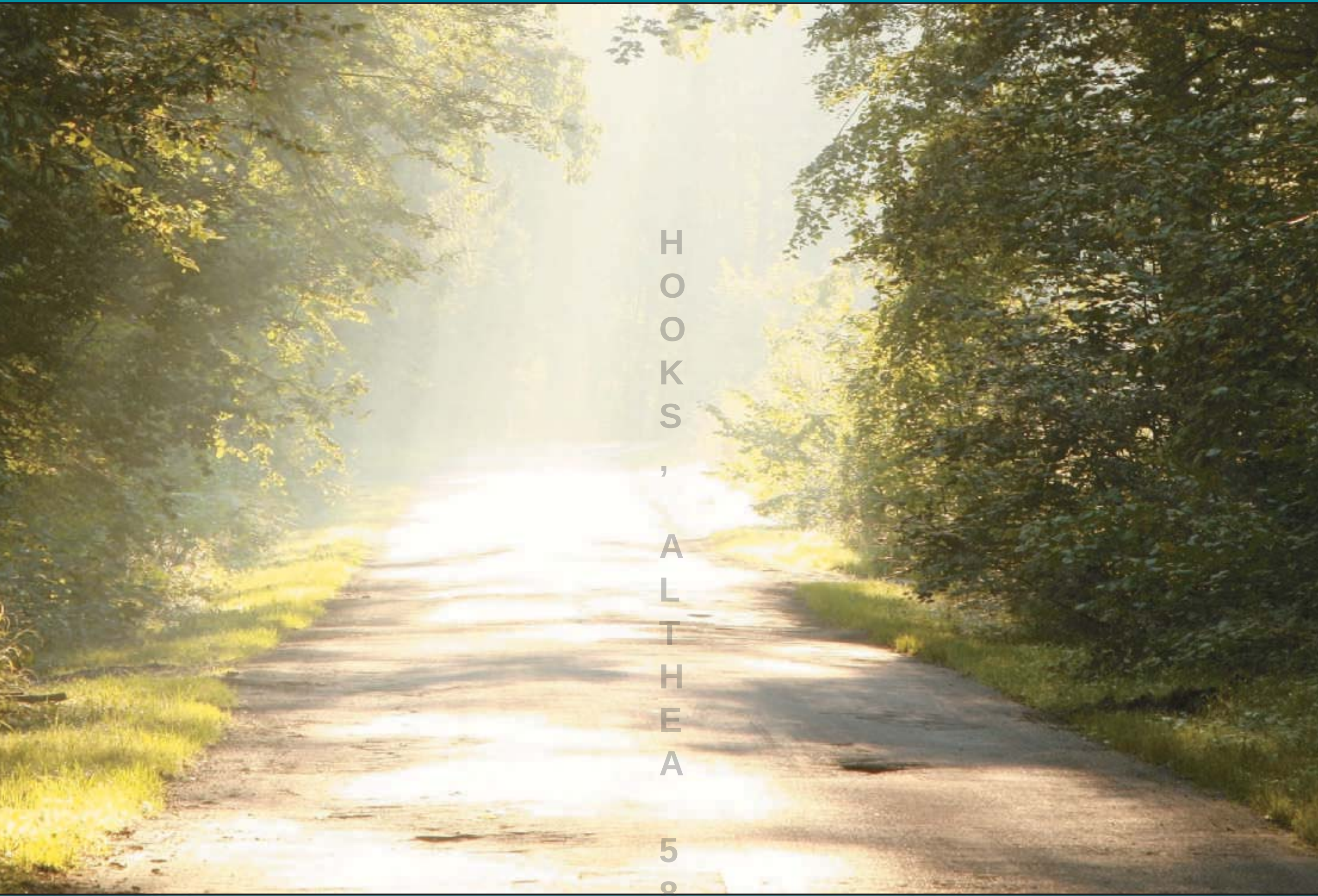
CHAPTER 10



GLOBALIZATION OF ETHICAL DECISION-MAKING

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CHAPTER OBJECTIVES

- To discuss global values, goals, and business practices within ethics
- To understand the role of capitalism and economics as factors in business ethics
- To assess the role of multinational corporations in business ethics
- To assess the role of the International Monetary Fund in business ethics
- To assess the role of the United Nations Global Compact in business ethics
- To assess the role of the World Trade Organization in business ethics
- To explore and discuss common global business practices
- To gain awareness of global ethical issues

CHAPTER OUTLINE

Global Culture, Values, and Practices

Economic Foundations of Business Ethics

- *Economic Systems*

Multinational Corporations

Global Cooperation to Support Responsible Business

- *International Monetary Fund (IMF)*
- *United Nations Global Compact*
- *World Trade Organization (WTO)*

Global Ethics Issues

- *Global Ethical Risks*
- *Bribery*
  - Foreign Corrupt Practices Act
  - U.K. Antibribery Act
- *Antitrust Activity*
- *Internet Security and Privacy*
- *Human Rights*
- *Health Care*
- *Labor and Right to Work*
- *Compensation*
  - A Living Wage
  - Executive Compensation
- *Consumerism*

The Importance of Ethical Decision Making in Global Business

AN ETHICAL DILEMMA*

At the Dun and Ready (D&R) Company, Sid was responsible for monitoring the Japanese stock market to determine patterns and identify stocks that could become active. One of 10 company representatives in Japan, Sid, who was of Japanese descent and fluent in the language, had been assigned to Tokyo. Being relatively new to the firm, he was told to gather information for his boss, Glenna. Glenna had been with D&R for 10 years, but because of the cultural barriers, she was not enthusiastic about her Tokyo assignment. Glenna encouraged Sid to get to know the Japanese brokers, traders, and other key people in the business. Thanks to his background, he found that he blended easily into the culture.

In Japan, ceremony and giving favors is a way of life. Sid learned that, by observing Japanese customs and perfecting his Japanese, he became not only an information resource on the Japanese stock market and its players for his company but also a resource for the Japanese who wanted to invest in the U.S. market. He found that the locals would talk to him about important investments rather than coming into the office to see Glenna.

Sid's duties included taking key customers to bars, restaurants, and vacation spots for entertainment. One day a government official in the group that Sid was entertaining hinted that he and the others would like to play golf on some famous U.S. courses. Sid understood what the government official wanted and relayed the request to Glenna, who told him that granting a favor of this kind would normally be against policy, but because such favors seemed to be the custom in Japan, they could do some "creative bookkeeping." "When in Rome, right, Sid?" was Glenna's response to the whole situation. By pulling some strings, Glenna managed to enable these officials to play at 10 of the most exclusive U.S. golf courses. Later, several officials passed the word to people in Japan's elite financial circle about Sid's helpfulness.

Six months later, Glenna was transferred back to the States. Rumor had it that expenses were too high and revenue too low. Her replacement, Ron, didn't like being sent to Japan either. In his first week on the job, he told the staff that he would shorten his tour in Tokyo by slashing expenses and increasing productivity. Ron was a "by-the-book" person. Unfortunately, company rules had not caught up with the realities of cultural differences. After two months with Ron, seven of the original 10 company representatives had quit or been fired.

Sid was barely surviving. Then one of his contacts in the government repaid a favor by recommending several stocks to buy and sell. The information paid off, and Sid gained some breathing room from Ron. Around the same time, some of Sid's Japanese clients lost a considerable amount of money in the U.S. markets and wanted a "discount"—the term used for the practice in some large Japanese brokerage houses of informally paying off part of their best clients' losses. When Glenna was still in Tokyo, she had dipped into the company's assets several times to fund such discounts. Because everything required Ron's approval, Sid and his colleagues believed that this practice would not be tolerated. However, late one afternoon Sid and a few others provided the proper forms, and Ron signed them without realizing what he had done.

Several months passed, and the three survivors resorted to lowering their expenses by using their own funds. This in turn led to Sid "churning" some of his accounts; that is, he bought and sold stocks for the express purpose of increasing his own revenues. Churning was tolerated in Japan, along with other practices that would be deemed questionable in the United States. Ron was oblivious to what Sid was doing because his focus was on reducing expenses.

The previous month, a group of important D&R clients had thrown a party for a few of their favorite brokers at one of their local haunts. After the customary toasts and small talk, it was suggested to Sid that a Japanese cartel might be interested in D&R. Sid was cautious and nothing else was mentioned. Several weeks later at another party, Sid and the two remaining D&R people were told that a takeover was imminent. But to make the takeover painless, the cartel needed certain sensitive information. Sid's reward for providing it would be a high position in the new, reorganized company and a "wink/nod" agreement that he could go anywhere in the world for his next assignment.

That week Ron announced that headquarters was pleased with the productivity of the Tokyo group. "It's only a matter of time before I get transferred, and I want out of Tokyo," he told them. The office knew that if Ron succeeded, his next position would be that of vice president. Ron also informed the group that corporate representatives would be coming to Tokyo the following week.

"It seems they've heard rumors of a possible hostile takeover attempt on D&R from someone in Japan, and they want us to check it out," Ron said, with a tight smile. "There will be some changes next week."

Sid suspected that this meant there would be even fewer people working even harder. It might also mean, however, that someone knew that Sid and the other two representatives had been talking to the wrong people. Or maybe one of the three had sold out the other two. If Sid was to gather the information sought by the cartel, he would have to act quickly.

QUESTIONS | EXERCISES

1. What are the ethical issues in this situation?
2. Identify the pressures that have caused the ethical issues to develop.
3. Discuss the advantages and disadvantages of each decision that Sid could make.

*This case is strictly hypothetical; any resemblance to real persons, companies, or situations is coincidental.

Advances in communication, technology, and transportation have minimized the world's borders, creating a new global economy in which more and more countries are industrializing and competing internationally. These transactions across national boundaries define **global business,** a practice that brings together people from countries that have different cultures, values, laws, and ethical standards. Therefore, the international businessperson must not only understand the values, culture, and ethical standards of his or her own country, but must also be sensitive to those of other countries.

In this chapter, we explore the ethical complexities and challenges facing businesses that operate internationally. We try to help you understand how global business ethics has more complexity than business in a domestic context. The global business environment, if not understood, can destroy the trust companies need to be successful. To transition from one well-understood culture or country to the global arena requires additional knowledge. Our goal in this chapter is to help you avoid, or at least become aware of, the many ethical quagmires that lurk in this domain. To help you become more ethically sensitive to the global environment of business ethics, we start with the basics, discussing global values and cultural dimensions that can be used by companies to help modify their business practices to different countries. Next, we examine the economic foundations of business ethics. In addition, we help you understand that there are global entities that do not necessarily conform to your country's view of the world or the way to do business. In this chapter we also examine multinational corporations and the ethical problems they face. We move on to discuss the International Monetary Fund, the United Nations Global Compact, and the World Trade Organization. We conclude with an analysis of current and future ethical problems facing global businesses, including global ethical risks, bribery, antitrust activity, Internet security and privacy, human rights, health care, labor and right to work issues, compensation, and consumerism. Our goal is to help you understand how international business activities can create ethical conflicts and help you improve your ethical decision-making ability.

GLOBAL CULTURE, VALUES, AND PRACTICES

Country cultural values are subjective, are based on the social environment, and are used to develop norms that are socially and legally enforced. These values can be specific to countries, regions, sects, or groups. **National culture** is a much broader concept than organizational culture. It includes everything in our surroundings that are made by people—both tangible items, such as artifacts, and intangible entities, such as concepts and values. Language, law, politics, technology, education, social organizations, general values, and ethical standards are all included within this definition. Each nation contains unique cultures and, consequently, distinctive beliefs about what business activities are acceptable or unethical. Subcultures can also be found within many nations, ethnic groups, and religious groups. Therefore, when transacting international business, individuals encounter values, beliefs, and ideas that may diverge from their own because of cultural differences. When someone from another culture mentions "integrity" or "democracy," most Americans might feel reassured that these are familiar concepts. However, these concepts mean different things to different people, depending on their culture. Moreover, you must keep in mind that organizational culture is different from national culture, though often organizational cultures are derived from—and influenced by—national cultures.

Most cultures need auditors, directors, or other entities associated with corporate governance to provide independent oversight of the operations of an organization. In the Japanese banking system, the concept of "independent oversight" has been blurred by the fact that retired Japanese bureaucrats often become auditors and directors. They are trusted simply because of their status. When those providing oversight also have relationships within and/or a vested interest in the success of the company, a truly independent relationship does not exist and there could be conflicts of interest or corporate governance oversight failure.

Different cultural values and how they affect business have intrigued management experts for years. Many have developed frameworks for classifying cultural behavior patterns that can help businesspeople who work in different countries. One of the most well-known frameworks was proposed by Dutch management professor Geert Hofstede. Hofstede identified four cultural dimensions that can have a profound impact on the business environment: individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity.[1] We will discuss the first three in the following paragraphs.

The individualism/collectivism dimension of culture refers to how self-oriented members of a culture are in their behavior. Individualist cultures place a high value on individual achievement and self-interest. The United States is an example of an individualistic culture. Collectivist cultures value working toward collective goals and group harmony. Mexico and several countries in Asia adhere to more collectivistic principles. Collectivist cultures tend to avoid public confrontations and disagreements.[2] In Thailand, for instance, negatives such as "no" tend to be avoided in business settings. By understanding this cultural dimension, you will be more likely to maneuver correctly within different cultural business settings.

The power distance dimension refers to the power inequality between superiors and subordinates. The United States has some elements of both a higher and a lower power distance culture. Over the years, the U.S. business environment has adopted forms of management, such as participative management, that place supervisors and subordinates on a more equal footing. In some businesses, employees address their superiors by their first names and have the power to make decisions that are normally reserved for management. Arab countries score higher on the power distance dimension. Cultures with high power distance tend to be more hierarchal, and respect for (or fear of) supervisors may be so great that managerial misconduct could become hard to pinpoint.[3]

Uncertainty avoidance refers to how members of a society respond to uncertainty or ambiguity. Cultures that score high on the uncertainty avoidance dimension, such as Great Britain, tend to want to avoid risk-taking. Organizations within these cultures may have more rules in place to ensure that employees do not deviate from accepted standards. Cultures with less uncertainty avoidance, such as Canada, believe that risk-taking and innovation are important in achieving successful outcomes.[4] Businesses from either culture will need to be aware of how a particular culture views uncertainty avoidance. For instance, if a businessperson from the United States is giving a sales presentation to a business in Uruguay—a culture with higher uncertainty avoidance—the American businessperson might try to reassure the Uruguayan company by attempting to mitigate the risks involved.

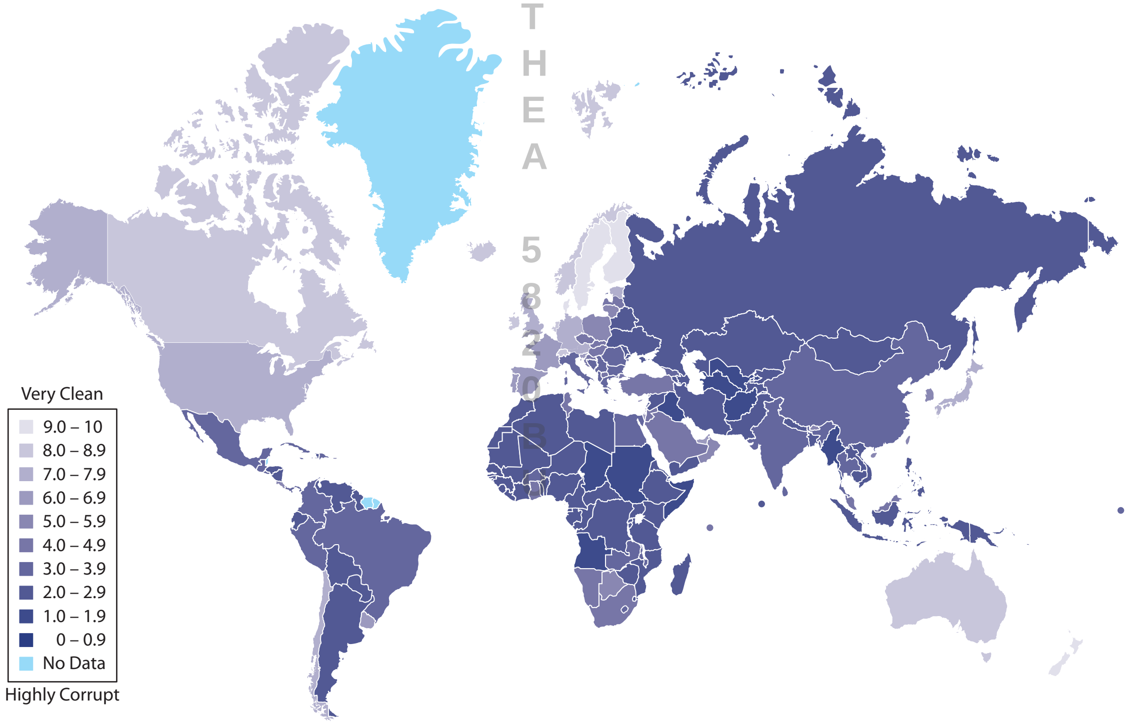
As Hofstede's dimensions suggest, businesspeople who travel to other countries quickly perceive that other business cultures have different modes of operation. The perception exists that American companies are different from those in other countries, and some people perceive U.S. companies as being superior to their foreign counterparts. This implied perspective of ethical superiority—"us" versus "them"—is also common in other countries. Figure 10.1 indicates the countries that businesspeople, risk analysts, and the general public have perceived as the most and least corrupt.

In business, the idea that "we" differ from "them" is called the **self-reference criterion** (SRC). The SRC is the unconscious reference to one's own cultural values, experiences, and knowledge. When confronted with a situation, we react on the basis of knowledge we have accumulated over a lifetime, which usually is grounded in our culture of origin. Our reactions are based on meanings, values, and symbols that relate in a certain way to our culture but may not have the same relevance to people of other cultures.

Walmart's foray into Germany is one example of how the SRC can cause problems. A German labor court ruled that parts of the ethics code of Walmart Stores, Inc., including a ban on relationships between employees, violate German law. The same court also ruled against a proposed hotline for employees to report on colleagues' violations of the code of conduct. Labor representatives from the 91 German Walmart stores sued the retail giant over the code after it was introduced without their prior approval. Under German law, employee–management councils must sign off on a wide range of workplace conditions.[5] These, as well as other cultural differences, led Walmart to close its German stores. Walmart

FIGURE 10.1 Transparency International's Corruption Index Rankings by Country.

The 2010 Corruption Perceptions Index measures the perceived levels of public-sector corruption in 178 countries around the world.



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learned that its ethical controls, which it had assumed would be accepted without complaint, were not acceptable under German law and in the context of German cultural values.

One of the critical ethical business issues linked to cultural differences is the question of whose values and ethical standards take precedence during international negotiations and business transactions. When conducting business outside their home country, should businesspeople impose their own values, ethical standards, and laws on members of other cultures? Or should they adapt to the values, ethical standards, and laws of the countries in which they are doing business? As with many ethical issues, there are no easy answers to these questions.

"When in Rome, do as the Romans do," or "you must adapt to the cultural practices of the country in which you are operating" are rationalizations that businesspeople sometimes offer for straying from their own ethical values when doing business abroad. By defending the payment of bribes or "greasing the wheels of business" and other questionable practices in this fashion, they are resorting to **cultural relativism,** the concept that morality varies from one culture to another and that "right" and "wrong" are therefore defined differently.

Despite the various differences in values between countries, there are also certain values that are broadly accepted worldwide. These **global common values** are shared across most cultures. Most laws are directly or indirectly the result of values derived from the major religions of Hinduism, Buddhism, Confucianism, Judaism, Islam, and Christianity. Although most of these religions have similar core virtues, the importance placed on these virtues may vary. For instance, cultures that are predominately Hindu tend to value nonviolence, mind and sense control, and austerity;[6] traditional Chinese cultures value respect, righteousness, and loyalty; Islamic cultures value wisdom, tolerance, self-restraint, and mercy;[7] Judaism values the virtues of kindness, peace, and hospitality; predominately Christian cultures tend to value forgiveness, mercy, and faith;[8] and Buddhist cultures place high importance on the "four immeasurables" of equanimity, joy, loving-kindness, and generosity.[9] By understanding what a particular culture values, global businesses will have a better chance of forming relationships with individuals and organizations in that culture. They may also be able to avoid conduct that is offensive to citizens of certain countries (e.g., shaking with the left hand in Islamic nations). It is beyond our scope to explain all such nuances, but there does appear to be a consensus on the following desirable and undesirable common values.[10]

- Desirable common values: Integrity, family and community unity, equality, honesty, fidelity, sharing, and unselfishness
- Undesirable common values: Ignorance, pride and egoism, selfish desires, lust, greed, adultery, theft, deceit, lying, murder, hypocrisy, slander, and addiction

ECONOMIC FOUNDATIONS OF BUSINESS ETHICS

Economic and political events as well as natural disasters can reflect and affect the environment for global ethical decision making. We first examine how recent developments have influenced global systems that structure the business world.

The last economic recession highlighted the fact that firms were taking extreme risks, bending rules, and engaging in unethical activity. A major part of the problem was the excessive focus on rewards and the bottom line that pervaded the global financial industry. The global financial market is a highly interconnected system that can exhibit a lack of transparency in decision making, accountability, and accounting methods. This system, combined with rampant leveraging and the widespread use of highly complex financial computer models that many experts did not even fully understand, resulted in a global financial meltdown.

Our financial system is very complex, and this complexity can provide ample opportunity to take excessive risks and manipulate various stakeholders. Many who should have known about such risks were ignorant because of risk compartmentalization. **Risk compartmentalization** occurs when various profit centers within corporations become unaware of the overall consequences of their actions on the firm as a whole. As a result, no one person, company, or agency should be blamed—the problems were systemic. Before the financial meltdown, most companies tried to remain in compliance with legal systems, while many simultaneously looked for legal loopholes and unregulated means of maximizing profits and financial rewards. Many companies tried to do what was ethical. Yet the complex nature of the global economy prevented them from seeing the impending disaster, as everyone was too focused on their own bottom lines.

As the world continues to recover from the recession, conflicts and disasters have intensified the risks and challenges that global businesses will encounter. For instance, widespread changes are occurring in the Middle East. While democracy is becoming more of a possibility, instability within these regions has led to an exodus of foreign businesspeople.[11] The instability of Middle Eastern governments and their views toward global commerce could strain business relations. New technologies are also affecting regimes. For example, Egyptians used social media during a national uprising to communicate with one another and the world about political and social issues.[12] In many ways, the Egyptian protests were reflections of the widespread dissent felt throughout the region. Although it is possible that the protests will lead to positive long-term change, the economies of these countries may take some time to stabilize. Economic stability is affected by the supply and commodity price fluctuations caused by such political events. Changes in governments result in the necessity for new social and legal processes, processes that will support ethical and legal systems that fit into the global economy.

National disasters can also destabilize economies and affect the economic system. For example, the devastating 2011 earthquake and tsunami in Japan resulted in a destabilization of the economic and social institutions within that country. Japan also faced the challenge of a nuclear meltdown after the tsunami breached the seawall around the Fukushima Daiichi complex and damaged the reactors. The combined crises caused the Tokyo Stock Exchange to lose $700 billion within a three-day period.[13] The year before, massive earthquakes in Haiti and Chile had severely damaged those countries' economies.

Many ethical issues emerge in coping with crises. The disruption of necessities and global supply chains creates opportunities for individuals and organizations to engage in exploitation. For instance, an unethical organization might charge exorbitant prices during a time of crisis because the people are dependent upon its products for survival. Conversely, the global community is expected to engage in aid and philanthropic efforts to help countries recover from disasters. Corporations, particularly multinationals, are often expected to help in recovery efforts since many have profited from doing business within the affected countries.

Finally, the world is still coping with the aftereffects of the last global recession, which caused massive public distrust of the stability of governmental institutions as well as of those charged with managing the money of individuals, corporations, and countries. Some countries, such as Iceland, Zimbabwe, Hungary, Ukraine, and Serbia, even declared

> **"Today people are discussing, and even revising, some of the fundamental concepts and assumptions of capitalism."**

a form of bankruptcy as a result of the recession.[14] As a lack of trust, honesty, and fairness has caused major investors to question the competence of regulatory institutions, which in turn has caused instability and public mistrust in the entire financial system, many have questioned the foundations of capitalism and the policies needed to make it function. Today people are discussing, and even revising, some of the fundamental concepts and assumptions of capitalism. Because you will enter this new reality, we will briefly explain the global economic debate.

Economic Systems

To understand capitalism—and the types of businesses that operate in different types of economies—you must understand basic economic systems. These systems have a significant impact on business ethics, as they can determine the role of governments in business, the types of laws that regulate businesses, and the amount of freedom companies have in their activities. The main forms of capitalism and socialism are derived from the works of Adam Smith, John Maynard Keynes, and Milton Friedman.

Adam Smith was a professor of logic and moral philosophy during the late eighteenth century, as we noted earlier in this text, and he developed critical economic ideas that are still considered important today. Smith observed the supply and demand, contractual efficiency, and division of labor of various companies within England and wrote about what he saw. His idea of **laissez-faire,** or the "invisible hand," is critical to capitalism in that it assumes that the market, through its own inherent mechanisms, will keep commerce in equilibrium.

The second form of capitalism gained support at the beginning of the Great Depression. During the 1930s **John Maynard Keynes** argued that the state could stimulate economic growth and improve stability in the private sector—through, for example, controlling interest rates, taxation and public projects.[15] Keynes argued that government policies could be used to increase aggregate demand, thus increasing economic activity and reducing unemployment and deflation. He believed that the solution was to stimulate the economy through some combination of a reduction in interest rates and government investment in infrastructure. President Franklin D. Roosevelt employed Keynesian economic theories during his time in office when he was seeking to pull the United States out of the Great Depression.

The third and most recent form of capitalism is associated with **Milton Friedman,** and it represents a swing to the right of the political spectrum. Friedman had lived through the Great Depression but rejected the Keynesian conclusion that markets sometimes need intervention to function efficiently. Instead, he believed that deregulation could reach equilibrium without government intervention.[16] Friedman's ideas were the guiding principles for government policy making in the United States, and increasingly throughout the world, starting in the second half of the twentieth century.

Both Keynes and Friedman agreed that "(1) People have rational preferences among outcomes that can be identified and associated with a value; (2) Individuals maximize utility and firms maximize profits; (3) People act independently on the basis of full and relevant information."[17] Today, however, these assumptions are being questioned.

Socialism refers to economic theories advocating the creation of a society in which wealth and power are shared and distributed evenly based on the amount of work expended in production. Modern socialism originated in the late nineteenth century and was a working-class political movement that criticized the effects of industrialization and private ownership. Karl Marx was one of socialism's most famous and strongest advocates. Marxism was Marx's own interpretation of socialism, and it was transformed into communism in countries such as the Soviet Union and Cuba. History has shown that communism, strictly interpreted, causes economies to fail. For example, Cuba has traditionally held an antagonistic view toward capitalism and private enterprise. As a result, most of the population was employed in the public sector. However, during the most recent recession, the Cuban government realized it could not support so many workers. In an attempt to save its struggling economy, the government took the unprecedented step of laying off half a million state workers to make room for private sector jobs.[18] In the 1940s forms of **social democracy** emerged. Social democracy allows for the private ownership of property and also features a large government equipped to offer such services as education and health care to its citizens. Social democracies take on such problems as disease, ignorance, squalor, and idleness, and advocate governmental intervention. Scandinavian countries such as Denmark, Sweden, and Finland are examples of social democracies. Studies indicate that the populations of these small European democratic nations are some of the happiest in the world.[19]

Past economists could not have imagined the multinational corporation, or that the world's energy resources would be concentrated under the control of a handful of corporations. Our world has grown increasingly bimodal in wealth distribution. **Bimodal wealth distribution** occurs when the middle class shrinks, resulting in highly concentrated wealth amongst the rich and large numbers of poor people with very few resources. This is not a desirable scenario and can result in instability. The size and power of today's multinational corporations are immense. For instance, companies can pit one government against another for strategic advantages. One can see the same strategy by country group in trade blocs such as NAFTA (North American Free Trade Agreement), the EU (European Union), and ASEAN (Association of Southeast Nations). These trade blocs give economic leverage to country groups and use the same economic principles as multinationals. To understand the future global perspective, we next discuss the difference between rational and behavioral economics.

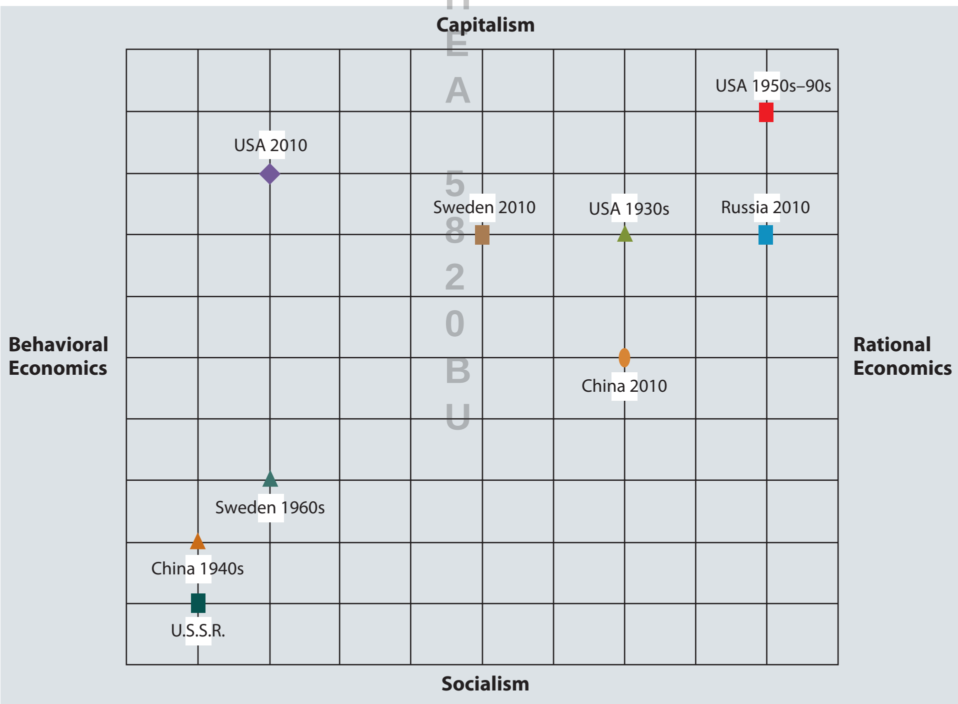
Rational economics is based upon the assumption that people are predictable and will maximize the utility of their choices relative to their needs and wants. For example, if you are hungry and have $10 to spend, rational economics suggests that you will spend the money on food that satisfies your hunger needs and wants (it tastes good). However, people are not always rational. For example, no one wants to go to jail. Even those who have stolen millions admit that the reward was probably not worth the punishment. Yet this does not stop individuals from engaging in crimes to secure short-term gains. For instance, as mentioned in Chapter 6, so-called fraud investigator Barry Minkow pleaded guilty to securities fraud as a result of trying to manipulate the stock of Lennar Corp. Minkow had already served seven years in prison after being convicted in 1988 of operating a Ponzi scheme through his business.[20] Minkow clearly did not act in a rational manner when he decided to commit another instance of securities fraud.

The second assumption is that people act independently on the basis of full and relevant information. Normally, we might assume that a criminal did not have full or relevant information concerning his/her actions. However, Minkow had already experienced prison time and, as a fraud investigator, likely knew the penalties he would face should he get caught. His example illustrates that some individuals will act irrationally even when they have a clear idea of the consequences of their actions. There are many individuals and organizations that are willing to take risks and act in an irrational manner to achieve their objectives. This high-risk approach often results in manipulation and misconduct.

Behavioral economics assumes that humans may not act rationally because of genetics, emotions, learned behavior, and heuristics, or rules of thumb. Heuristics are based upon past experiences and do not always yield the most rational response. In other words, behavioral economics assumes that economic decisions are influenced by human behavior. Figure 10.2 depicts where countries may be in the process of developing economic philosophies, and helps to understand where they may want to go. For example, China, Sweden, and the former Soviet Union are in the lower left quadrant, representing socialism as a society with behavioral economics as the vehicle to happiness. As we mentioned, each of these country's definitions of happiness is derived from social democratic goals. They are behavioral in that they believe very little in laissez-faire. The dates on the points are important, because they show that countries can change their positions over time. In the upper right quadrant, Figure 10.2 shows how certain countries' economies have defined happiness and government's role. Finally, in the upper left quadrant are the United States and (again) Sweden, representing Sweden's shift to capitalism and more laissez-faire economics and the United States' shift to a less laissez-faire economy.

The conflict between capitalism and socialism stems partly from the Cold War. Many in the United States perceive socialism as Marxism; it is not. Outside the United States, socialism is often perceived as group-oriented, as it relates to social problems. Socialism argues for the good of the community, with government helping people through manipulation of the economy. The American form of capitalism is grounded

FIGURE 10.2 The Economic Capitalism Country Differential



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in individualism, where government is perceived as more of a hindrance in the pursuit of happiness.

Today, capitalism is one of the United States' many cultural exports. But while the United States practices one kind of capitalism, there are many other forms. The success of the U.S. model of capitalism during the 1990s and 2000s led many businesses and countries to champion it as the premier economic model. However, the last recession, combined with the collapse of some of the world's largest financial firms, has dampened global enthusiasm for this model. It is likely that in the future, more attention will be paid to other forms of capitalism.[21]

Sweden was one of the poorest countries in Western Europe in the 1880s. During the 1890s, it became more worker friendly. From 1918 to 1970, Sweden's standard of living rose faster than most countries'.[22] After 1970 the country changed some of its worker policies to become more corporate friendly and has continued to enjoy one of the highest standards of living in the world.

India and China have introduced the free market into their systems, although their models are very different. China has a very large communist government that blurs the lines between organizations, businesses, and government because organizations must comply with government mandates. India, on the other hand, is democratic and has a lively civil society that often is empowered to stand up against the government and capitalism. These two countries represent about one-third of the world's population and are considered rising powers—yet their forms of capitalism are radically dissimilar. China's government involvement in business, combined with the rapid growth of its economy, may cause us to question the notion that large governments stand in the way of business success—in fact, in China government often seems to be the premier entrepreneur.[23] In 2010 China superseded Japan to become the world's second largest economy.[24]

Is capitalism with minimal government interaction and the free flow of goods and services across national boundaries best? Or should governments be more protectionist to give local businesses the upper hand? Economists are still searching for the answer. On the one hand, corporations can create competitive barriers via government legislation or by collusion to form oligopolies for managed competition. The argument is that without government intervention, local businesses could decline. On the other hand, certain forms of capitalism argue that the corporation should pay shareholders as much as possible and that other stakeholders are of secondary importance.

Despite these differing viewpoints, there is a general consensus amongst experts, academics, and businesspeople that corporations that operate with social responsibility in mind must take into account the norms and mores of the societies in which they operate. Corporations may take varying views of corporate social responsibility (CSR).[25] A broad view would include thinking about the consequences of their actions on a wide range of stakeholders and using the corporation as a tool for public policy, while a very narrow view would involve only looking at the number of jobs created, for example. These are some of the ethical questions that businesses and governments need to address as they operate on a globalized scale. There is no agreement that one form of free-market system is more ethical than others. Ethical business systems are not restricted to capitalist models, either; socialist countries also develop ethical businesses. Countries, institutions, social systems, technology, and other cultural factors can have a major effect on organizational ethics. To better understand global ethics, we start by examining some of the ethical dimensions surrounding multinational firms.

MULTINATIONAL CORPORATION

Multinational corporations (MNCs) are public companies that operate on a global scale without significant ties to any one nation or region. MNCs represent the highest level of international business commitment and are characterized by a global strategy of focusing on opportunities throughout the world. Examples of U.S.–based multinational corporations include Nike, Monsanto, and Cisco Systems. Some of these firms have grown so large that they generate higher revenues than the gross domestic product (GDP)—the sum of all the goods and services produced in a country during one year—of some of the countries in which they do business, as shown in Table 10.1.

Based on revenues versus GDP, Wal-Mart Stores, Inc., is greater in size than the economies of Greece and Denmark, and both Wal-Mart and Royal Dutch Shell are larger than the economy of Denmark. Because of their size and financial power, MNCs have been the subject of much ethical debate, and their impact on the countries in which they do business has been controversial. Both American and European labor unions argue that it is unfair for MNCs to transfer jobs overseas to countries where wage rates are lower. Other critics have charged that multinationals use labor-saving devices that increase unemployment in the countries where they manufacture. MNCs have been accused of increasing the gap between rich and poor nations and of misusing and misallocating scarce resources. Their size and financial clout enable them to control money, supplies, employment, and even the economic well-being of less-developed countries. In some instances, MNCs have controlled entire cultures and countries. For example, a Los Angeles judge determined that former petroleum exporter Unocal may be liable for the conduct of the Myanmar government

TABLE 10.1 A Comparison Between Countries and Corporations Based on Gross Domestic Products and Revenues

Country	GDP (millions $ U.S.)*	Company	Revenues (millions $ U.S.)
United States	14,720,000	Wal-Mart Stores	421,849.0
China	9,872,000	Royal Dutch Shell	378,152
Japan	4,338,000	Exxon Mobil	354,674
India	4,046,000	BP	308,928
Germany	2,960,000	Sinopec Group	221,760
Iran	863,500	China National Petroleum	203,958
Taiwan	823,600	State Grid	273,422
Argentina	596,000	Toyota Motor	226,294
Greece	321,700	Japan Post Holdings	196,337
Denmark	201,400	Chevron	240,192

*2010 estimates

Source: Adapted from "Global 500: Fortune's Annual Ranking of the World's Largest Corporations," *CNNMoney*, http://money.cnn.com/magazines/fortune/global500/2011/index.html (accessed July 7, 2011). CIA *World Fact Book*, https://www.cia.gov/library/publications/the-world-factbook/rankorder/rankorderguide.html (accessed March 25, 2011).

after documents presented in court suggested that forced labor was used in Myanmar to build Unocal projects. According to documents, workers who refused to work were imprisoned and/or executed by the Myanmar army. Unocal's financial size and willingness to complete certain projects at any cost prompted the Myanmar government to sanction the use of forced labor.[26] Years later, Unocal announced that it had reached a final settlement with the parties.[27]

Critics believe that the size and power of MNCs create ethical issues involving the exploitation of both natural and human resources. One question is whether MNCs should be able to pay a low price for the right to remove minerals, timber, oil, and other natural resources, and then sell products made from those resources for a much higher price. In many instances, only a small fraction of the ultimate sale price of such resources comes back to benefit the country of origin. This complaint led many oil-producing countries to form the Organization of Petroleum Exporting Countries (OPEC) in the 1960s to gain control over the revenues from oil produced in those lands.

> **"Critics believe that the size and power of MNCs create ethical issues involving the exploitation of both natural and human resources."**

Critics also accuse MNCs of exploiting the labor markets of host countries. As noted earlier, MNCs have been accused of paying inadequate wages. Sometimes MNCs pay higher wages than local employers can afford to match; then local businesses complain that the most productive and skilled workers go to work for multinationals. Measures have been taken to curtail such practices. For example, host governments have levied import taxes that increase the prices that MNCs charge for their products and reduce their profits. Import taxes are meant to favor local industry as sources of supply for an MNC manufacturing in the host country. If such a tax raises the MNC's costs, it might lead the MNC to charge higher prices or accept lower profits, but such effects are not the fundamental goal of the law. Host governments also have imposed export taxes on MNCs to force them to share more of their profits.

The activities of MNCs also raise issues of unfair competition. Because of their diversified nature, MNCs can borrow money from local capital markets in much higher volume than smaller local firms. MNCs also have been accused of failing to carry an appropriate share of the cost of social development. They frequently apply advanced, high-productivity technologies that local companies cannot afford or cannot implement because they lack qualified workers. The MNCs thus become more productive and can afford to pay higher wages to workers. Because of their technology, however, they require fewer employees than the local firms would hire to produce the same product. Additionally, given their economies of scale, MNCs also can negotiate lower tax rates. By manipulating transfer payments among their affiliates, they pay fewer taxes. All these special advantages explain why some claim that MNCs compete unfairly.

Sometimes countries refuse outright to allow MNCs into their countries. For example, heavy-equipment companies from industrialized nations argue that their equipment will make it possible to complete infrastructure projects sooner, which could help boost the economies of less-developed countries. However, countries such as India believe that it is better in the long run to hire laborers to do construction work since this practice provides much-needed employment and keeps currency within the local economy. Therefore, they often choose to use local laborers instead of purchasing equipment from foreign countries.

Although it is usually MNCs' unethical or illegal conduct that grabs world headlines, some MNCs also strive to be good global citizens with strong ethical values. Texas Instruments (TI), for example, has adopted a three-tiered global approach to ethical integrity that asks: "(1) Are we complying with all legal requirements on a local level? (2) Are there business practices or requirements at the local level that affect how we interact with co-workers in other parts of the world? (3) Do some of our practices need to be adapted based on the local laws and customers of a specific locale? On what basis do we define the universal standards that apply to TI employees everywhere?"[28] One of the ways Texas Instruments puts this approach into practice is by specifying rules on excessive gift giving. Since what is considered to be "excessive" tends to vary depending on country, Texas Instruments has adopted an approach that forbids gift-giving "in a way that exerts undue pressure to win business or implies a quid-pro-quo [sic]."[29]

Many companies, including Coca-Cola, DuPont, Hewlett-Packard, Levi Strauss & Co., Texaco, and Walmart, endorse following responsible business practices abroad. These companies support a globally based resource system called **Business for Social Responsibility** (BSR). BSR tracks emerging issues and trends, provides information on corporate leadership and best practices, conducts educational workshops and training, and assists organizations in developing practical business ethics tools. It addresses such issues as community investment, corporate social responsibility, the environment, governance, and accountability. BSR also has established formal partnerships with other organizations that focus on corporate responsibility in Brazil, Israel, the United Kingdom, Chile, and Panama.[30]

Although MNCs are not inherently unethical, their size and power often seem threatening to people and businesses in less-developed countries. The ethical problems that MNCs face arise from the opposing viewpoints inherent in multicultural situations. Differences in cultural perspectives may be as important as differences in economic interests. Because of their size and power, MNCs must therefore take extra care to make ethical decisions that not only achieve their own objectives, but also benefit the countries where they manufacture or market their products. Even the most respected MNCs sometimes find themselves in ethical conflict and face liability as a result.

The U.S. model of the MNC is fading as developing countries such as China, India, Brazil, and South Korea form MNCs as alliances, joint ventures, and wholly owned subsidiaries.[31] The turn away from the American model does not mean less concern for ethics and social responsibility. As corporations expand internationally, ethics and social responsibility are important firm-specific capabilities that can be a resource and lend a company an advantage for growth and profit. The development of trust and corporate citizenship is a necessary capability, much like technology or marketing. A number of Chinese businesses, for example, have learned that long-term success cannot be achieved by selling products that are unsafe or of inferior quality. Ethical and responsible business conduct is a requirement for long-term success in global business. As a result, several global organizations have been formed to support global cooperation and responsible business practices.

GLOBAL COOPERATION TO SUPPORT RESPONSIBLE BUSINESS

International Monetary Fund

The **International Monetary Fund** (IMF) originated from the Bretton Woods agreement of July 1944, in which a group of international leaders decided that the primary responsibility for the regulation of monetary relationships among national economies should rest in an extranational body, the IMF. The IMF makes short-term loans to member countries that have deficits and provides foreign currencies for its members. The IMF also provides information about countries that might not be able to repay their debts. Member states provide resources to fund the IMF through a system of quotas that are proportional to the size of their respective economies. Member states also receive IMF voting power relative to these quota contributions. Under this rule, the United States has just under one-fifth of the votes. The IMF has become the international coordinator of regulatory policy for the world.

Although the IMF's main function is to regulate monetary relationships between national economies, the organization also has taken steps to promote responsible global business conduct. For instance, the IMF has suggested that governments adopt a "binding code of conduct across nations" to determine the conditions necessary for interceding in troubled firms and how to share losses from financial institutions operating across multiple borders. The IMF has also recommended new regulations for large firms that pose the biggest "systemic risk."[32] The concept of risk and IMF bailouts took on significant importance during the last global recession. Because of a massive amount of debt, the European countries of Greece, Ireland, and Portugal required major bailout packages from the IMF. These bailouts had a negative economic impact that was felt throughout the European Union.[33]

United Nations Global Compact

The United Nations (UN) was founded in 1945 by 51 nations. Its goals are to promote worldwide peace, establish beneficial relationships between countries, and support the creation of better standards and human rights on a global scale. Today, the UN includes 192 member states from across the world. Although the United Nations is generally thought of as a peacekeeping organization, this coalition of diverse countries also focuses extensively on sustainable development, human rights and gender equality, global environmental issues, and more.[34] Another major concern for the UN is business development. Recognizing that business is "a primary driver in globalization," the UN views business as a way to increase the economic outlook of countries, help create equality with fair labor practices, combat corruption, and promote environmental sustainability.[35] Conversely, unethical businesses that go global just to take advantage of favorable factors such as cheap labor could have the opposite effect.

To support business as a driver for positive change, the UN created the **United Nations Global Compact,** a set of 10 principles that promote human rights, sustainability, and the eradication of corruption. Table 10.2 gives a brief description of these principles. Above all, the UN hopes that the Global Compact will create a collaborative arrangement among businesses, governments, nongovernmental organizations, societies, and the United Nations to overcome challenges and advocate for positive economic, social, and political change. The Global Compact is voluntary for organizations. However, those that join are held accountable, and are required to annually post the organization's progress toward Global Compact goals and show commitment to UN guiding principles. Global members are also expected to cooperate with the UN on social projects within developing nations in which they do business. More than 8,700 entities participate in the UN Global Compact.[36]

While global business ethics is essential knowledge for companies, it is also critical knowledge for business students. The Association to Advance Collegiate Schools of Business (AACSB) International, an international organization that represents about 1,200 business schools, joined with groups such as the UN Global Compact to inspire a set of six principles for business schools. These principles are encapsulated under the title "Principles for

TABLE 10.2 Ten Principles of the UN Global Compact for Businesses

• Support and respect the protection of internationally proclaimed human rights
• Ensure that businesses are not complicit in human rights abuses
• Uphold the freedom of association and the right to collective bargaining
• Work toward the elimination of forced and compulsory labor
• Work toward the abolition of child labor
• Eliminate discrimination in employment and occupation
• Support a precautionary approach to environmental challenges
• Undertake initiatives toward greater environmental responsibility
• Work toward the development and diffusion of environmentally friendly technologies
• Resist corruption of all forms, including extortion and bribery

Source: "The Ten Principles," United Nations Global Compact, http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html (accessed March 25, 2011).

Responsible Management Education."[37] The first principle encourages students to become future leaders in creating sustainable value for business, society, and the global economy. Other principles include incorporating global social responsibility into curricula; creating educational materials that cultivate responsible leaders; and encouraging dialogue among educators, students, businesses, and other stakeholders to address social responsibility and sustainability issues. The Principles for Responsible Management Education are powerfully influenced by the idea of sustainable development and corporate social responsibility.[38]

World Trade Organization (WTO)

The **World Trade Organization** (WTO) was established in 1995 at the Uruguay round of negotiations of the General Agreement on Tariffs and Trade (GATT). Today, the WTO has 153 member and observer nations. On behalf of its membership, the WTO administers its own trade agreements, facilitates trade negotiations, settles trade disputes, and monitors the trade policies of member nations. The WTO addresses economic and social issues involving agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards, food sanitation regulations, services, and intellectual property. It also provides legally binding ground rules for international commerce and trade policy. The organization attempts to reduce barriers to trade between and within nations and to settle trade disputes. For instance, the WTO ruled in favor of China in a trade dispute against the European Union. The EU believed that China was dumping its Chinese-manufactured steel fasteners into the EU market. **Dumping** is the practice of charging high prices for products in domestic markets while selling the same products in foreign markets at low prices, often at below cost. It places local firms at a disadvantage and is therefore illegal in many countries. In response, the EU instituted a tariff of 63 to 87 percent on Chinese-manufactured steel fasteners. The dispute was brought to the WTO, which ruled that the extremely high tariffs were unfair and discriminatory against Chinese manufacturers.[39]

Not all countries have agreed with the WTO's particular stance on free trade. In the past few years, import tariffs have been increased on Asian plastic bags in Europe; oil in

South Korea; Chinese steel pipes in the United States; and all imports in Ukraine. According to the WTO, shoes, cars, and steel are among the goods most vulnerable to protectionism, or trade restrictions among countries.[40] During global downturns, such as the last global recession, countries tend to restrict trading. However, many firms find ways to get around tariffs. For example, if a company wants instant free trade access to the United States, it can manufacture in Israel. If the company wants free trade access for low-tech products to the EU, the company can manufacture in the African country of Senegal because of its free trade agreement with France. Companies with the right knowledge can find a number of bypasses around tariffs, particularly as trading blocs such as the EU continue to grow.[41]

GLOBAL ETHICS ISSUES

In this section we focus on issues that have a dramatic impact upon global business, including risks, bribery, antitrust activities, and Internet security and privacy. We also discuss fundamental rights such as human rights, health care, labor, and compensation, as well as the issue of consumerism. Bribery and antitrust issues are among the most targeted areas of concern for governments worldwide. However, human and labor rights are some of the more commonly abused in global business environments.

Global Ethical Risks

Although globalization has many benefits, it is not without risks. Risk creates ethical issues for global companies to manage. The organization known as the Eurasia Group has identified 10 key areas of international risk. According to the Carnegie Council, four of these risks require organizations to make "fundamental ethical choices" when doing business globally. These risks are described as follows.

- The "G-Zero" risk refers to the idea that countries are increasingly opting to advance their own interests through nationalistic policies instead of adopting more globalized forms of leadership. We see this reflected in businesses with an "us versus them" point of view. If this trend continues, it could affect trade and business with increases in tariffs and taxes.
- Internet security and privacy are becoming key issues for governments and businesses alike. While some cyberattacks are state or government sponsored, cyberattacks from smaller entities such as WikiLeaks are also becoming a threat. The WikiLeaks scandal has taken on great importance because it brings up the question of security versus freedom of speech.
- Relations with China are becoming increasingly strained, and the Chinese government's reluctance to make quick policy changes and its regulations limiting foreign companies could place additional burdens on businesses.
- Emerging markets offer many opportunities for investors but are not without significant risks. Political unrest, imbalances in power, nationalism, and faltering economies represent major risks for global businesses hoping to invest in these areas of the world.[42]

TABLE 10.3 Global Business Ethics and Legal Issues

U.S. Ranking	European Ranking	Important Issues
1	1	Code of Conduct
2	5	U.S. Antitrust
3	3	Mutual Respect
4	7	U.S. Foreign Corrupt Practices Act (FCPA)
5	4	Conflicts of Interest and Gifts
6	9	Proper Use of Computers
7		Insider Trading
8	6	Financial Integrity
9		Confidentiality
10		Records Management
11		Labor and Employment Law
12	8	Intellectual Property
	2	Global Competition Law
	10	Global Antibribery Requirements
	11	Ethics and Values
	12	Export Controls

Source: Adapted from Integrity Interactive Corporation, "Top Compliance Concerns of Global Companies," http://www.i2c.com (accessed March 20, 2011).

Corporations worldwide have become more global in their compliance actions. Table 10.3 represents a compilation of important compliance issues of global companies based in the United States and in the European Union. Global competition laws, antibribery requirements, ethics and values, and export controls are considered to be more relevant by the EU than confidentiality, records management, and labor and employment laws. These differences give us clues as to what types of laws governments will be formulating in the future.

Bribery

Bribery is a difficult topic because its acceptance varies from country to country. While bribery between businesses is illegal in countries such as the United States, it is an accepted way of doing business in other countries. Today, most developed countries recognize that bribery is not a responsible or fair way of conducting business. It has the potential to damage consumers and competition. But companies must determine what constitutes a bribe. In Japan it is considered courteous to present a small gift before doing business. Are such gifts bribes or merely acts of gratitude? Without clear guidelines, the topic of bribery remains ambiguous enough for misconduct to occur. For this reason, both the United States and the United Kingdom have passed regulations defining bribery and set legal precedents for businesses that encounter these situations.

U.S. FOREIGN CORRUPT PRACTICES ACT (FCPA) The U.S. Foreign Corrupt Practices Act (FCPA) prohibits American companies from making payments to foreign officials for the purpose of obtaining or retaining business. In 1988 Congress became concerned that American companies were operating at a disadvantage compared to foreign companies whose governments do not forbid bribes. In 1998 the United States and 33 other countries signed an agreement intended to combat the practice of bribing of foreign public officials in international business transactions, with an exception for payments made to facilitate or expedite routine governmental actions (known as facilitation or "grease" payments). Prosecution of bribery has increased, with the U.S. Justice Department making violations of the FCPA a top priority.

Bribery has become a problem for some major corporations. IBM, Daimler AG, and Monsanto were all charged with violating the FCPA and paid heavy fines. Although sometimes bribery is done with the full compliance of top management, larger companies with multiple branches, global operations, and many employees have a harder time detecting misconduct such as bribery. The FCPA was modified recently and now provides a "best practices" guide for companies. The change was prompted by two major cases. In one case, RAE Systems Chinese joint ventures paid about $400,000 to Chinese officials in exchange for contracts worth $3 million. The company's sales force used cash advances to fund the bribes. The SEC claimed that RAE lacked solid internal controls and that it failed to respond to red flags. The other case related to the company Panalpina and also involved bribery.[43] The resulting settlements led to the creation of guidelines that can be used by the U.S. Department of Justice and the Securities and Exchange Commission in assessing FCPA compliance. The guidelines can also be helpful for businesses to ensure that they are complying with the Foreign Corrupt Practices Act. These guidelines are outlined in Table 10.4.

TABLE 10.4 FCPA "Best Practices" for Compliance Guidelines

The development of clear policies against FCPA violations
Support by senior management for the company's compliance policy
The development of standards and policies relating to the acceptance of gifts, hospitality, entertainment, expenses, customer travel, political contributions, charitable donations and sponsorships, facilitation payments, solicitation, and extortion
The development of compliance procedures that include risk assessment and internal controls
Annual reviews of compliance procedures and updates when needed
The development of appropriate financial and accounting procedures
The implementation of policies to properly communicate procedures to directors, officers, employees, and other appropriate stakeholders
The establishment of a system that provides legal guidance to appropriate stakeholders
Disciplinary procedures for violations of anticorruption rules
The exercise of due diligence to ensure compliance with anticorruption policies
The inclusion of anticorruption provisions in agreements and contracts with suppliers, agents, and other partners
Periodic reviews of codes and procedures to ensure they measure up to FCPA regulations
Prompt reporting of violations to the SEC

Source: Adapted from "U.S. Securities and Exchange Commission and Department of Justice Clarify 'Best Practices' for FCPA Compliance," *Mayer Brown,* January 11, 2011.

Violations of the act can result in individual fines of $100,000 and jail time. Penalties for companies can reach into the millions.[44] Some FCPA violations are easier to detect than others. For example, some of the riskiest practices include payment for airline tickets, hotel and meal expenses of traveling foreign officials, the wiring of payments to accounts in offshore tax havens, and the hiring of agents recommended by government officials to perform "consulting" services.[45] Current enforcement agencies are targeting these third-party bribery payments.

U.K. ANTIBRIBERY ACT Many nations, including China and European nations, are taking a tougher stance against bribery. However, the United Kingdom has instituted perhaps the most sweeping antibribery legislation to date.[46] The U.K.'s new Antibribery Act will likely cause companies doing business in the U.K. to dramatically change their compliance reports. While the act overlaps with the U.S. Foreign Corrupt Practices Act, it takes further steps to curb bribery. For example, under the law British residents and businesses, as well as foreign companies with operations in the U.K., can all be held liable for bribery, no matter where the offense is committed or who in the company commits the act, even if the bribe itself has no connection with the U.K. Unlike under the FCPA, companies are not required to have explicit knowledge of a bribe to be held criminally liable.[47] Additionally, the Antibribery Act classifies bribes between private businesspeople as illegal and does not make provisions similar to those in the FCPA allowing for "grease payments"—small payments used to speed up services that otherwise would be delayed. Another part of the law requires corporations to find out whether their subsidiaries or joint-venture partners are involved in bribery at any level.[48] The act has increased the maximum jail time for bribery from seven to 10 years.[49]

> **"Many nations, including China and European nations, are taking a tougher stance against bribery."**

Such encompassing provisions against bribery have created concern for businesses that operate in the United Kingdom. Some fear that something as simple as taking a business client out to dinner will be considered a bribe under U.K. law. However, U.K. officials and legal experts have stated that acts of hospitality will not be considered illegal. Additionally, businesses can protect themselves from heavy penalties by instituting an effective compliance program that management supports. In other words, managers should set the correct tone at the top along with implementing proper reporting procedures, periodic reviews of the company's code of conduct and compliance programs, risk assessments, and other policies discussed in this book and outlined in the U.S. Federal Sentencing Guidelines.[50] Some legal experts question whether the Serious Fraud Office in the U.K. will choose to prosecute cases that deal with small "grease" payments or prosecute cases that occur outside the United Kingdom.[51]

Antitrust Activity

Fair competition is viewed favorably in many countries, with the belief that competition yields the best products and services at the best prices. This basic concept of capitalism has begun to change, however. During the nineteenth and early twentieth centuries, U.S. corporations began using what today would be considered anticompetitive practices, creating high barriers of entry for competitors in an attempt to dominate markets. These practices led to higher prices and fewer options for consumers. In 1890 the United States passed the Sherman Antitrust Act to prevent such anticompetitive behavior. Other countries have similar laws. However, issues of competition become more complicated when companies do business in different countries with differing laws. For instance, the EU has stricter antitrust laws than does the United States, which makes it harder for some MNCs to compete in Europe. EU antitrust probes have been launched against Google, Microsoft, and IBM, among other companies.

Because large MNCs create economies of scale and barriers to entry, they tend to reduce overall competition and can put smaller companies out of business. If these firms continue to remain unregulated, they could engage in a vertical systems approach to become monopolies. A **vertical system** is where a channel member (manufacturer, wholesaler, distributor, or retailer) has control of the entire business system, via ownership or contract, or through its purchasing ability. Vertical systems create inertia, which causes channel members to stay with their various retailers and distributors even though competitors may have better products and prices. Sometimes MNCs use their size to coerce other companies to do business exclusively with them. For instance, the EU charged Intel $1.45 billion for anticompetitive behavior. Intel had allegedly provided rebates to retailers if they bought only their computer chips, as well as paying manufacturers for delaying or restricting the distribution of products from their main rival, Advanced Micro Devices (AMD).[52]

Internet Security and Privacy

Earlier, we mentioned Internet security as one of the top 10 global risks. Today's computer hackers can use tools like the Internet and computer viruses to commit corporate espionage, launch cyberattacks against government infrastructures, and steal confidential information.[53] Until recently, Internet security has not been a significant part of business ethics. However, serious Internet crimes have brought this issue to the public's attention. Computer hackers have become particularly problematic in the United States and China. For example, in China two computer hackers created a hacking device known as the "Panda Burns Incense" worm, which they used to steal information that they sold to other hackers in their network. The worm showed up in people's emails posing as a harmless message that fooled recipients into opening it. Once a computer was infected, every desktop icon would become a picture of a panda holding three incense sticks. If the user clicked on the panda, the worm would collect passwords and financial information and relay it back to the senders. Although the two original perpetrators were finally caught, copycat versions and more advanced viruses have since been launched.[54]

Hacking, Trojan horses (devices that look desirable but that steal information once installed), and worms are not necessarily illegal in some countries. However, the global community has begun to classify many such practices as unethical, arguing they should become illegal. Although companies are developing software to track down viruses and malware and keep them from infecting computers, hackers are constantly creating new ways to bypass these systems. In addition, many companies themselves use questionable Internet practices that may not be illegal but could be construed as unethical. For instance, many websites that users visit install cookies, or small identifying strings of text, onto their computers. This allows the website to identify the user's computer when he or she revisits the site. These companies use cookies as a way to tailor their offerings to specific users. For example, Amazon.com uses cookies to make product recommendations to users when they return to their website. Despite the consumer convenience and competitive advantages of cookies, being able to identify users without their consent or direct knowledge may create an ethical issue: privacy.

While some Internet privacy violations, such as breaking into users' accounts and stealing their financial information, are clearly unethical, many other situations present more challenging ethical dilemmas. For instance, WikiLeaks is a nonprofit organization that publishes information provided by whistle-blowers, leaks, and news sources. Although it has been praised for revealing injustice and creating a more transparent news environment, the site has come under scrutiny for leaking confidential U.S. documents. U.S. government officials launched a criminal investigation into WikiLeaks and claimed that the confidential information it revealed on subjects such as the war in Afghanistan could put soldiers at risk. However, legal experts suggest that the First Amendment right to freedom of speech likely will prevail as long as WikiLeaks does not pay for or collect the information itself.[55] Such conflicts between freedom of speech and revealing confidential information that could threaten national security are significant ethical issues that require greater scrutiny by lawmakers.

Another ethical dilemma regarding privacy is the use of personal information by companies. Facebook, the most popular social networking site worldwide, has been criticized for lax privacy policies and for making member information too public. Privacy has become such a concern that governments have begun considering new legislation to regulate information collection on the Internet. For instance, the United States government is debating on whether to create a "Do Not Track" bill for the Internet to limit what types of information websites are allowed to track.[56] This pending legislation is prompting advertising firms to engage in self-regulation for digital advertising, and both Google and Facebook have spent money to lobby against government intervention.[57]

In countries such as Saudi Arabia and China, Internet privacy is not just a corporate issue. Rather, governments take an active role in censoring citizens' use of the Internet. For instance, Saudi Arabia nearly banned BlackBerry smartphones because Blackberrys use overseas routing. Overseas routing gives the government less control, and Saudi Arabia feared that it would allow third parties outside the country to gain access to encrypted messages. The Saudi government also censors websites and provides users with online messages telling them that they have been denied access to a particular site.[58] The Chinese government routinely uses an Internet-filtering system called the "Great Firewall" to censor Internet sites. It often does not tell its citizens when it is censoring materials. Instead, the filtering looks like a technical glitch. Some networks, such as YouTube and Facebook, are blocked completely. This has made it difficult for foreign businesses such as Google, which adheres to a "Don't Be Evil" policy, to justify doing business with China. Google has experienced repeated clashes with the Chinese government over censorship, including accusations that the government disrupted the company's email services among its Chinese users.[59] These scenarios demonstrate some of the types of ethical issues that companies encounter when conducting business globally.

Human Rights

The meaning of the term **human rights** has been codified in a UN document, in which it is defined as an inherent dignity with equal and inalienable rights and the foundation of freedom, justice, and peace in the world. The concept of human rights is not new in business. It was established decades ago, but few companies took it into consideration until recently. Table 10.5 presents three articles from the UN Human Rights Declaration. Their implementation in the world of business can have serious ethical ramifications. For example, Article 18 concerns freedom of religion. From a Western perspective this appears to be straightforward. However, how should firms respond to employees from countries where it is acceptable to have multiple wives? Should they all be granted health insurance?

TABLE 10.5 Selected Articles from the UN Human Rights Declaration

Article 18. Freedom of religion … either alone or in community … in public or private …
Article 23. The right to work … to just and favorable conditions of work and to protection against unemployment … equal pay for equal work … ensuring for himself and his family an existence worthy of human dignity … right to form and to join trade unions …
Article 25. Right to a standard of living adequate for the health and well-being … Motherhood and childhood are entitled to special care and assistance.

Source: United Nations Human Rights Declaration, http://www.un.org/en/rights/ (accessed June 22, 2009).

In response to such challenges, Ford Motor Co. started the Ford Interfaith Network to educate employees about different religions and foster respect for the beliefs of its diverse employees across the world.[60] However, for a worker in Saudi Arabia, such an interfaith group does not exist. The Saudi government prohibits the public practice of non-Muslim religions. In general, it recognizes the right of non-Muslims to worship in private; however, this right is not extended to the public domain. Within Saudi Arabia, freedom of religion is not legally defined.

Health Care

Another ethical issue that is gaining in importance is health care. Globally, a billion people lack access to health care systems, and about 11 million children under the age of five die from malnutrition and preventable diseases each year.[61] As a result, global concern about the priorities of pharmaceutical companies is on the rise. This ethical dilemma involves profits versus health care. Those who believe pharmaceutical companies are inherently unethical suggest that the quest for profits has led these companies to research drugs aimed at markets that can afford luxuries, such as cures for baldness or impotence, rather than focusing on cures for widespread deadly diseases such as malaria, HIV, and AIDS. Patents are another challenging issue. Since patents give pharmaceutical companies exclusive rights to their products for a certain period, the companies can charge higher prices—prices that those in emerging economies cannot often afford. A documentary released by True Vision, an international documentary film company, featured a child in Honduras who ultimately died from the ravages of AIDS. Pfizer produces one of the drugs he needed, but it cost $29 per tablet. The family only earned $19 a week. The generic version of the drug was cheaper in neighboring Guatemala, but the maker of that form of the drug had no license to produce or sell in Honduras.[62]

On the other hand, pharmaceutical companies argue that high prices are needed to recoup the costs of creating the drugs, and without profits their companies would not be able to function. Another argument is that since other firms are allowed to patent their products, pharmaceutical companies should be allowed the same privileges. Yet when the issue is one of life or death, businesses must find ways to balance profitability with human need.

A related issue affecting both developing and developed countries is the affordability of health care. Rising health care costs continue to pose a critical challenge, particularly in the United States, where millions of people remain uninsured. Studies have revealed that the United States spends more per capita on health care than other industrialized countries—but without better results to show for it. Prices of health care products and procedures can vary greatly within the country.[63] When health care becomes too costly, businesses tend to either

DEBATE ISSUE TAKE A STAND

Is Health Care a Right or a Privilege?

The Universal Declaration of Human Rights, adopted by the United Nations in 1948, proclaims that "everyone has the right to a standard of living adequate for the health and well-being of oneself and one's family, including food, clothing, housing, and medical care." Hard work and healthy living does not assure being healthy. With the high costs of health care, many consumers cannot afford health insurance. The U.S. government plans to follow other industrialized nations in adopting universal health care.

However, critics argue that it is the individual's responsibility, not the government's, to ensure personal health. Many health problems, such as obesity and diabetes, can often be prevented by individuals choosing to live healthier lifestyles. Another concern involves the cost of health care. Critics believe universal health insurance will increase costs because more people will depend upon the government for health care. This in turn might cause costs to be passed onto the consumers and prompt the government to limit certain types of care. Guaranteeing health care for all may lead people to make riskier decisions because they know that if they get hurt, they are guaranteed health care coverage.

1. Because health care protects life, it is a fundamental right and should therefore be ensured by the federal government.
2. Health care is a privilege and should not be provided by the government because of the high costs involved.

drop health care packages offered to employees or downgrade to less expensive—and less inclusive—packages. For instance, some unions, companies, and insurers have begun dropping mental health care plans due to a law that states mental health care, if offered, must be as "robust" as the rest of the medical benefits. Rather than offer the more costly mental health benefits, companies are choosing to drop them entirely.[64]

Global health care fraud is a serious ethics issue, costing businesses and governments millions and depriving individuals of funds needed for critical care. One estimate places the losses from global health care fraud at $260 billion annually.[65] Fraud can include providing less medicine in packages for the same price, filing false Medicare claims, and providing kickbacks for referrals, and it can be committed by individuals, companies, doctors, and pharmacists. Insurance companies are not immune, either. The Justice Department filed charges against Blue Cross Blue Shield of Michigan for allegedly creating illegal agreements with state hospitals. According to these agreements, hospitals would charge patients insured by Blue Cross's rivals equal or higher prices for the same procedures. This would make Blue Cross look less expensive and therefore more attractive to patients.[66]

The fundamental issue leading some businesses into ethical and legal trouble around the world is the question of whether health care is a right or a privilege. For example, many people in the United States see health care as a privilege, not a right; thus, it is the responsibility of individuals to provide for themselves. People in other countries, such as Germany, consider it a right. German employees have been guaranteed access to high-quality, comprehensive health care since 1883.[67] Many countries believe health care is important because it increases productivity; therefore, governments ought to provide it. As health care costs continue to increase, the burden for providing it falls on companies, countries, employees, or all three.

Labor and the Right to Work

Another global issue that businesses encounter is labor. Today, many people live and work in a country other than their homeland. In the European Union, workers can carry benefits across countries within the EU without any reductions or changes. Many are therefore asking the question, "Am I a multinational employee first and then a citizen of a country, or am I a citizen first and an employee second?" Because businesses must make a profit, there are increasing occasions when nationality no longer is a deciding factor. In business, we are becoming global citizens. As a result, firms need to understand that certain employee issues, once country-specific, have become global.

One example of a global labor issue involves gender pay inequality. This debate has spread throughout the globe, in both developing and industrialized countries. For instance, a report from the United Nations Development Programme found that female computer programmers in Singapore earn 80 percent of what male workers earn in comparable jobs. Similarly, female computer programmers in Korea earn 90 percent of what male computer programmers earn.[68] Such statistics are not just limited to the East. In 2010 the European Commission reported that women within the EU were earning 82 percent of what their male counterparts were earning.[69] Despite these disparities, equal pay is recognized as a fundamental right by the UN Human Rights Declaration, and gender pay inequality is illegal in many countries. Businesses, particularly multinationals, must consider this issue carefully. Failure to do so could lead to lawsuits or reputational damages. Walmart spent years fighting a class-action lawsuit from hundreds of female employees who claimed they were discriminated against in pay and promotions. Companies that work to eliminate gender pay inequalities within their organizations will not only be acting ethically, but will be protecting themselves legally as well.

In addition to equal pay, Article 23 of the UN Human Rights Declaration discusses the right to work and join trade unions. Within the European Union, trade unions are accepted, but in many other countries, including Burma, North Korea, Cuba, and Iran, trade unionists risk imprisonment. China, Laos, and Vietnam only allow one trade union.[70] European companies with employees in these countries will face many ethically charged decisions. Trade unions are an ethically charged issue in the United States, too. For example, McDonald's and Walmart have discouraged attempts to unionize in the United States, but they acquiesced to their workers in China and allowed them to unionize. Both companies have unions in all of their Chinese facilities, yet they continue to fight against unions in their home countries.[71]

Article 25 of the UN Human Rights Declaration mentions a standard of living and special rights related to pregnancy. The United States lags behind other industrialized nations in its treatment of pregnant women and new mothers. While other countries allow female employees a certain amount of paid maternity leave, the United States guarantees only 12 weeks of unpaid leave.[72] Some countries have been arguing for allowing men to take off the same amount of leave (either paid or unpaid). This debate would never happen in Sweden because Swedish parents get 480 paid days off that can be split between parents at 100 percent pay.[73]

Compensation

The last global recession set off a spark that prompted employees worldwide to question their compensation relative to those of others. Employees, particularly those in places without strong employee protections, have begun questioning why high-level executives get so many benefits while their own real incomes have stayed the same or fallen. These questions highlight two wage issues that are having a profound effect on business: the living wage and executive compensation.

A LIVING WAGE A living wage refers to the minimum wage that workers require to meet basic needs. Many countries have passed minimum wage laws to try and provide employees with a living wage (whether the "minimum wage" is actually enough to meet a worker's

> "The problem that multinationals face is trying to find a solution that balances the interests of the company as a whole with those of its employees and other interested stakeholders."

basic needs is highly debatable). These laws vary from country to country. For instance, while the United States has a federal minimum wage law of $7.25 per hour, Australia's minimum wage equals about $15.37 per hour, while the United Kingdom's minimum wage equals about $9.53 per hour for workers 21 or older.[74] Some regions within these countries may adopt higher regional minimum wage laws to account for higher costs of living. The issue of a living wage is a controversial topic for MNCs. Because laws of industrialized countries dictate that employers must pay a minimum wage, some MNCs choose to outsource their labor to other countries where no minimum wage exists. While not necessarily unethical in and of itself, this practice becomes a significant ethical dilemma when the public perceives the organization as paying foreign laborers unfair wages. The problem that multinationals face is trying to find a solution that balances the interests of the company as a whole with those of its employees and other interested stakeholders. For instance, Nike continues to be criticized for the wages it pays its factory workers in other countries. While Nike claims that it pays its workers in these countries higher than the mandated minimum wage laws of the country, critics point out that the amount is not suitable enough to cover living expenses of workers or their families. Nike in turn contends that a "fair" wage is hard to determine when dealing with other countries, a statement with which many multinationals would likely agree.[75] However, the concept of a living wage is a challenge that companies must acknowledge if they hope to successfully do business in the global environment.

EXECUTIVE COMPENSATION The issue of executive pay came to the forefront during the last global recession. In the United States, for instance, the government felt it necessary to bail out firms that would go bankrupt otherwise. However, when companies that received taxpayer money such as American International Group and Merrill Lynch subsequently paid their executives millions in compensation, the public was outraged. These types of incidents have led to a global demand for a better alignment between managerial performance and compensation.

Some companies have begun to heed this demand. The Swiss financial institution UBS, for example, cut its bonus pool by 10 percent.[76] Meanwhile, the Chinese government ruled that the disparity between the country's executives and its workers was too great. It therefore cut the salaries of top executives at state-owned banks and insurers.[77] The gap between executive and worker compensation will likely remain a major business ethics issue until stakeholders are satisfied that executives are earning their additional compensation.

Consumerism

Consumerism is the belief that the interests of consumers, rather than those of producers, should dictate the economic structure of a society. It refers to the theory that the consumption of goods at an ever-increasing rate is economically desirable, and it equates personal happiness with the purchase and consumption of material possessions. However, over the past 50 years consumption has placed significant strains on the environment. Many scientists argue that human factors (such as the increase in fossil fuel emissions from industrialization and development and deforestation), have caused global warming. Many countries contend that consumer choices are moral choices, that choosing a high rate of consumption will affect vulnerable groups such as the poor, and that the world will be increasingly less habitable if people refuse to change their behaviors.[78]

As nations increase their wealth, consumers increase their quality of living with luxury items and technological innovations that improve the comfort, convenience, and efficiency of their lives. Such consumption beyond basic needs is not necessarily a bad thing in and of itself; however, as more people engage in this type of behavior, waste and pollution increase. Some important issues must be addressed in relation to consumerism. For example:

- What are the impacts of production on the environment, on society, and on individuals?
- What are the impacts of certain forms of consumption on the environment, on society, and on individuals?
- Who influences consumption, and how and why are goods and services produced?
- What goods are necessities, and what are luxuries?
- How much of what we consume is influenced by corporations rather than by our needs?
- What is the impact on poorer nations of the consumption patterns of wealthier nations?[79]

China's rise to dominance in manufacturing and world trade has caused it to outpace the United States as a consumer. It now leads the United States in consumption of basic goods such as grain, meat, coal, and steel. China has also surpassed the United States in greenhouse gas emissions. Some fear that China's newfound consumerism will drive up global prices for goods, as well as speed up global warming, even as other nations take measures to stop it. Consumption patterns are being created by businesses in China that will cause large resource requirements. Chinese consumers are pushing for more cars, appliances, and technology like never before. With 1.3 billion consumers, this will cause a major strain on the environment. China has taken steps to curb its negative environmental impact, such as becoming the largest investor in wind turbines in the world. Unfortunately, most of China's energy needs are still produced by fossil fuels, which are causing its carbon dioxide emissions to worsen.[80]

India, with its 1.1 billion people, is following China and the West on the consumerist path. India has the world's fastest-growing information technology market, creating skilled, high-wage jobs for software engineers, business process experts, and call-center workers. The country is well-situated to weather global recessions because much of the country's demand for goods is domestic. India has the second-largest domestic market for goods in the world.[81] While this demand has helped fuel growth, it also has led to an enormous increase in greenhouse gas emissions. One government study revealed that greenhouse gas emissions within India increased 58 percent between 1994 and 2007.[82]

The ethics of these consumerism issues for business are many. These large emerging economies are the profit-making centers of the future. Most in business understand that it is in the best interests of the firm that consumer needs and desires are never completely or permanently fulfilled, so that consumers can repeat the consumption process and buy more products. For example, **made-to-break,** or planned obsolescence, products are better for business in that they keep consumers returning to buy more. It also is profitable to make products part of a continuously changing fashion market. Thus, items that are still in good condition and could last for many years are deemed in need of constant replacement to keep up with fashion trends. In this way, steady profits are assured—as well as waste. The top 20 percent of consumers in the highest-income countries comprise 86 percent of global consumption expenditures, whereas the poorest 20 percent comprise 1.3 percent of consumption expenditures. The richest 20 percent also consume 58 percent of the total energy used on the planet.[83]

One ethical question that is being asked by more people and countries is, “Does consumerism lead to happiness?” Consumer detractors are gaining ground globally, and the United States is their example of nonsustainable consumption. They note that while the United States comprises 4.6 percent of the world’s population, it consumes 33 percent of the world’s resources. The world’s poorest 2.3 billion people consume 3 percent of the world’s resources. The average American generates twice as much waste per person per year as the average European.[84]

These consumption statistics point to a very different lifestyle for the future, and global business will drive it. The moral conflict between countries, especially between the United States and the developing world, will increase, with corresponding ethical challenges for business. The future may be one filled with international violence, to which business must respond, or it may be characterized by a lifestyle that global business creates and markets to avoid civil and global war. It will be up to you and others to decide.

THE IMPORTANCE OF ETHICAL DECISION MAKING IN GLOBAL BUSINESS

Ethical decision making is essential if a company is to operate successfully within a global business context. Without a clear understanding of the complexities of global ethics, companies will face a variety of legal and political snares that could result in disaster. It is important to realize that many of the same issues we discussed in this chapter can be applied to domestic markets as well. Internet security, for instance, can be just as much of an ethical issue domestically as it is in companies operating internationally. As such, businesses should incorporate both global and domestic ethical issues into their risk management strategies.

For companies looking to expand globally, the multitude of ethical issues to consider seems daunting. Many companies choose to adopt global business codes of ethics to provide guidelines for their international operations. To this end, several organizations have created ethics and social responsibility frameworks that businesses can adopt in formulating their own global ethics codes. As discussed in Chapter 2, the International Organization for Standardization has developed ISO 26000 and ISO 14000, among other guidelines, to address issues such as ethics and social responsibility. Another set of global principles were developed by Reverend Leon Sullivan as a way to rise above the discrimination and struggles in postapartheid South Africa. Reverend Sullivan worked with the UN Secretary General to revise the principles to meet global needs. Since that time period, both large and small companies have agreed to abide by the Global Sullivan Principles, which encourage social responsibility throughout the world. The Global Sullivan Principles, the UN Global Compact, the UN Human Rights Declaration, as well as others promote foundational principles of conduct for global businesses. Table 10.6 provides a synthesis of typical foundational statements.

For multinational corporations, risk management and global ethics are so integral to the stability of their overseas operations that they have created special officers or committees to oversee global compliance issues. Walmart created a global ethics office to communicate company values and encourage ethical decision making throughout its global stores.[85] General Motors’ Board Audit Committee created the Global Ethics and

TABLE 10.6 Global Principles for Ethical Business Conduct

Global principles are integrity statements about foundational beliefs that should remain constant and not change as businesses operate globally. These principles address issues such as accountability, transparency, trust, natural environment, safety, treatment of employees, human rights, importance of property rights, and adhering to all legal requirements. The principles are designed to focus on areas which may present challenges to the ethical conduct of global business.

1. **Require accountability and transparency in all relationships.** Accountability requires accurate reporting to stakeholders, and transparency requires openness and truthfulness in all transactions and operations.
2. **Comply with the spirit and intent of all laws.** Laws, standards, and regulations must be respected in all countries as well as global conventions and agreements developed among nations.
3. **Build trust in all stakeholder relationships through a commitment to ethical conduct.** Trust is required to build the foundation for high integrity relationships. This requires organizational members to avoid major international risks such as bribery and conflicts of interest. Laws supporting this principle include the U.S. Foreign Corrupt Practices Act, the U.K. Anti-bribery Act, OECD Convention, and UN Convention Against Corruption.
4. **Be mindful and responsible in relating to communities where there are operations.** The communities in which businesses operate should be supported and improved as much as possible to benefit employees, suppliers, customers, and the community overall.
5. **Engage in sustainable practices to protect the natural environment.** This requires the protection of the long-term well-being of the natural environment including all biological entities as well as the interaction among nature, individuals, organizations, and business strategies.
6. **Provide equal opportunity, safety, and fair compensation for employees.** Employees should be treated fairly, not exploited or taken advantage of, especially in developing countries. Laws supporting this principle include equal opportunity legislation throughout the world.
7. **Provide safe products and create value for customers.** Product safety is a global issue as various governments and legal systems sometimes provide opportunities for firms to cut corners on safety. All products should provide their represented value and performance.
8. **Respect human rights as defined in the UN Global Compact.** Human rights is a major concern of the UN Global Compact and most other respected principles statements of international business.
9. **Support the economic viability of all stakeholders.** Economic viability supports all participants in business operations. Concerns such as fair trade and payment of a living wage are embedded in this principle.
10. **Respect the property of others.** Respect for property and those who own it is a broad concept that is an ethical foundation for the operation of economic systems. Property includes physical assets as well as the protection of intellectual property.

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Compliance Department after revisions were implemented to the U.S. Federal Sentencing Guidelines. GM not only wanted to comply with these guidelines, it also wanted to create a centralized system of compliance that would be used at all GM locations worldwide.[86]

The successful implementation of a global ethics program requires more than just a global ethics committee, however. It also requires extensive training for employees. As this chapter has demonstrated, various differences exist between cultures and businesses from different countries. Employees of global companies should be trained to understand and respect these differences, particularly those employees who will be directly involved in global operations. Ford Motor Co. has an online global ethics training program for employees that is available in 13 languages. The company also offers hotlines for employees in 24 countries and trains its Office of the General Counsel on how to handle global complaints.[87] Codes of global ethical conduct, global ethics training, and global channels for employees to communicate misconduct are important mechanisms in creating a culture of globalized ethical decision making.

A global firm cannot succeed simply by applying its domestic ethical programs to other global environments. Although ethical issues such as honesty and integrity are common to most countries, differences in laws, political systems, and cultures require a more targeted approach to ethical decision making. Global ethics is not a "one size fits all" concept. With that said, it is important for companies to act with integrity even if they are doing business in a country with lax laws on certain ethical subjects. Those companies who incorporate globalized ethical decision making throughout their international operations will not only enhance their reputations, but will also demonstrate a respect for their employees and their cultures—as well as avoid the costly litigation that often accompanies misconduct.

SUMMARY

In this chapter we have tried to sensitize you to the important topic of ethical decision making in an international context. We began by looking at values and culture. A country's values are influenced by ethnic groups, social organizations, and other cultural aspects. Hofstede identified four cultural dimensions that can have a profound impact on the business environment: individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity. The self-reference criterion is the unconscious reference to one's own cultural values, experiences, and knowledge and is a common stumbling block for organizations. Another approach organizations tend to take is that of cultural relativism, or the idea that morality varies from one culture to another and that business practices are therefore defined as right or wrong differently.

Risk compartmentalization is an important ethical issue, and it occurs when various profit centers within corporations become unaware of the overall consequences of their actions on the firm as a whole. The last financial meltdown was in part the result of risk compartmentalization. Understanding rational economics and systems is an important foundation for understanding business ethics. Rational economics assumes that people will make decisions rationally based upon utility, value, profit maximization, and relevant information. Capitalism bases its models on these assumptions. Behavioral economics, by contrast, argues that humans may not act in a rational way as a result of genetics, learned behavior, emotions, framing, and heuristics, or rules of thumb. Social democracy, a form of socialism, allows for private ownership of property and also features a large government equipped to offer services such as education and health care to its citizens. Sweden, Denmark, and Finland are social democracies.

Multinational corporations are public companies that operate on a global scale without significant ties to any one nation or region. MNCs have contributed to the growth of global economies but are by no means immune to criticism. The International Monetary

Fund makes short-term loans to member countries that have deficits and provides foreign currencies for its members. The UN Global Compact is a set of 10 principles that promote human rights, sustainability, and the eradication of corruption, while the World Trade Organization administers its own trade agreements, facilitates trade negotiations, settles trade disputes, and monitors the trade policies of member nations.

There are several critical ethics issues of which global businesses should be aware. Global risks create ethical issues for global companies to manage. Bribery is becoming a major ethical issue, prompting legislation such as the U.S. Foreign Corrupt Practices Act and the U.K. Antibribery Act. Antitrust activities are illegal in most industrialized countries and are pursued even more ardently in the European Union than in the United States. Internet security is an important ethical issue, as hacking and privacy violations are on the rise. The United Nations has codified human rights as a function of inherent human dignity, and including equal and inalienable rights such as the foundation of freedom, justice, and peace in the world. Health care and labor issues are important ethical issues but tend to vary by country. Wage issues such as a living wage and executive compensation are controversial topics that affect a variety of global stakeholders. Consumerism is the belief that the interests of consumers should dictate the economic structure of a society, rather than the interests of producers; it refers to the theory that an increasing consumption of goods is economically desirable, and equates personal happiness with the purchase and consumption of material possessions.

TERMS FOR REVIEW

global business
self-reference criterion
risk compartmentalization
John Maynard Keynes
social democracy
behavioral economics
Business for Social Responsibility
dumping
vertical system
consumerism
country cultural values
cultural relativism
Adam Smith
Milton Friedman
bimodal wealth distribution
International Monetary Fund
United Nations Global Compact
human rights
made-to-break
national culture
global common values
laissez-faire
socialism
rational economics
multinational corporation
World Trade Organization

RESOLVING ETHICAL BUSINESS CHALLENGES*

George Wilson, the operations manager of the CornCo plant in Phoenix, Arizona, has a problem. He is in charge of buying corn and producing chips marketed by CornCo in the United States and elsewhere. Several months ago, George's supervisor, CornCo's vice president, Jake Lamont, called to tell him that corn futures were on the rise, which would ultimately increase the overall costs of production. In addition, a new company called Abco Snack Foods had begun marketing corn chips at competitive prices in CornCo's market area. Abco already had shown signs of eroding CornCo's market share. Jake was concerned that George's production costs would not be competitive with Abco's—hence, profitability would decline. Jake had already asked George to find ways to cut costs. If he couldn't, Jake said, layoffs would begin soon.

George scoured the Midwest looking for cheap corn and finally found some. But when the railcars started coming in, one of the company's testers reported the presence of aflatoxin—a naturally occurring carcinogen that induces liver cancer in lab animals. Once corn has been ground into corn meal, however, aflatoxin is virtually impossible to detect. George knew that by blending the contaminated corn with uncontaminated corn he could reduce the aflatoxin concentrations in the final product—a technique, he had heard, other managers sometimes used. According to U.S. law, corn contaminated with aflatoxin cannot be used for edible products sold in the United States, and fines are to be imposed for such use. So far, however, no one has been convicted. And no U.S. law prohibits shipping the contaminated corn to other countries.

George knew that, because of his competitors' prices, if he didn't sell the contaminated corn his production costs would be too high. When he spoke to Jake, Jake's response was, "So how much of the corn coming in is contaminated?"

"It's about 10 percent," George answered. "They probably knew that the corn was contaminated. That's why we're getting such a good deal on it."

Jake thought for a moment and said, "George, call the grain elevators, complain to them, and demand a 50 percent discount. If they agree, buy all they have."

"But if we do, the blends will just increase in contamination!" George exclaimed.

"That's OK," Jake answered. "When the blends start getting high, we'll stop shipping into the U.S. market and go foreign. Remember, there are no fines for contaminated corn going to Mexico."

George learned that one other person, Lee Garcia, an operations manager for the breakfast cereals division, had sold contaminated corn once.

"Yeah, so what about it?" Lee said. "I've got a family to support and house payments. For me there was no alternative. I had to do it or face getting laid off."

As George thought about the problem, word spread about his alternatives. The following notes appeared in the plant suggestion box:

"Use the corn or we all get laid off!"

"Process it and ship it off to Mexico!"

"It's just wrong to use this corn!"

When George balked at Jake's proposed solution, Jake said, "George, I understand your situation. I was there once—just like you. But you've got to look at the bigger picture. Hundreds of workers would be out of a job. Sure, the FDA says that aflatoxin is bad, but we're talking about rats eating their weight in this stuff. What if it does get detected—so what? The company gets a fine, the FDA tester gets reprimanded for screwing up, and it's back to business as usual."

"Is that all that will happen?" George asked.

"Of course. Don't worry," Jake replied.

But George's signature, not Jake's, was on the receipts for the contaminated railcars.

"So if I do this, at what aflatoxin percentage do I stop, and will you sign off on this?" George asked.

"Look," said Jake, "that's up to you. Remember that the more corn chips that are produced for the U.S. market, the more profit the company gets, and the higher your bonus will be. As for me signing off on this, I'm shocked that you would even suggest something like that. George, you're the operations manager. You're the one who's responsible for what happens at the plant. It just isn't done that way at CornCo. But whatever you do, you had better do it in the next several hours. Because, as I see it, the contaminated corn has to be blended with something, and the longer you wait, the higher the percentages will get."

QUESTIONS | EXERCISES

1. Discuss the corporate ethical issue of providing questionable products to other markets.
2. Discuss the suggestions submitted in the suggestion box in light of the decision that George must make. Should the suggestions have an influence?
3. Identify the pressures that have caused the ethical and legal issues in this scenario to arise.

*This case is strictly hypothetical; any resemblance to real persons, companies, or situations is coincidental.

CHECK YOUR EQ

Check your EQ, or Ethics Quotient, by completing the following. Assess your performance to evaluate your overall understanding of the chapter material.

1.	Most countries have a strong orientation toward ethical and legal compliance.	**Yes**	**No**
2.	The self-reference criterion is an unconscious reference to one's own cultural values, experience, and knowledge.	**Yes**	**No**
3.	One of the critical ethical business issues linked to cultural differences is the question of whose values and ethical standards take precedence during international negotiations and business transactions.	**Yes**	**No**
4.	Multinational corporations have identifiable home countries but operate globally.	**Yes**	**No**
5.	Certain facilitating payments are acceptable under the Foreign Corrupt Practices Act.	**Yes**	**No**

ANSWERS **1. No.** That's an ethnocentric perspective; in other countries laws may be viewed more situationally. **2. Yes.** We react based on what we have experienced over our lifetimes. **3. Yes.** Ethical standards and values differ from culture to culture, and this can be a critical point in effective business negotiations. Some people believe in cultural relativism, which means that the standards of the host country hold sway. However, many MNCs are legally bound to adhere to the standards of the host country. **4. No.** Multinational corporations have no significant ties to any nation or region. **5. Yes.** A violation of the FCPA occurs when the payments are excessive or are used to persuade the recipients to perform other than normal duties.