

CSE332 INDUSTRY ETHICS AND LEGAL ISSUES

reasons for ethical problems in business

Learning Outcomes

1. Differentiate between the concepts of internationalization and globalization of business.
2. Explain the ethical challenges of multinational corporations (MNCs) in the global environment.
3. Summarize the key implications of the following ethical issues: infant formula controversy, Bhopal tragedy, sweatshops and human rights abuses, and the Alien Tort Claims Act.
4. Define corruption, differentiate between bribes and grease payments, and outline the major features of the Foreign Corrupt Practices Act.
5. Describe the growing anticorruption movement and the key players in this movement.
6. Identify and discuss strategies for improving global ethics.

Chapter Outline

- Business Challenges in a Multinational Environment
- Ethical Issues in the Global Business Environment
- Improving Global Business Ethics
- Summary
- Key Terms

Ethical Issues in the Global Business Environment

- The growth of global business as a critical element in the world economy is one of the most important developments of the past half century.
- Characterized by a rapid growth of foreign direct investment in developing nations like China, India, and Russia.
- In **less-developed countries (LDCs)**, because there are no government regulations, the temptation is to lower or reject standards.
- The expanded marketplace has been called the **transnational economy**.

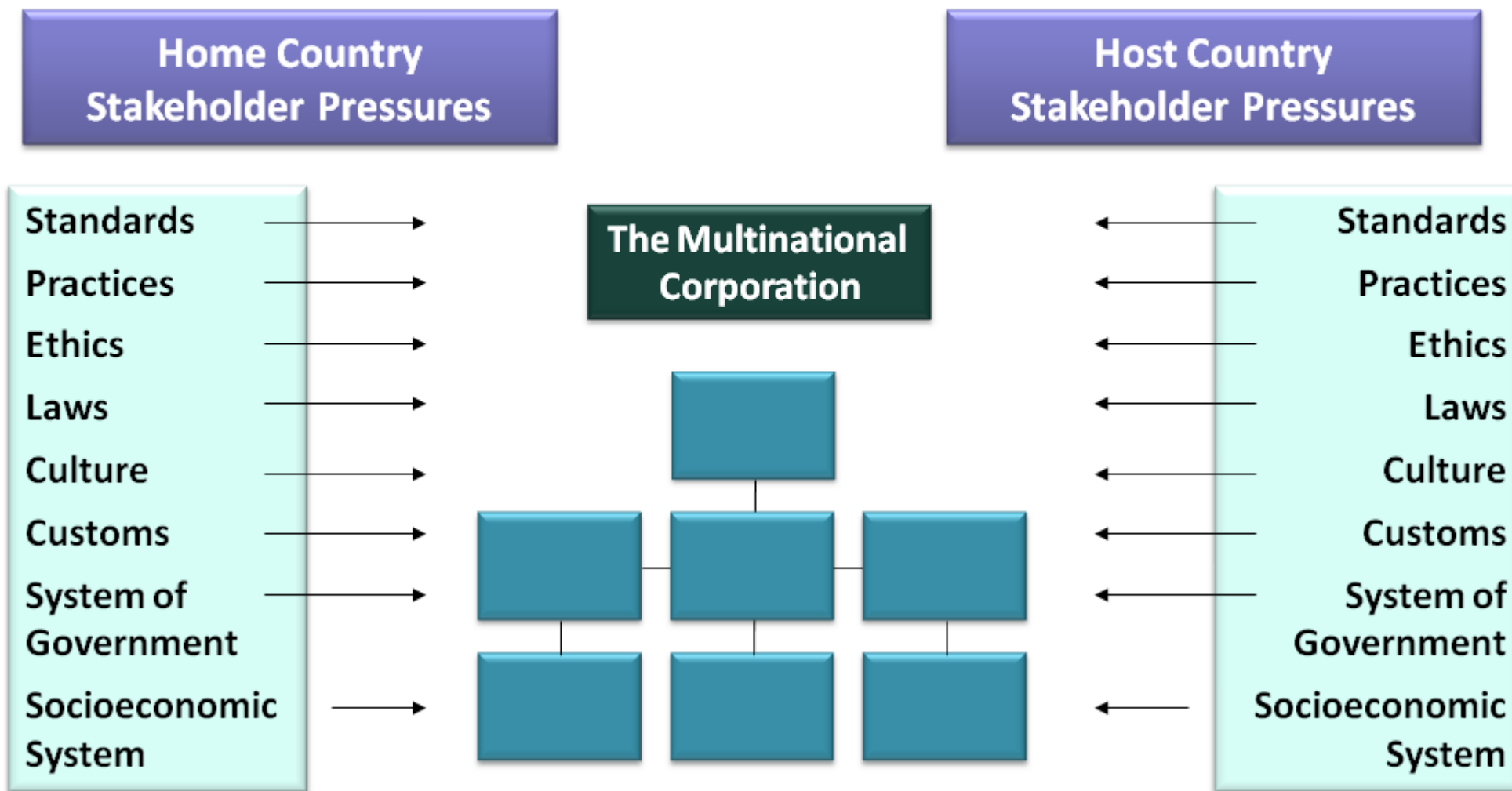
Business Challenges in a Multinational Environment

- A **multinational corporation (MNC)** or **multinational enterprise (MNE)** seeks to be accepted into an unfamiliar society.

Two major challenges:

1. Achieving **corporate legitimacy** in an unfamiliar society.
2. **Differing philosophies** between MNCs and host countries.

The Dilemma of the Multinational Corporation



Ethical Issues in the Global Business Environment

Product safety

Plant safety

Advertising practices

Human resource management

Environmental problems

Business practices

Questionable Marketing and Plant Safety Practices



Infant Formula Controversy-

- Nestle mass-marketed infant formula to poor mothers in tropical **LDCs**, knowing the health risks.
- As a result, there was a dramatic increase in infant malnourishment and sickness.

Bhopal plant crisis –

- Union Carbide's plant safety practices led to the “worst industrial accident in history,” killing more than 2,000 people, and injuring 200,000 others.

The lack of regulation in LDCs is a temptation to lower or reject standards used in the firm's home country.

Sweatshops, Human Rights, and Labor Abuses 1 of 2)

- MNCs' use of women and children to cheaply staff factories.
- Many major corporations and many countries have been involved.

Sweatshops -

- Characterized by child labor, low pay, poor working conditions, worker exploitation, and health and safety violations.
- Increased scrutiny of sweatshop practices in recent years.

Sweatshops, Human Rights, and Labor Abuses (2 of 2)

Social Accountability 8000 (SA8000) –

An effort to improve sweatshop conditions created by Social Accountability International (SAI):

1. Child Labor
2. Forced Labor
3. Health and Safety
4. Freedom of Association & Collective Bargaining
5. Discrimination
6. Discipline
7. Working Hours
8. Compensation
9. Management Systems

Alien Tort Claims Act and Human Rights Violations

Alien Tort Claims Act (ATCA) -

- Efforts to sue transnational companies for violations of international law in countries outside the U.S.
- Efforts by foreign individuals to sue U.S. firms in U.S. courts for the actions of their companies abroad.
- In 2013, the U.S. Supreme Court held that the law cannot be applied to actions that take place overseas, but only to actions which take place in the United States.

Corruption, Bribery, and Questionable Payments

Corruption - attempts to influence the outcomes of decisions wherein the nature and extent of the influence are not made public.

Bribery - the practice of offering something (usually money) in order to gain an illicit advantage.

Questionable payments – those not easily categorized; they may be “**grease**” payments (allowed), or bribes (not permitted)

Corruption

Instances of corruption -

- Bribery of government officials
- Giving of questionable political contributions
- Misuse of company assets for political favors
- Kickbacks and protection money for police
- Free junkets for government officials
- Secret price-fixing agreements
- Insider dealing, and more

Arguments For and Against Bribery



For Bribery	Against Bribery
Necessary for profits	Wrong and illegal in most developed nations
Common practice	Compromises personal beliefs
Accepted practice	Managers should not deal with corrupt governments
Form of commission, tax, or compensation	Once started, it never stops
	One should take a stand for honesty, morality, and ethics
	Creates a dependence on corruption
	Deceives stockholders and costs customers

Bribes or Grease Payments?

Grease Payments -

- Relatively small sums of money given to minor officials for the purpose of getting them to:
 - Do what they are supposed to be doing
 - Do what they are supposed to be doing faster
 - Do what they are supposed to be doing better

Bribes -

- Relatively large amounts of money given for the purpose of influencing officials to make decisions or take actions that they otherwise might not.
- Money given, often to high-ranking officials, to get them to purchase goods or services.

Initiatives Against Bribery

Foreign Corrupt Practices Act

Transparency International

OECD Antibribery Initiatives

UN Convention Against Corruption

Individual Country Initiatives

Improving Global Business Ethics

- Business ethics is much more **complex at the global level** than at the domestic level.
- **Complexity** arises from the fact that a wide variety of value systems, stakeholders, cultures, forms of government and socio-economic conditions and standards of ethical behavior exist throughout the world.
- Because the **U.S. and European MNCs** have played such a leadership role, these firms have a **heavy responsibility**.

Balancing & Reconciling the Ethics Traditions of Home & Host Countries

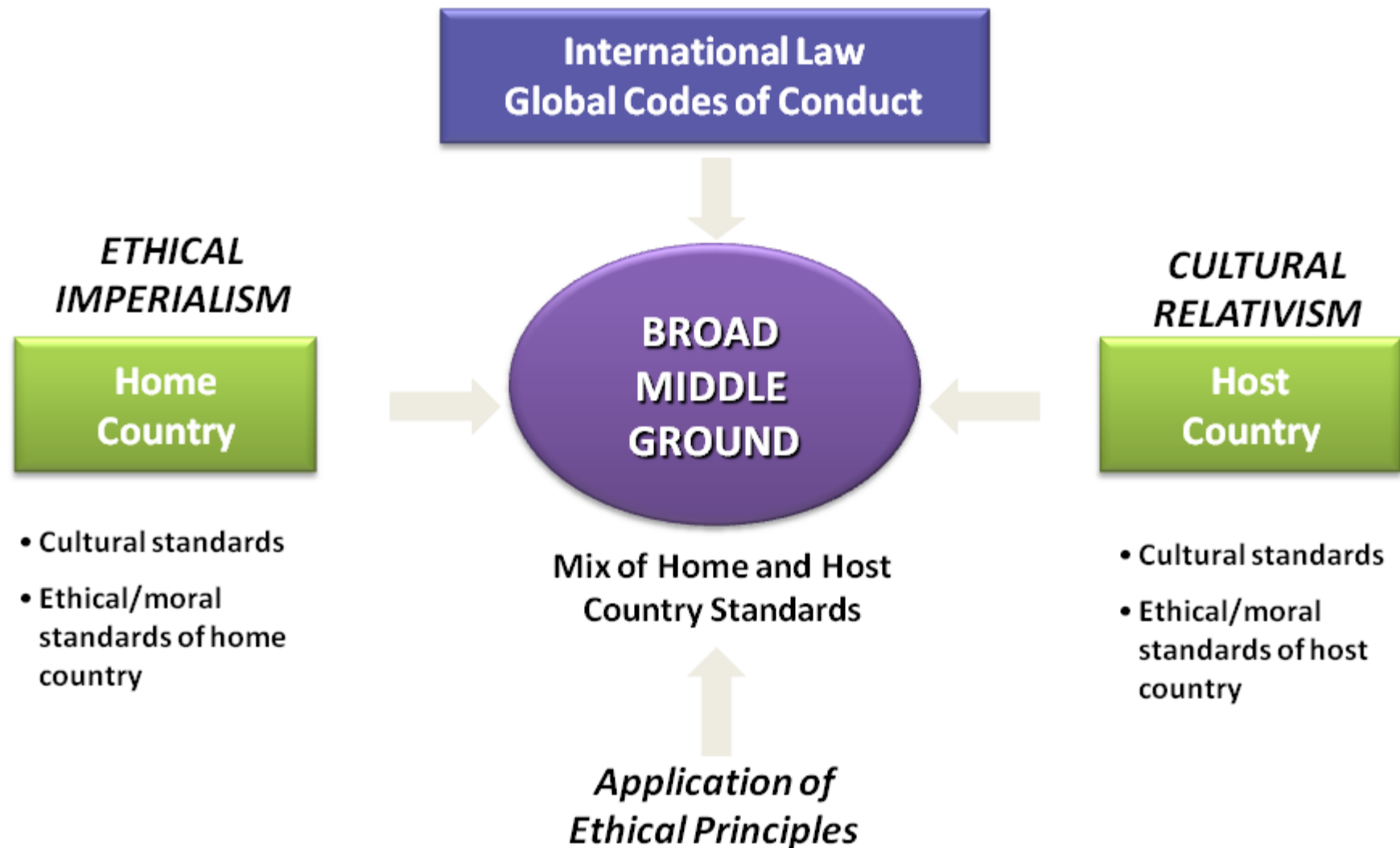
The Challenge of the Multinational Corporation

**Home Country
Ethical Standards**

OR

**Host Country
Ethical Standards**

Ethical Choices in Home vs. Host Country Situations



Strategies for Improving Global Business Ethics

Four major strategies that could help MNCs conduct global business while maintaining ethics:

1. Create global codes of conduct.
2. Link ethics with global strategy.
3. Suspension of business activities in certain countries.
4. Create ethical impact statements and audits.

Corporate Action Against Corruption

Five vital steps for an anticorruption program:

1. High-level commitment by top management
2. Detailed statements of policies and operating procedures
3. Training and discussion of policies and procedures
4. Hotlines and help lines for all organizational members
5. Investigative follow-up, reporting, and disclosure