

Ethical difficulties faced by multinational companies in today's business world e...

[Sociology](#), [Ethics](#)



1. 0 Introduction

Multinational corporations (MNCs) are corporations that “ own or control production or service facilities outside the country in which they are based.”(United Nations, 1973, P. 23) The rise of Globalisation has forced and enabled more companies to venture abroad in order to thrive for more profitability: bigger market, cheaper raw materials, and lower labour costs. However, MNCs have also noticed that the more countries they enter, the more ethical issues appear. At best, even when MNCs are dealing with one only one culture, they are already facing ethical difficulties; as they encounter two or more different cultures, it would become extremely problematical. Hence, multi-national corporations (MNCs) face more challenges than ever before in the cultural contexts and different countries they operate due to different ethical and moral standards among different countries.

Hence, MNCs are often under a dilemma with ethical difficulties when operating in different countries. Successful MNCs require stability for development, and to resolve ethical difficulties is one of the key issues that could affect such stability, this is the focus of this assignment: first, it will explain the ethical difficulties multinational business encounter while operating in several countries; followed by the general principles required to resolve such ethical problems; lastly, an example of such a problem to illustrate the application of principles to resolve problems in real situations.

2. 0 Ethical difficulties faced by multinational companies in other countries

According to Robert Solomon (Solomon in Hartman, 2005, P. 171), “ Ethics is a matter of ethos, participation in a community, a practice, a way of life. Business ethics is a function of the business ethos.” McNeil and Pedigo (2001) suggested that business ethics is the fundamental part of the decision-making process within an organisation. In reality, we could observe that the ethical problems seem to be fewer in developed countries compared with underdeveloped, less developed or developing countries because “ these countries are at earlier stages of economic development”. (Carroll & Buchholtz, 2003, P. 278)

Thus, when MNCs from developed countries venture to these host countries, it becomes more difficult to justify what is right or wrong as ethical perception differs from country to country. That is, MNCs would face more difficulties and complexities in making sound ethical business decisions: should they follow the ethics of the host countries, or should they follow the code of ethics from their home county which might then result in disobedience to the ethical system of the host country? Below are some of the ethical difficulties MNCs could encounter when operating in different countries:

2. 1 The remuneration practices -Wages and Benefits

When MNCs venture to other countries (underdeveloped, less developed, & developing), question of fair remuneration practices has been always the issue. Arguments about ethically acceptable or appropriate levels of wages and labour standards for the host country’s labourers are intensive. Even

famous multinational companies, such as Nike, Wal-Mart, Kmart, Reebok, Disney, etc. have been addressed for these issues: (Maitland, 1997; Carroll & Buchholtz, 2003) In 1998, when an investigation launched into Nike's subcontracted factories in Vietnam for allegations of worker abuse, the report found that its employees were paid \$1.84 a day, with average monthly salary of \$48 while the minimum wage in Vietnam was \$45 at that time. (Lyutse S., 2004) A pair of Nike shoes sold in US marketed for \$100 or more, but a worker from Vietnam factory works six days a week and earns about \$600 a year, which is "half the average income in Ho Chi Minh City, but about four times the annual earnings in more remote rural regions of Vietnam" (Lyutse S., 2004)

On the other hand, shipments of Nike shoes accounted for 5% of Vietnam's total exports in 1998, and if Nike withdrew its factories from Vietnam, 35,000 Vietnamese would lose their jobs. So is a \$48 monthly salary morally acceptable or indefensible? If it's too little, then how much should Nike pay to be fair? Similar cases happened to Wal-Mart: in 1996, it was discovered that the seamstress from its clothes supplier in Honduras worked 20 hours a day for 31 cents an hour. My former employer, a SouthEast Asian based cruise liner company was faced with similar difficulties. As multinational company, its onboard crew were recruited from more than 30 countries, and the wage distribution system is based on nationality and position – crew with higher position are paid more than those in the lower position, salary of crew members of the same position would decline from developed countries to underdeveloped countries.

Thus, debates occur between crewmembers of similar position; doing same duties but getting different salaries; worse still the crew with higher position are paid less than lower positioned crew. An example, from the Front Office Department, monthly salary for front office manager from Philippines is SGD 1, 300, from US is USD 3, 000. The Japanese receptionist monthly salary was USD 1, 700, but the salary for receptionists from Philippines, China, Indonesia were only SGD500, SGD450 and SGD350 respectively. From company's point of view, the differentiated salary scale is developed based on the stage of the crew's home country economic development in order to appear attractive to crews from different nations.

If equal salary system was applied, either the crew from developed countries will leave as they would prefer to find a job at home with a higher salary; or the company will have to pay more to balance all crew salaries. From an individual's point of view, they would argue that they are all working in the same conditions and position, doing the exact same duty, hence why should some get paid more or less just because of nationality? After all, the company operates in a foreign country where all crewmembers spend the same amount of money to buy things they need. Therefore the company's salary system is immoral, and unjust. Several salary adjustments were done for the past few years, yet the problem is still unresolved. In this example, what form of salary system should the company apply? Is there a principle that can be applied in this situation?

2. 2 The gift giving/facilitation payment practices – Bribery Or?

In business, to what extent is gift giving considered bribery? How to distinguish between facilitation payment and bribery? Although bribery is widely condemned, different countries with different culture, norms, laws and standards have brought increased difficulties for MNCs businesses in a host country. For example, according to the law of US, it is illegal for US companies to pay bribes in order to do business. (Beauchamp & Bowie, 2004) However other countries operate without such restrictions, instead, it is even been treated as the common way of doing business. Starting from mid-1970s, questionable corporate payments to foreign government officials, political parties, and other influential persons have become widely known issues in the world. Even major corporations as Lockheed, Gulf Oil, Northrop, Carnation, and Goodyear were among those firms admitting to such payments.

For instance, Lockheed paid USD 12.5 million to All Nippon Airways in order to obtain the sales deal worth USD 430 million, which resulted in force resignations and the former Japan Prime Minister stood for trial. (Carroll and Buchholtz 2003) In this case, the president of Lockheed claimed that giving bribes was a common practice and that it was expected in business in Japan. Do you think what he said is acceptable? “ Are those who accede to bribery equal in guilty to those who demand bribes?” (DeGeorge, 1982, P. 53)

Ethical difficulties therefore arise for multinational companies: what is right decision under such circumstances? The Case of Geletex, Inc. very well addressed these conflicts within MNCs when doing business in different country. (Refer to Appendix One) It has also raised questions on ethical

decision making for MNCs – must a business adopt the ethical standards of a host country in order to succeed? If yes, then are all of these actions ethical? If not, then how to handle ethical conflicts between the home and host countries?

2. 3 Different Attitudes to Gender – Discrimination Or?

Due to different cultures and traditions among society, attitudes towards gender from different countries are also varied. For example, in quite a number of developing countries, women are viewed as lower class to men; they are insufficiently protected by the government laws, and often experience discrimination and sexual harassment in the workplace. For example, if a US based MNC planned to do business in a Muslim country, the company must be aware that “ Muslim ethics are especially strict about male/social interaction”(Donaldson & Dunfee, 1999, P. 60) so as to avoid unnecessary offences to its Muslim employees.

In the case of Foreign Assignment (Refer to Appendix Two), Sara Strong felt that she has been discriminated by her clients and superiors; however she was told by her superior Vitam that it was caused by the customs of Latin America. So under such situations, does morality require respect for Maxian Practices, or does it require respect for Sara Strong? In addition, what obligations is an international company obliged to ensure that its employees are not harmed by having their chances for advancement being limited by the social customs of the host country? In reality, in many countries,

men in the workplace, whether intentionally or not, end up encouraging or condoning harassment. They know their behaviour makes women uncomfortable but they feel this is right from their traditions. Moreover, women in these countries do not receive equal opportunities. According to Freeman and Gilbert, this is a conflict (ethical difficulty) between two principles: the cultural relativism versus legal/moral relativism. Can MNC rectify this kind of tradition which is seen as 'no problem' in the host country; or follow the customs but this would definitely receive criticism from its home country for sex discrimination? (Chiu, 2003)

2. 4 Different Attitudes to Child labor – to use or not?

Child labor is a complex problem affecting all regions of the world, and it also confuses MNCs when operating in different countries. As shown in Figure 2. 1, the International Labor Organization (ILO) estimated that more than 250 million children between the ages of 5 and 14 years are working in some form of paid work, among which about 120 million are full time workers. (McIntosh M., et al., 1998) Although all governments are indeed concerned about the issue, not every government has the capability to take effective action on this due to poor economic development, limited available resources, and remarkably low living standards. Poverty, absence of primary schooling, social structure and attitudes are the main factors that caused child labor in those countries. (Hartman, 2005)

On top of that, developed countries possess stricter and sound labor laws dealing with employment of children or minors, and those underdeveloped,

less developed and developing countries would have less protection on child labor due to poorer law system. All these factors have created ethical difficulties for MNCs when dealing with child labor issue “ If they employ child labour, they will be criticised by people from their home country as they deprive the childhood of the children. If they do not employ child labour, the families of these children might have problem to survive.” (Chiu, 2003)

For example, when Levi Strauss & Co., an American garment manufacturer, discovered one of its contractors in Bangladesh was employing children under the age of fourteen, which was regarded as legal there, but contradicted with the company’s guidelines, it didn’t want to dismiss the child labour as it could hurt the families who were living on their income, but Levi Strauss also didn’t want them to continue working. To solve this problem, Levi Strauss provided a new policy that the children would be paid when they continued studies in school and would become full time worker once they turned fourteen. (Shaw & Barry, 2004)

Similar strategy was adopted by Adidas-Salomon when it found a footwear supplier in Vietnam employing workers who were underage. As using child labour is against company’s guidelines on employment standards, and therefore is not permitted within the organization. Adidas then offered educational programmes and vocational training to workers under 18, (Hartman, et al., 2004) and based on that, it developed what later became its global policy for dealing with similar situations. (Refer to Appendix Three)

So do you think Levi Strauss and Adidas have done the right thing? What

moral principles they adopted in order to do so? Is that the best way of resolving the child labour problem?

Figure 2. 1

Source: Fallon P. & Tzannatos Z. (1998), *Child Labor: Issues and Directions for the World Bank*, Washington, DC.:

The International Bank for Reconstruction and Development/World Bank

3. 0 General Principles can be applied to resolve these ethical problems

The above examples for ethical difficulties are inevitable for MNCs when they tend to operate in several countries due to incompatible cultural norms and contradictory interests among countries. This has also made ethics one of the restraints for MNCs when they are running business internationally.

Beauchamp and Bowie (1997, P. 533) suggested four options to use when MNCs face conflicts between norms between home country and host country: “(1) follow the norms of its home country because that is the patriotic thing to; (2) follow the norms of the host country to show proper respect for the host country’s culture; (3) follow whichever norm is most profitable; (4) follow whichever norm is morally best. (The four alternatives are not mutually exclusive) Therefore, it would be very useful for MNCs if there are a set of norms which are agreed worldwide.

On the other hand, Carroll and Buchholtz (2003, P. 292) suggested that key issue for business operations in foreign countries is to achieve the “ reconciliation and balance in honouring both the cultural and moral

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standards of their home and host countries”, however there is no fixed answers for MNCs whether to stick to home or host country’s ethics standards. A framework for ethical choices is given in Figure 3. 1. It is a mix of international codes of ethics (conduct) with a mix of home and host country standards as the application of ethical principles. Based on this framework, the general principles/norms can be developed through the Integrative Social Contract Theory (ISCT)

ISCT was developed by Donaldson and Dunfee as an approach to navigate cross-national cultural differences. It integrated two distinct kinds of contracts:

The first is a normative and hypothetical contract among economic participants, a social contract similar to the classical contractarian theories in philosophy and political economy. This general contract, in turn, defines the normative ground rules for creating the second kind of contract. The second is an existing (extant) implicit contract that can occur among members of specific communities, including firms, departments within firms, informal subgroups within departments, national economic organizations, international economic organizations, professional associations, industries, and so on. The aggregate of these extant social contracts contains much of the substance of business ethics. (Donaldson & Dunfee, 1994)

Figure 3. 1

Source: Carroll B. A. & Buchholtz K. A. (2003), *Business and Society: Ethics and Stakeholder Management*, 5th ed.,

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USA: South-Western, P. 292

Figure 3. 2 Global Values Map

Source: Donaldson T. & Dunfee T. (1999), “ Ties that Bind: A social contract approach to business ethics”,

Harvard Business Review, USA: Harvard Business School Publishing Corporation

Figure 3. 2 illustrates key concepts of this theory: Hypernorms are principles that “ serve to evaluate lower-order norms, reaching to the root of what is ethical of humanity. They represent norms by which all others are to be judged.” (Donaldson & Dunfee, 1999) i. e. they are those basic values accepted by all cultures and organizations. Consistent norms “ are culture-specific values, but still consistent with both hypernorms and other legitimate norms”, for example, ethical codes of company; and in the moral free space, “ a company can creatively explore unique solutions that satisfy all parties.” Finally, the illegitimate norms are “ values or practices that transgress hypernorms. (e. g., exposing workers to asbestos or other carcinogens)” (Weiss, 2003, P. 296)

The general principles resulting from and chosen by these hypothetical contractors in this process create the “ macro-social contract” and this normative level of the ISCT is composed primarily of what are called “ hypernorms”. These are highly significant principles based upon deep and deeply held moral values. These are at the root for what is ethical for

humanity and “ should be discernible in a convergence of religious, political and philosophical thought, or at least it is a reasonable hope that we should discern such a convergence.” These hypernorms validate the norms found in extant, microsocial contracts “...and individual hypernorms would limit the imposition of ethical obligations within a given microsocial community. We call such principles “ hypernorms” because they represent norms by which all others are to be judged.” (Donaldson T. & Dunfee T. W., 1999”) Donaldson expressed 10 fundamental international rights that he suggested to be followed and respected generally:

1. The right to freedom of physical movement
2. The right to ownership of property
3. The right to freedom from torture
4. The right to a fair trial
5. The right to nondiscriminatory treatment (freedom from discrimination on the basis of such characteristics as race and gender)
6. The right to physical security
7. The right to freedom of speech and association
8. The right to minimal education
9. The right to political participation
10. The right to subsistence

(Donaldson T., 1989, P. 81)

Using general principles of ISCT, MNCs can then evaluate what if they are doing right or wrong when facing ethical difficulties operating in several countries:

If MNCs tend to follow the local customs and ethics, the ISCT says that “ nothing limits the free moral space of the host country. Thus, if a host country accepts government corruption and environmental degradation, then so much the worse for honest people and environmental integrity.”(Carroll & Buchholtz, 2003, P. 294)

If MNCs apply “ home country standards without making any serious adaptation to the host country”, or “ abstracts from all regional differences, ...view the domestic or home standards are not relevant or applicable”(Carroll & Buchholtz, 2003, PP. 293-294), ISCT would argue that they have successfully avoided fierce relativism, but might fall prey to the opposite problem as “ each of these has its own set blueprint of right and wrong, each may suffocate the host country’s moral free space and leave no room for legitimate local norms.” (Carroll & Buchholtz, 2003, P. 294) The former exhibits a version of moral imperialism; the latter may impose its home country morality on a host culture, thus imposing its version of a global morality on the host country.

Therefore, according to ISCT, only when MNCs acknowledge both universal moral limits (hypernorms), and the ability of communities to set moral

standards of their own (moral free space), then it manages to balance moral principles with moral free space in a more convincing way.

In summary, ISCT uses the principles of moral free space and adherence to hypernorms as a balanced approach to navigating global international waters. While honoring hypernorms, companies do not have to simply adopt a “do in Rome as the Romans do” philosophy. But they do need to be sensitive to the transcultural value implications of their actions. In turn, the concept of moral free space makes them over vigilant of the need to precede judgment with an attempt to understand the local host country culture. The result, of course, is the very real probability that moral tension will be an everyday part of doing business in the global sphere. (Carroll & Buchholtz, 2003, P. 295)

4.0 Example

Here I will use principles mentioned above to solve one of the problems mentioned in section 2.0 – child labor.

Citing the case of Levi Strauss as example, according to Donaldson and Dunfee, MNCs should not merely flower the ethics of the host country or home country, instead it should consider both sides, and thrive to achieve the balance of hypernorms and moral of free space. When Levi Strauss discovered child labor from its supplier in Bangladesh, if it had adopted to the host country’s norms, that is child labor under 14 years olds are tolerated, it would then conflict with the companies code of conduct; If it followed company policies based on its home country’s ethical standards,

then child labour is illegal and should not be allowed in the workplace.

However, if Levi Strauss followed its company policies to send away all child labourers disregarding the real situation in Bangladesh, then it most likely would do more harm than good to the child's family and child as families need money to survive; and children would beg in the streets.

Facing the dilemma of conflicts, Levi-Strauss had to decide between a “ hypernorm” (child labor is wrong), and its own company norms (“ consistent norms” – children cannot be hired or used by company suppliers), and supplier's child labor practices in Bangladesh (“ illegitimate norms”) in order to reach an agreement that would benefit children and their families. Levi-Strauss entered the “ moral free space” and worked out what seems to have a “ win-win” situation for all parties involved – and an arrangement that brought no harm to any party: the contractors agreed to pay the children's regular wages while the children went to school. The contractors also agreed to offer each child a job at age fourteen. Levi-Strauss, in turn, agreed to pay for the necessary books, uniforms, and tuition. The children are now happily attending school. (Weiss, 2003)

Finding such creative solutions to international moral dilemmas involves balancing and combining business pressures, legal enforcement, and political will. A company attempting to make tough decisions with local groups could also seek to do so with the cooperation of other companies, local government officials, or even an external human rights group as the Interconnectedness style of decision making would suggest. The ultimate decision may very well entail no compromise after reflecting on the situation,

the hypemorm, and a company norm. Still, the methods discussed here can enable a decision maker-individual or global or company team-to look for options without getting trapped into blind absolutes, amoral gray zones, or relativism. Entering “ moral free space” requires flexibility and negotiating. (Weiss, 2003, P. 297)

It may sound like a simplistic solution to say that the MNC needs to operate in some broad middle ground where a mix of home and host country ethical standards may be used. The challenge for MNCs will be to determine what mix of ethical standards should be used and how this decision should be made. As Donaldson argued, there is no rights or wrongs when dealing with culture’s ethics, and there is no one culture ethics being better than any others. Thus MNCs have to decide by themselves which moral standards are applicable in the situations they face. Use of ethical principles such as rights, justice, utilitarianism, and the Golden Rule – still apply. MNCs will need to decide which ethical standards should transcend national boundaries and thus represent hypernorms: safety? health? Discrimination? or freedom? MNCs will need to decide what will represent their moral minimums with respect to these and other issues. Besides, international laws and global codes of conduct would be helpful to make these decisions easier, although some of the guidelines are not so easy to apply. (Some example are given in Appendix Four)

5. 0 Conclusion

To conclude, the above discussions show that MNCs often face ethical difficulties when operating in several countries. It is because there are clearly conflicts of differences such as standard, practices, ethics, laws, culture, customs, systems of government and socio-economic systems between their home country and host countries. Hence, to resolve such problems in ethical decision making, I suggest that the MNCs should use principles from the Integrative Social Contract Theory (ISCT), assisted by international laws and global codes of conduct.

A reminder here is that in the international business environment, MNCs should always remember that what is considered ethical in one country might be viewed as unethical in another. MNCs should be sensitive for the cultural differences and handle every decision with care and respect. Finally, “ globalisation forces MNCs to be more concerned for their moral rules or traits and these are often seen as competitive advantage. MNCs should try to fit into the ethical thinking for their decision-making process, while those who do not are less likely to survive in the new challenges” (Chiu, 2003)