

Ethical challenges of
multinational
companies in modern
business
management essay...



Introduction:

The concept of ethics to business decisions encompasses all aspects of business management and operations in a business organisation. There is always the question of what the ultimate structure of an organisation would be, this is vital as it would help aid the smooth running in the production of goods and services. There is always a tendency for ethical issues to arise in a global market and multinational organisations are no exceptions. On the contrary, the positive ethical practices of an organisation are highly important (Etzioni, 1988 Kotter and Heskett, 1992) this would normally boost the image of such an organisation as they tend to have an edge over others in a very competitive market.

In regards to the challenges of multinational organisations, does it matter if employees are motivated to contribute to an organisation in a society? Are they demonstrating a sense of social responsibility? Or is it strictly businesses that would benefit the organisation alone? What is the duty of the multinational organisations in the countries businesses are located or situated? How can Multinationals perform in an ethical and socially responsible way?

The Multinational organisation that would be discussed in the course of this essay would be Wal-Mart. Multinational organisations undergo a dynamic and complex global market, where right and wrong could be interpreted as widely different (Donaldson 1985, 1989).

Laws governing certain businesses within an organisation in an individual country could have its variances and inconsistencies, nevertheless when <https://assignbuster.com/ethical-challenges-of-multinational-companies-in-modern-business-management-essay/>

other countries are internationally concerned, the intensity of inconsistency is even more diverse.

Organisations that have made a cautious effort to be truly ethical must evaluate and measure the rules and regulations governing the countries in which businesses are carried out. These organisations must be aware of and must conform to the host country's domestic laws. Not neglecting trade organisations such as United Nations as well as international agreement between companies.

The United States has made it unlawful to bribe high level foreign officials to acquire or retain businesses in overseas. By 1995 October, approximately 45 billion dollars of international business was eliminated according to congress (Greenberger, 1995). It is therefore important to come up with solutions to Multinational ethical dilemmas.

What is Ethics?

Ethics is one of those terms when mentions, a lot of things come to mind so as a result, Ethics could be define in various ways. It is said to be a system that rules and governs the body, a science with rules governing it's principles whether good or bad, rules in practice of human actions. For example, Social ethics, political ethics. (www. brainyquote. com) Authors from different parts of the world have also defined ethics in a lot of different ways. (Holtzapple and Recce 2003) they defined ethics as “ The general and abstract concepts of right and wrong behaviour were derived from philosophy, theology, and professional societies.” In the same way, (Martin and Sherry, 2000) in their terms say ethics means moral principles through

ethical, cultural and religious irrespective of the situation or circumstance. They claim that ethics should be based on character or behaviour. Trust could be embraced when these values are maintained.

Ethics is said to be “ that branch of philosophy dealing with values relating to human conduct, with respect to the rightness and wrongness of certain actions and to the goodness and badness of the motives and ends of such actions”. (dictionary. com).

Multinational organisations and their Relationships:

Multinational organisations have the ability to move about a massive amount of resources globally. Moving things from one location to the other would be the least of its problems. A lot of things that could limit profit could be worked around if things like environmental standards, production costs, taxes, safety at the work place, production costs (Desjardins and McCall, 1990). The size of a multinational organisation and power could play a huge impact on the policy issues in a nation, such issues would be felt more by relationships with developing nations as supposed to developed nations.

Multinational organisations must realize that, the culture of an organisation could have an effect on the behaviour of an employee within an organisation. an organisational culture could affect the behaviour of employees in an organisation.

Getz (1990) came up with a list of Multinational organisations, how they were interrelated and their rights as well as their duties. Getz (1990) classified

Multinational organisations into three categories:

- (i) MNC with host governments
- (ii) MNC with the general public.
- (iii) MNC with individual people.

Multinationals must think about its responsibilities in relation to a number of other things such as political engagements, regulations and laws, developmental and economic policies. The requirements in these areas consist of (but are not restricted to) providing local, raw materials, equity participation, preferential treatment to local sources. The MNC is not above the regulations, laws and jurisdiction of the host and should use suitable international disagreement resolution mechanisms when necessary. MNCS should avoid interfering with improper political activities, intergovernmental issues nor pay bribes to public servants. Getz suggests that control of the host is the basic right that must be recognized and respected by the MNC.

If the country is a developing country, it could be helpful if some research is carried out by the host country and it would save a lot of costs as well if local personnel are and local resources to every reasonable extent.

MNCs should also give licenses, in terms of realistic terms and conditions, for using properties and rights. In the area of environmental protection, MNCs should collaborate with the host country in producing and increasing national and international environmental security standards, as well as notifying the host of any possible environmental impact of the goods manufactured, services executed, and/or processes made use of.

Finally, the relationship between MNCs and people rotates around consumer guidance, human rights issues and employment practices. MNCs should value consumer laws of protection and preserve the safety and health of consumers through accurate advertising and appropriate labelling.

MNC should also endorse a non-discriminatory employment policy, provide sufficient training for local employees, value workers' rights to organize for collective bargaining, discuss with with workers' representatives on labour matters, and have an objective of stable employment. Human rights responsibilities require that MNCs not discriminate on the basis of religion, gender or race and that these organisations respect the cultural and social objectives, traditions and values of the countries in which they function (Getz, 1990)

The relationship between MNCs and the public has two major categories: technology transfer and environmental protection issues (Getz, 1990). With regard to technology

Culture, according to Hofstede is a combination of mental programming that differentiates various groups from others that is seen in the beliefs and values of a society (Hofstede, 1980).

Grosse and Kojawa (1992) define culture as the result or outcome in a given situation accepted by people in terms of observing and the responses accordingly. Vines and Napier (1992) define culture as “. . . that complex whole which includes knowledge, belief, art, morals, law, custom and any other capabilities and habits acquired by man as a member of society.

The massive differences in culture generate a lot of managerial issues and ethical problems, are no exceptions. Recognising the relationship between the economic, cultural and political aspects facing multinationals is, however a firm ground from which to identify the necessity for international codes for organisations carrying out international business.

Characteristics of Wal-Mart Facing Unethical practices:

Wal-Mart, a gigantic company retain a lot of customers, both home and away are widely known for their enormous variety of goods and services at low prices. It was founded by Sam Walton, a very creative and innovative entrepreneur.

Wal-Mart has done very well for itself as it has beaten a lot of other organisations in terms of its discounting retailing. It is believed to be largest company in the United States of America. According to PBS, “ Wal-Mart employs more people than any other company in the United States outside of the Federal government, yet the majority of its employees with children live below the poverty line.”(www. pbs. org)

They have also added that the company claims to sell goods manufactured in the U. S only but their products are goods and serviced produced abroad or in overseas and at debated workshops. In addition, Wal-Mart likes to portray itself as a seller of U. S. manufactured goods but in reality the company has products on its shelves made in foreign countries and at questionable workshops. As Wal-Mart faces unethical business practices, they have also been said to have encouraged goods produced outside the U. S. (www. pbs. org)

Code of Ethics:

Lot of organizations implement the code of ethics in their company polices, which they implement during induction and regular training. A Code of Ethics is generally a more blanket statement of values and beliefs that defines the organization.

It is for?

Company's assets, funds and records

Conflict of interest

Management and employee practices

Information on competition

Ethical Business Practices

Businesses should practice building an honest reputation to endeavourer that there is the constant smooth running in an organization. In a business organisation, investors should always get their moneys on time. As this help the safeguard of money movements and interests accrued over time are expected on time. There should be a vast opening for fair employee opportunities in training and promotion, timely payment of salaries and a decent working environment. Information personal to customers should be kept sacred and not be used for personal gain. Industries that exhibit a huge pollution should comply with the governments' rules and regulations regarding water, air and noise pollution.

Government Rules and regulations in regards to duties, taxes restrictive and monopolistic trade practices and unlawful activities like bribing and corruption should be adhered to.

Unethical Business Practices:

Many companies do excellently well even when they practice unethical conducts. These are just some things that happen or come under unethical practices.

A firm's ability to be

Tricky, dishonest and deceptive.

Ability to mislead and confuse a sister firm or company or even the general public.

Emotionally manipulating and exploiting vulnerable people.

Greed

Falsifying documents to indicate or prove increased profit.

Escaping punishment of unlawful acts

Resistance to investigation as well as lack of transparency

Increase in pollution as law is broken or government's prescription of pollution.

Discriminating between gender, disabilities age and sex.

Testing for drugs

Financial analysis that are misleading

Price discrimination, price skimming, and price fixation.

Using animals as testing objects. etc

Unethical Wal-Mart Business Practices:

Labour Union Opposition: Wal-Mart is an organisation without unions. They rather operate on an open door policy as suppose to relying on the unions, they believe they do not need third parties. The open door policy actually helps employees experiencing problems within the organisation to go beyond management. PBS states that the open door policy operated by the Wal-Mart management does little or nothing to help employees in a difficult situation. It claims that the policy to a certain extent helps terminate unwanted non complaint. Wal-Mart disallows employees from discussing with union representatives.

It is corrupt for Wal-Mart to ban employees to talk to union representatives given that according to the National Labour Relations Act, employers should not be allowed to put off employees from creating a union for it is their right and should be enforced if need be. There was a complaint filed from United Food and Commercial Workers Union filed a complaint with the National Labour Relations Board against Wal-Mart. “ The complaint, filed with the National Labour Relations Board, alleges that Wal-Mart violated federal labour law by “ bribing” employees to report on co-workers who favoured a union.” (www. washingtonpost. com). these charges were denied by Wal-

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Mart denied. Hence it was unethical for Wal-Mart to have bribed employees as this supports fraudulent behaviours. As an organisation, Wal-Mart needs to avoid certain unlawful situations such as making employees free to talk to union representatives.

Unfair Treatment to Employees:

There has been a serious allegation of Wal-Mart discriminating against women within its organisation. There has been an example of women who has been deprived of promotion and training opportunities that have been put forward to men. Women have also allegedly been underpaid than men. “ In June 2001 a group of six current and former female Wal-Mart employees filed a sex discrimination lawsuit (seeking to represent up to 500, 000 current and former Wal-Mart workers) against the company.”(Hoover’s Handbook, pg. 907).

Wal- Mart failed to offer equal employment opportunity to women, even though there are more than seventy percent of women working at Wal-Mart, only a few of these women are managers, as a result the men are on the frontline within the company. In fact, there are over 70 percent of women working at Wal-Mart, but only a small amount of those women are managers. So, men are holding more management positions than women. “ Wal-Mart is the nation’s largest employer of women, but unfortunately they are being treated without dignity and respect.” (www. arkansasnews. com) discrimination is definitely a big problem in Wal- Mart. There should be more job opportunities for women to grow and climb up the ladder as there are in many other organisations. This would reduce the allegations laid against the company as a whole. Actually, “ Wal-Mart recently introduced workplace <https://assignbuster.com/ethical-challenges-of-multinational-companies-in-modern-business-management-essay/>

diversity initiatives, intended to prevent further gender bias.”(usgovinfo.about. com)

Sustainability and self-interest

Wal-Mart has recognized that a lot of money could be made by selling goods that are friendly environmentally. The question is how have they figured this? They have noticed that by selling trash that has been recycled, millions could be saved, costs wise like transportation costs etc (www. usatoday. com) Wal-Mart is said to be fully promoting the group of companies that want to trade carbon dioxide credits. Wal-Mart intends to keep its prices low as it hopes to sell carbon dioxide credits for millions of dollars in a bid to save energy to companies other companies that can't.

Wal-Mart has been accused of being very selfish as the organisation has claimed that they were worried that they would have more than enough product for customers in the future but it was discovered that it was for their own bias interest as they claimed it was something they did as company's obligation. Wal-Mart has created fourteen maintainable value networks made up of suppliers' employees and environmentalists. The individuals get together on a regular basis brainstorming on how to push products that don't harm the environment can purchased or made. (www. usatoday. com)

Wal-Mart says they are under a lot of pressure to change the business chain and the way the organisation is ran from top to bottom. Matt Kistler, vice president of product and packaging innovation says they were working differently from the way they used to as a company. For instance, Wal-Mart, the largest buyer of fish worldwide depending on the species, now retails ten

fish products with the blue MSC label, including and Pollock and wild salmon. They are trying seriously to prove that they are a green organisation as when strawberries are purchased from Wal-Mart, they are despatched in plastic packages. They have created a policy that states that the less packaged as these could be recycled and also could save more. (www.usatoday.com)

Child Labor Violations:

In January 2004, The New York Times reported on an internal Wal-Mart audit conducted in July 2000, which examined one week's time-clock records for roughly

25, 000 employees. According to the Times, the audit, " pointed to extensive violations

of child-labor laws and state regulations requiring time for breaks and meals," including 1, 371 instances of minors working too late, during school hours, or for too

many hours in a day. There were 60, 767 missed breaks and 15, 705 lost meal times.

Wal-Marts vice president for communications responded that company auditors had

determined that the methodology used was flawed, and the company " did not respond to it in any way internally."

Low Wages:

Wal-Mart is being accused of paying their employees very low wages, with the average employee earning between \$12, 000 and \$17, 000 per year which is not a lot at all. A lot of Wal-Mart employees are therefore not able to make ends meet. Wal-Mart claims that in a bid to keep operating costs down, employees' wages can only be so much. , “ Wal-Mart's ultimate defence is that it offers lower prices and somehow that justifies all sins.” (www.usatoday.com) . Wal-Mart also has got an expensive health insurance care and again Wal-Mart employees cannot manage to pay for its health insurance. As a result, employees who cannot pay for their health insurance have to rely on the government i. e. the state or their spouses from their tax. Wal-Mart reacted to this situation by offering discounts on health care coverage. “ Members can save as much as 50% on services not normally covered by medical insurance.” (www. ufcw324. org). the money offs are usually not enough. It is Wal-Mart's moral responsibility to provide employee's with health care that they could afford so that they do not wait for the state to rectify their problems for them.

Employees rendering over time services to the company have not enjoyed the fruit of their labour as they were not paid for their overtime services rendered. This is an unethical practice that Wal-Mart has been accused of getting away with. Wal-Marts policy states that every employee should be paid for every mined worked for, so they have actually bridged a statement of policy they made. SO “ in February 2004, a federal judge ruled that Wal-Mart should pay workers for overtime hours” (Hoover's Handbook) the case was pending for a while but then Wal-Mart then maintained their policy was

against such work, hence, managers who were involved in such atrocity were punished by getting fired. Wal-Mart needed to scrutinize their pay practices and double checking to see that every employee is paid for every single minute worked for. Also the company need to manage its employees in a rather decent way in other to avoid law suits from them as well.

Immigration Law:

Wal-Mart has been accused of using illegal immigrants to work in the United States. They have been undergoing investigation for using illegal immigrants within their organisation.” In October 2003 federal agents uncovered hundreds of illegal immigrants employed by outside contractors cleaning its stores.”(Hoover’s Handbook, pg907) Hence the company was sued for breaking immigration laws.

Wal-Mart has accused a different body for this alleged allegation as it maintains the contractors who were given the job to hire employees on behalf of the company did not do their home work properly before employing. Wal-Mart therefore, has been accused of gross negligence on behalf of the country in whole and these various policy misconducts have affected Wal-Mart as a company and a lot of work has to be done to improve the company’s integrity in other to stop bad press.

Every company has got problems and the companies that thrive are usually organisations that detect ethical problems early enough and create a solution for them. No business is protected or has a barrier to problems, the earlier these problems are detected, the better for the organisation.

However, Wal-Mart failed to recognise prospective problems and as a result they are probably going to pay for it. Wal-Mart's unethical business practices have caused them a huge damage and have hindered the reputation of the organisation. It takes a long time for company to build a reputable name, so care should be taken to abide by cooperate social responsibility. Wal-Mart is an organisation that should take sole responsibility of their ethical status. Apart from protecting the image of the company, it is a multinational organisation and so should live up to standard and expectation. For Wal-Mart to survive, they would have to prove that they care about their employees by treating every employee ethically right, this would help control and probably stop the criticism and encourage even more customers globally.

Conclusion

The need for a complete, consistent, and general code of conduct for MNCs, as well as smaller organisations undertaking business globally, is paramount. The boost of world trade in the midst of global partners and the rise of foreign direct investment mandate that everyone works in the direction of a better understanding and a regular ground of precepts upon which to base choices can help promote and advance a number of businesses and social contacts worldwide. The end result should be to aid trade and enhance in profit and a make standard of living better.

A company operating in the international business arena is subject to a multiplicity of ethics codes. Brooks (1989) showed that a Canadian corporation might be affected by a total of twelve codes of ethics, all of which exist within the legal environment. Thus, any code of ethics for a multinational corporation should be reflective of the critical issues embedded <https://assignbuster.com/ethical-challenges-of-multinational-companies-in-modern-business-management-essay/>

in the previously discussed codes developed by various international groups and should consider individual authors' research.

The “ perfect” code, to be applicable to any business and in any country or culture, should consider ethical, cultural, and managerial issues. There are procedural and substantive aspects of building such a code. Procedurally, to be useful, an ethics code needs to meet certain minimal standards of construction. It should be: clear and understandable to the average person; comprehensive in indicating the extent of its provisions; and enforceable by specifying the ramifications of improper actions (Raiborn and Payne, 1990).

Additionally, codes should be positive in tone. As suggested by the Theory Y management style, treat the actors as though they naturally would do the right thing. Do not automatically assume the worst behavior and insult the actors by addressing them only with a sense of “ don't do this; don't do that.” Lastly, as indicated by Ferrell and Fraedrich (1994), the code should help the MNC achieve its objectives while benefitting the countries in which production facilities are located or products/services are sold.

Raiborn and Payne developed a model code of ethics that, at the time, was not specifically envisioned as being applicable for nondomestic as well as domestic operations. However, upon review of the other model codes, the guidelines are suitable for operating in the international arena. This outcome is reasonable, given that the underlying premise of the code was that it could be applied to any situation at any time to ascertain an appropriate solution.

The model code envisioned four specified standards (derived from a set of standards developed in accounting) of behavior in four areas of values. Using Kohls and Buller's continuum concept, the four specified and named levels of behavior are merely points of a continuous whole as shown in Figure 1. The theoretical standard of behavior reflects the highest potential for good, reflecting the spirit of morality. The practical standard represents an extreme diligence toward moral behavior. The currently attainable standard reflects behavior deemed basically moral by society; this standard is not the mere letter of the law, but rather compels adherence to the law as well as good faith use of common sense as it relates to the law and what is deemed by society to be ethically sound. Lastly, the basic standard demands adherence only to the letter of the law and, thus, reflects minimally acceptable behavior. These standards reflect Donaldson's languages of avoidance of human harm, rights/duties, and the social contract in that the standards encompass not only minimal responsibilities owed by MNCs and compliance to legal constraints, but also mutual agreement between the MNC and societal concerns.

These standards are combined with four values (integrity, justice, competence, and utility) that should be considered core, regardless of the society in which the MNC operates. Integrity means to be of sound moral principle, to have¹⁷³² Dinah Payne et al. the characteristics of honesty, sincerity, and candor. Justice reflects impartiality, sound reason, correctness, conscientiousness, and good faith.

Competence is defined as capable, reliable, and duly qualified. Utility

indicates the quality of being useful and, philosophically, providing the <https://assignbuster.com/ethical-challenges-of-multinational-companies-in-modern-business-management-essay/>

greatest good for the greatest number (or the least harm for the greatest number) (Raiborn and Payne, 1990). While the breadth or depth of these values could differ from society to society, the core values themselves are still present.

As can be seen through a review of Exhibit I, the values, combined with the standards of behavior, can easily and reasonably be used in the development of international standards of ethics. Given these fundamental standards, a code of ethics should address the following five major issues, consolidated from the various international codes previously discussed: organizational relations (including competition, strategic alliances, and local sourcing), economic relations (including financing, taxation, transfer prices, local reinvestment, equity participation, and fiscal policies), employee relations (including compensation, safety, human rights, non-discrimination, collective bargaining, whistleblowing, training, and sexual harassment), customer relations (including pricing, quality, and advertising), industrial relations (including technology transfer, research and development, infrastructure development, an organizational stability/longevity), and political relations (including legal compliance, bribery and other corrupt activities, subsidies, tax incentives, environmental protection, and political involvement).

It cannot be expected that all multinational corporations would have the same standard of behavior for each of the issues nor that a single MNC would have the same standard of behaviour in different locales. Differences would probably be most pronounced between operations in developed and developing countries as well as being dependent on the degree of power the

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MNC wields in a given locale. However, by acknowledging that the lowest end of the continuum is adherence to the letter of the law, MNCs would agree to accept a defined minimal ethical stance. It would then be up to each MNC's management team to seek to move closer to the upper end of the ethical continuum.

The difficulty with any code of ethics, whether organizational or international, is enforcement. To encourage adherence to ethics codes, MNCs first must institutionalize adherence into the employee performance reward system.