

# Chapter 4

## Ethical and Social Challenges: Ethics Is Profitable, No– Ethics Is Punishable

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### ABSTRACT

*Globalization has been a factor that has brought countries closer worldwide, and Multinational Enterprises (MNEs) are eager to look for new market opportunities in developing countries. This chapter analyzes the implementation of MNEs' global ethical principles in business into local moral standards of societies from developing countries. The author will discuss, using current scenarios, how principles of both moral relativism and moral absolutism can provide a profitable or punishable opportunity within developing countries when MNEs operate accordingly, or not, to ethical decision making processes in business. Additionally, the chapter proposes how MNEs' managers can discover the limits of moral free space, to distinguish a moral value in tension with their own from one that is intolerable. At the end, it is expected that MNEs' managers can apply ethical decision making in business by clearly perceiving and understanding their corporate culture in a developing country society.*

### INTRODUCTION

This chapter analyzes the implementation of MNEs' global ethical principles in business into local moral standards of societies from developing countries. The author will discuss, using current scenarios, how principles of both moral relativism and moral absolutism can provide a profitable (beneficial), or punishable (detrimental), opportunity within developing countries when MNEs operate, or not, according to ethical decision making processes in business.

The objectives of this chapter are:

1. To sensitize about the moral dilemma within the migration of MNEs into developing countries.
2. To explain how concepts of morality (moral relativism, moral absolutism) can influence MNEs' business ethics in their integration to a developing country's society.

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3. To demonstrate different global ethical approaches for the integration of MNEs in developing countries according to the UN Global Compact Principles.
4. To propose a guideline for MNEs to overcome the barriers of dissimilar moral realities within developing countries.

## **Background**

Globalization has become a factor that brought countries closer worldwide, and Multinational Enterprises (MNEs) are eager to look for new market opportunities in developing countries. In other words, this new “California Gold Rush”-like situation has attracted some MNEs to developing countries where cheap labor, competitive advantages in resources, tax shelters and relief, market, lax regulations, and weak competition constitute opportunities to increase profits and reduce costs. Developing countries are defined according to their Gross National Income (GNI) per capita per year, and the International Statistical Institute (ISI) has published the new list of developing countries, effective from January 1<sup>st</sup> until December 31<sup>st</sup> 2015: Countries with a GNI of US\$ 11,905 and less are defined as developing country (World Bank, 2013). Among this list all Latin American countries belong to this group in which, corrupt situations when doing business plays a questionable-ingrained role. Also, many MNEs have been enrooting in their strategies in an accelerated pace in order to gain a coveted market, sometimes coming across ethical issues that could arise from different cultural perspectives concerning values-principles-norms among MNEs and those developing countries in which they do business.

For example, many textile industries from around the world (Nike, H&M, etc.) have moved to developing countries to take advantage of cheaper labor there. Were these developing country workers exploited because they were paid less than their counterparts in developed countries? We cannot determine if they were exploited simply because the workers were paid less; the charge of exploitation needs more than the existence of a comparative low wage scale. In many situations MNEs pay the same rate as the local employers. If the other employers fail to pay a living wage, they are as guilty as the MNEs. However, MNEs have been criticized by local business for paying more than the living wage. The MNEs are thus caught between contradictory demands. So, when MNEs operate in developing countries, sometimes conflicts in ethical decision-making processes can arise due to incongruities between their own corporate culture and original countries’ values and interests, and inconsistent cultural values of the hosting country. In this situation, the rightness or wrongness of actions sometimes is determined regarding the differences along cultural issues, from both relative and absolute perspective of morality.

Precisely, these antagonizing situations are one of the main concerns in business ethics: Should MNEs adjust the way they conduct ethical matters by adapting to foreign values or keeping universal principles? This ethical dilemma possess a great significance when MNEs face how to do business in developing countries, and existing MNEs have already demonstrated alternatives to implement their ethical strategies in developing countries. Nowadays, general ethical principles have been established worldwide such as The United Nations Global Compact Principles (UNGC) (UN Global Compact, 2015), The Caux Round Table Principles for Business (CRT) (Caux Round Table, 2015), The International Chamber of Commerce (ICC) (International Chamber of Commerce, 2015), and The International Labour Organization Principles (ILO) (International Labour Organization, 2015). In order to strive for possible answers, or at least to have a silver lining of these situations, this Chapter is aimed to offer a response beginning by explaining some of the main business ethical approaches, and examining some ethical challenges that

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