Global Business

- Brings together people from countries with varying cultures, values, laws, and ethical standards
  - International businesspeople must understand the values, culture, and ethical standards of their own country
  - Must be sensitive to the same in other countries
- *Success requires understanding the global business environment*
Global Culture, Value and Practices

- **Country cultural values**: Are specific to countries, regions, sects or groups
- **National culture**: Everything in our surroundings that is made by people
  - *Both tangible and intangible*
  - *Each nation has a cultural belief about acceptable business activities*
  - *Subcultures can be found within many nations*
Classifying Cultural Differences

- Geert Hofstede identified four cultural dimensions that impact the business environment
  - Individualism/collectivism
  - Power distance
  - Uncertainty avoidance
  - Masculinity/femininity
Self-Reference Criterion (SRC)

- The unconscious reference to one's own cultural values, experiences, and knowledge
  - The idea that “we” differ from “them”
  - Common in international business
  - We react based on our knowledge
    - Accumulated over a lifetime
    - Grounded in culture of origin
Cultural Relativism

- The concept that morality varies from one culture to another
  - Believes ‘right’ and ‘wrong’ is defined differently by each culture
  - Can be a rationalization for straying from one’s cultural values
Global Common Values

- Shared across most cultures; often based on religion, reflected by law

  - 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 and natural disasters can affect the global ethical decision making environment
  - Many ethical issues emerge in coping with crises
- The last global recession caused massive public distrust
  - People are now discussing, and even revising, some fundamental capitalism concepts and assumptions
Risk Compartimentalization

- Occurs when corporate profit centers are unaware of the consequences of their decisions on the firm as a whole
  - No single person can be blamed, the problem is systemic
Key Figures in Modern Economics

- **Adam Smith**
  - *Laissez-faire capitalism*

- **John Maynard Keynes**
  - *Government can stimulate the private sector*

- **Milton Friedman**
  - *Return to self-regulating free market system*
Keynes and Friedman Agreed That:

1. People have rational preferences among outcomes that can be identified and associated with value
2. Individuals seek to maximize utility; firms seek to maximize profits
3. People act independently on the basis of full and relevant information
Economic Systems

- **Socialism**: Advocates that wealth and power be shared across society, based on the amount of work expended in production
  - *Karl Marx*
- **Social democracy**: Private ownership of property, but a large government
  - *Formed in the 1940s as an offshoot of socialism*
- **Bimodal wealth distribution**: Many poor people, concentrated wealth at the top and a small middle class
  - *Multinational corporations concentrate control of the global economy to a few companies*
Two Schools of Economic Thought

- **Rational economics**: Assumes that people are predictable and base their decisions on maximizing utility based on resources.
- **Behavioral economics**: Assumes that humans do not always act rationally due to genetics, emotions, and learned behavior.
Economic Capitalism
Country Differential

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The Multinational Corporation (MNC)

- Public companies that operate on a global scale, without significant ties to any one nation or region
  - The highest level of international business commitment
  - Characterized by a global strategy of focusing on opportunities throughout the world
  - Subject of much ethical debate due to their size and financial power
Business for Social Responsibility (BSR)

- Many MNCs have joined this globally based resource system
- Tracks emerging issues and trends
- Provides information on corporate leadership and best practices
- Conducts educational workshops and training
- Assists organizations in developing practical business ethics tools
# Comparing Countries and Corporations

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (millions in $ U.S.)</th>
<th>Company</th>
<th>Revenues (millions $ U.S.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>15,650,000</td>
<td>Royal Dutch Shell</td>
<td>484,489.0</td>
</tr>
<tr>
<td>China*</td>
<td>12,380,000</td>
<td>Exxon Mobile</td>
<td>452,926</td>
</tr>
<tr>
<td>Japan</td>
<td>5,984,000</td>
<td>Walmart</td>
<td>446,950</td>
</tr>
<tr>
<td>Germany</td>
<td>3,367,000</td>
<td>BP</td>
<td>386,463</td>
</tr>
<tr>
<td>India</td>
<td>1,947,000</td>
<td>Sinopec Group</td>
<td>375,214</td>
</tr>
<tr>
<td>Iran</td>
<td>483,800</td>
<td>China National Petroleum</td>
<td>352,338</td>
</tr>
<tr>
<td>Argentina</td>
<td>474,800</td>
<td>State Grid</td>
<td>259,142</td>
</tr>
<tr>
<td>Taiwan</td>
<td>474,100</td>
<td>Chevron</td>
<td>245,621</td>
</tr>
<tr>
<td>Denmark</td>
<td>309,200</td>
<td>ConocoPhillips</td>
<td>237,272</td>
</tr>
<tr>
<td>Greece</td>
<td>255,000</td>
<td>Toyota Motor</td>
<td>235,364</td>
</tr>
</tbody>
</table>

*Note: Because China bases its exchange rate on the fiat, purchasing power parity was used to get a better comparison of its GDP compared to other countries.

The International Monetary Fund (IMF)

- Emerged from Bretton Woods agreement, 1944
- Makes short-term loans to member countries
- Provides foreign currencies for its members
- Promotes responsible business conduct
- Recommended new rules for large firms which represent the biggest systemic risk
The United Nations (UN)

- Founded in 1945
- 193 member nations
- Goal to promote world peace, improve inter-country relations, and support better standards and human rights
- Focuses on environmental and human rights issues
The United Nations Global Compact

- A set of ten principles promoting human rights, sustainability, and the eradication of corruption
- Collaborative arrangement between businesses, governments, NGOs, societies, and the UN
- Voluntary membership
- Members report on progress toward goals
## Ten Principles of the UN Global Compact

<table>
<thead>
<tr>
<th>Human Rights</th>
</tr>
</thead>
</table>
| **Principle 1**: Businesses should support and respect the protection of internationally proclaimed human rights; and  
**Principle 2**: make sure that they are not complicit in human rights abuses. |

<table>
<thead>
<tr>
<th>Labour</th>
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</table>
| **Principle 3**: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;  
**Principle 4**: the elimination of all forms of forced and compulsory labour;  
**Principle 5**: the effective abolition of child labour; and  
**Principle 6**: the elimination of discrimination in respect of employment and occupation. |

<table>
<thead>
<tr>
<th>Environment</th>
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</table>
| **Principle 7**: Businesses should support a precautionary approach to environmental challenges;  
**Principle 8**: undertake initiatives to promote greater environmental responsibility; and  
**Principle 9**: encourage the development and diffusion of environmentally friendly technologies. |

<table>
<thead>
<tr>
<th>Anti-Corruption</th>
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<tbody>
<tr>
<td><strong>Principle 10</strong>: Businesses should work against corruption in all its forms, including extortion and bribery.</td>
</tr>
</tbody>
</table>

The World Trade Organization (WTO)

- Established in 1995 at the Uruguay round of the General Agreement on Tariffs and Trade (GATT); 159 member and observer nations
- Administers trade agreements, facilitates trade negotiations and settles trade disputes
- Monitors trade policies of member nations
- Addresses economic and social issues of many industries; attempts to reduce trade barriers
- Provides legally binding ground rules for commerce
- Not all countries agree with the WTO on free trade
Dumping

- The practice of charging high prices for products in domestic markets, while selling the same products in foreign markets at low prices; often below cost
- Places local firms at a disadvantage
- The U.S. has anti-dumping laws in place
Global Ethical Risks

- Key areas of international risk
  - Emerging markets carry significant risks for international investors
  - Chinese leadership is promoting nationalism, which could threaten its relationships with other countries
  - The economic outlook for many Eurozone countries remains weak
## Global Business Ethics and Legal Issues

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

- Bribery’s acceptance varies by country
  - Can be a challenge to determine what a bribe is

- Bribery laws and regulations
  - The U.S. Foreign Corrupt Practices Act (FCPA) prohibits companies from paying foreign officials to keep/obtain business, with exceptions
  - The U.K. Bribery Act goes much further

- Most developed countries recognize bribery is not conducive to business
  - However, companies must determine what constitutes a bribe
Antitrust Activity

- Antitrust laws are meant to encourage fair competition
  - Countries have differing levels of protections
    - Can create difficulties in international business
  - Vertical system: A channel member controls the entire business system
    - Can occur when MNCs are allowed to grow unchecked and create a monopoly
    - Reduces competition and can put small competitors out of business
Internet Security and Privacy

- Serious Internet crimes have garnered public attention
  - Cyber hacking, Trojan horses, worms and malware

- Privacy violations
  - Hacking into people’s personal accounts
  - Tracking users through their mobile phone apps
  - Company’s use of personal information
Human Rights

• An inherent dignity with equal and inalienable rights
  ➢ The foundation of freedom, justice, and world peace

❖ Codified in the UN Human Rights Declaration
  ➢ Is becoming a serious issue for companies due to the health care issue
  ➢ Many question whether health care is a right or a privilege
Health Care

• A major global human rights issue
  ❖ Over a billion people lack access to health care globally
  ❖ Patents assign rights to companies, who can charge what they wish
  ❖ Some companies are dropping costly employee insurance plans, leaving more people without affordable insurance
Many people work outside their homeland

International firms today have many global ethical concerns related to labor

- Gender pay equality
- Right to join unions
- Standards of living
Compensation

- **Living wage**: The minimum wage that workers require to meet basic needs
  - *Some MNCs choose to outsource to countries that do not have a minimum wage*

- **Executive compensation**
  - *A major topic during the last global recession*
  - *Growing global demand for alignment between managerial performance and compensation*
Consumerism

- The belief that consumers should dictate the economic structure of society
  - States that consume goods at an increasing rate is desirable
  - Equates personal happiness with purchasing and consuming products
  - Made-to-break (Planned obsolescence): Encourages consumers to buy more items
  - Detractors use the U.S. as an example of non-sustainable consumption
Ethical Decision Making in Global Business

- Ethical decision making is essential to successfully operating a global business
- Some MNCs have created officers/committees to oversee global compliance issues
- Successful implementation of a global ethics program requires extensive employee training
- Global firms must tailor programs to international markets
  - Global ethics is not “one size fits all”