Ethical Responsibilities of Multi-National Corporations: A Critical Analysis of Why Morals Matter

Houda Babetti
hbabetti@uwo.ca

Follow this and additional works at: http://ir.lib.uwo.ca/si

Part of the Sociology Commons

Recommended Citation

Available at: http://ir.lib.uwo.ca/si/vol2/iss2/9
Ethical Responsibilities of Multi-National Corporations: A Critical Analysis of Why Morals Matter

Houda Babetti
“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.” –James Buchanan

On November 25, 2012, “a massive fire engulfed a garment factory outside Bangladesh’s capital Dhaka, trapping many workers and killing at least 112 people in the building without emergency exits. The building was a factory operated by Tazreen Fashions Ltd.” (CBC, 2012). What the public soon found out was that Tazreen Fashions Ltd. supplied Wal-Mart and other major retailers such as Ikea in the United States and throughout Europe. Wal-Mart claimed that prior to the fire, it had conducted safety inspections and that the factory had passed, albeit with evidence of infractions that it was given one year to remedy. The factory never got the chance, and this tragedy left many mourning relatives, citizens, NGOs and critics asking with whom lies fault? Why did Wal-Mart continue conducting business with this factory despite evidence of blatant disregard for workers’ safety? People obviously have the right to voice concerns and should be given answers. However, to answer such questions, we need to step back from the scene, distance ourselves from our emotions, and critically analyze the context, history, politics and social structures that allow corporations such as Wal-Mart to conduct business as it sees fit.

A more general question develops, one that will guide one towards a macro understanding of the situation at hand: Is there a place within capitalism for ethics? Was it Wal-Mart’s responsibility to ensure the safety and protection of its workers, thereby behaving ethically, or is Wal-Mart not to blame, since it is, at its core, a profit-seeking business? Exactly what role do ethics and morality play in the grand scheme of global capitalism? What consequences result from capitalism and liberal democracy, the system of government that best aligns its values with those of capitalism? There is the old saying that with great power comes great responsibility, but to whom does Wal-Mart owe its allegiance? Its workers or its
shareholders? This topic is multi-faceted and raises some complex issues. As such, it would be prudent to start our analysis by defining some key concepts.

In *Ethics and Capitalism: a Guide to the Issues* John Douglas Bishop neatly summarizes the term *capitalism* as “any economic system that includes the accumulation of wealth...with the two essential features of private property and free markets” (2000: 4). *Ethics* was defined as “the passing of value judgements on human actions, policies or social structures” (Bishop, 2000:7). The online dictionary aptly named *dictionary.com* defines *morality* as “conformity to the rules of right conduct; moral or virtuous conduct” and *morals* as “concerned with the principles or rules of right conduct or the distinction between right and wrong; ethical.” Make note, however, that morality is usually thought of in religious terms, and in this day and age there is a strict separation of Church and State, which extends to the separation of Church and business. Thus, the banker who deals with usury (prohibited in the Bible, see Exodus 22:25, Ezekiel 22:12 for examples), still attends Church with his family on Sundays. There has become this separation between acceptable and moral behaviour in the public sphere of work, and what is acceptable and moral within our private lives. Regardless of consequences, a business deal in the workplace is seen as right (and by extension, ethical) if it results in financial growth. Remi Trudel and June Cotte (2009) also take the time to define *ethical goods* as “products that are produced under conditions of progressive stakeholder relations, advanced environmental practices, and respect for human rights” (2009: 62).

What becomes obvious here is that ethics and morality go hand-in-hand, and are akin to following one’s conscience in doing what is right and looking to collective over individual needs, as opposed to capitalism, which equates right as that which brings success to a company, thus seeking only what is profitable. Therefore, from the start, capitalism and ethics are two very
different paradigms that entail behaving in different manners. But might there be room in capitalism to seek profit whilst simultaneously behaving in socially approved ways? Can the two go together, or is the dichotomy between them impassable? Recently, many multi-national corporations have been slowly turning towards ethically-sound forms of conducting business, in what has since become termed corporate social responsibility.

**Pros and Cons of Corporate Social Responsibility**

Trudel and Cotte (2009) define corporate social responsibility (from here on CSR) as “a decision by the company’s management to consider the impact their decisions will have on their customers, employees, suppliers and communities, as well as their shareholders” (2009: 62). Cedillo-Torres, Garcia-French, Hordijk, Nguyen and Olup (2012) similarly define CSR more succinctly as “the responsibility of enterprises for their impacts on society” (2012: 51). Cedillo-Torres et. al. go on to explain that CSR encompasses multiple interacting levels based on economic, legal, ethical and philanthropic responsibilities. CSR usually starts out as company protocols, guidelines, or codes of conduct, and in many cases, are usually placed in effect after a corporation comes under public scrutiny for using unethical or illegal business strategies (Cedillo-Torres et. al., 2012).

CSR acts as a bridging mechanism between ethical behaviour and profit-maximizing behaviour and so the issue of weighing costs versus benefits comes up. According to Trudel and Cotte, “consumers are willing to pay substantially more for ethically produced goods than for unethically produced goods, suggesting that there is a financial reward for socially responsible behaviour” (2012: 67). Furthermore, “the negative effects of unethical behaviour have a substantially greater impact on consumer willingness to pay than the positive effects of ethical behaviour” (Trudel and Cotte, 2012: 67). In other words, ethics does pay, and capitalists should
find room to incorporate some CSR into their businesses. But for some corporations, it may be too late. Trudel and Cotte found that “the impact of immoral behaviour was not eliminated by new information concerning morally good behaviour. (2012: 63). Thus, if a corporation wishes to remain on the good side of its consumers, whose purchasing power can make or break a company, that company should immediately start making ethically-sound decisions, at least before any news of unethical practices leak out.

This phenomenon of continuing to associate a corporation with some of its dubious behaviours from the past despite its attempts at redemption has been experienced firsthand by myself at Western University’s campus. The club Solidarity for Palestinian Rights (SPHR) has a subcommittee that deals with BDS (boycotts, divestments and sanctions), which aims to inform the student populace that profit made from Starbucks Corp. funds Israel’s Israeli Defence Force. As such, purchasing Starbucks coffee was unethical for the role it plays in creating and maintaining an apartheid state in the Middle East. Whether these allegations were true or not, many students took to boycotting Starbucks coffee. When news surfaced that these allegations may have been unfounded, the damage was already done. In the eyes of those consumers, Starbucks Corp. was unethical and so was still avoided on a matter of principle because as the saying goes, where there is smoke there is fire. This is just one of many examples of BDS based on using purchasing power to voice one’s concern with corporations that do not behave ethically.

A lot of times however, consumers are unaware of some of the practices carried out by corporations, or if they do come upon such knowledge, chose to ignore it because it does not align with the ideological belief that we are placed on this earth to consume recklessly and without abandon, with no thought towards the future consequences of our actions. After all, why should the hard-working North American consumer care if the farmer who planted and harvested
his coffee beans lives on less than $1 a day? It is not as if the farmer has a lot of expenses anyways, prices are so much cheaper down where he is. The first-world consumer naively believes everyone is treated just as “fairly” as he is in the workplace, false consciousness prevails, and multinational corporations continue their exploitation unhindered by nagging, consumers.

In *Does Ethics Pay?* by Lynn Sharp Paine (2000), the author makes the claim that ethics is important to maintain reputation, and that society needs to overcome the idea that there is a difference between what is good and what is profitable. A balance must be struck between the two to ensure that workers are treated well, natural resources are protected and consumers are not being cheated in any way. In most cases though, “the profits that can potentially be made from green investments are miniscule compared to the profits capital makes by exploiting resources at unsustainable rates and externalizing environmental costs” (Engler, 2010:37). So really, participating in ethical practices is usually done after the fact, as mean of saving face and reclaiming a corporation’s reputation as fair. We will study the importance of maintaining one’s reputation with the following case study of Wal-Mart’s transformation from a big and bad corporation to becoming a world leader in CSR policies.

**Wal-Mart: Save Money, Live Better**

Typically, corporations implement CSR strategies only when forced to by society, usually in an effort to regain favour from consumers after being caught in a scandal detrimental to their reputation. For an example of this, we can turn to Wal-Mart.

Wal-Mart was founded in 1962 and currently has more than 10,130 retail stores across twenty-seven countries (Cedillo-Torres et. al, 2012). “Wal-Mart is not just the world’s largest retailer. It’s the world’s largest company—bigger than ExxonMobil, General Motors and
General Electric” (Fishman, 2008: 15). The retail giant goes by the motto “saving people money so they can live better.” And it seemed to be working; no one can deny Wal-Mart’s financial success and its ability to constantly bring customers very low prices on everyday products. Unfortunately, Wal-Mart’s fortune was not amassed in an ethical manner. In addition to the Bangladesh factory fire that killed so many of Wal-Mart’s outsourced employees, Wal-Mart had previously come under fire when it was caught using child labour in Bangladesh in 2005 (Cedillo-Torres, 2012). As well, Wal-Mart is currently in the throes of battling a nation-wide class action lawsuit in which female employees claim that they were discriminated against in the workplace due to their gender. This is just one of the estimated “8000 lawsuits being filed against Wal-Mart” which makes Wal-Mart the most often sued company in the United States (Cedillo-Torres et. al., 2012:59).

Clearly, Wal-Mart has not made it to the top without making some enemies along the way. To combat the negative image that has since been attached to the company, Wal-Mart implemented CSR policies after these issues were made public. In this sense, Wal-Mart started to behave ethically only when it experienced negative backlash from its customers. This tells us that one must be cautious, for behaving ethically might very well be a marketing ploy to get consumers shopping again and may not be about genuine care on behalf of Wal-Mart for its workers. Wal-Mart itself practically announces that the responsibility it has to its workers is limited because “it is difficult to enforce its own corporate code of conduct with thousands of subcontractors around the world” (Cedillo-Torres et. al., 2012: 61). Basically, Wal-Mart is saying that it will instill CSR policies, but in terms of enforcing them, it can only do so much, thereby designating responsibility to its workers.
This brings us to the relationship between owner and labourer. Employees enter into a contract of labour with their employers in which said labour is exchanged for wages. At face value, this is relatively straightforward. An employer must only take care of an employee insofar as the employee is able to use the wages to reproduce himself as a labourer for the following day. As such, both parties are fulfilling their part of the contract and so Wal-Mart presumably has no further responsibilities towards its workers. But in such a situation, dependency develops, leaving the employer in a position of power over the employee. As a result, the employee is at risk of exploitation, yet because of the “compulsion of the whip of hunger” (Weber, [1927] 2003), he is unable to balance the relationship with his employer. Hypothetically, this is where a corporation such as Wal-Mart ought to address this dependency by claiming responsibility for the welfare of its workers, thereby ensuring that its business remains ethical and moral.

To address both sides of the argument and treat the case fairly, it should be mentioned that Wal-Mart “now has policies to appoint women to management positions... [and] has also increased the number of audits to control child labour employment” (Cedillo-Torres et.al., 2012:73). But it must always be remembered that Wal-Mart is a capitalist-based business that is driven by profit, and to take care of its workers would be a cost that it must subtract from its profits. For Wal-Mart, this means that behaving in ethical ways towards its workers is unattractive and inefficient. This is what Weber meant by the irrationality of rationality: it is rational for a corporation to seek profits, but this rationality becomes steeped in irrationality when the methods of profit-seeking are based on the exploitation of others. Furthermore, “free markets depend on no one being able to manipulate [them]; if one person or a small group of people are so rich that they can control the market, then the free market ceases to exist” (Bishop, 2000:15). Therefore, it becomes irrational (and illogical) to claim that free markets are free,
when today’s reality points to the existence of an ever smaller, tighter circle of elites that control most of the world’s wealth and resources. This again begs the question of whether or not it is morally right for such a small group of people to hold so much of the world’s wealth when there are so many in dire need of it. Following George Ritzer’s *McDonaldization theory*, Wal-Mart is just doing what is needed to maximise profits by increasing efficiency. If that efficiency entails sweatshops and child labour, then so be it.

Thus far we have observed the importance of maintaining one’s reputation, with Wal-Mart’s implementation of CSR policies, and can see more examples of such with corporations like Starbucks Corp. claiming to use only fair-trade coffee—which is claimed to do in order to beat competitors. As it turned out, only 10% of Starbucks coffee is fair-trade, which makes it the case of an advertising ploy. (Trudel and Cotte, 2012).

**Government and Politics**

While some argue that morality lies outside of the free marketplace (Bishop, 2000: 27) and as such corporations need not bother with it, it is obvious from our analyses thus far that there is indeed a place within capitalism for ethics. However, nothing can ever be properly studied without observing the context in which it occurs. For this, we once again turn to Paine, who states that “the extent to which any alignment between ethics and economics [exists] is highly dependent on surrounding social attitudes and institutions” (2000: 326). In other words, we cannot make the mistake of separating ethics from good governance. Companies can only be held accountable for their actions insofar as there are rules and laws directing their behaviours and a reliable government that can call them to account should they fail to abide by said rules.

Thanks to the United Nations, states and their respective leaders can be tried in a world criminal court if they commit crimes against humanity. If we consider that some multinational
Corporations have profits that exceed the GDPs of many states (Wal-Mart being one such example) should they be brought to face similar charges for infractions against their workers? Who is held responsible for environmental damage, factory fires, poverty, child labour, sweatshops, and general worker exploitation? It makes sense that the corporations that cause the problem should not only find a solution, but take the necessary steps to ensure it does not happen again. For this to happen, government intervention and regulation is needed.

It has long been asserted that capitalism and democracy go hand-in-hand (Bishop, 2000). However, it can no longer be denied that capitalism shapes the government, and not the other way around. Arguments can be made for and against government intervention in the economy. Those against it claim that the government will socialise the economy for its own benefit, impede progress with its bureaucratic red-tape, and infringe on the rights of individuals to private ownership. That last point Chomsky refers to as the *Fifth Freedom*: “the freedom of US owned and controlled MNCs to rob and exploit whenever and wherever capital sees fit” (Allahar, 2011:24). Corporations such as Wal-Mart clearly exercise their fifth freedom when they outsource their labour to nations where wages are low and workers rights are nonexistent.

On the other hand, those who support government intervention claim that “free markets offer no guarantee that everyone will be able to meet basic human needs for food, medical care, and shelter” (Bishop, 2000:29). In addition, government intervention can maintain equilibrium in the economy, thereby averting financial crises such as the one experienced in the United States in 2008 (ironically, those big corporations that despised government intervention were more than happy to receive bailouts from the government after facing bankruptcy and failure).

In *Richer and Poorer: the structure of inequality in Canada*, Allahar and Cote question whose responsibility it is to provide for those individuals in society without access to the free
market. “The answers [lie] in the creation of the welfare state and the massive public service” (Allahar and Cote, 1998:20). In other words, it is the government’s job to take care of people, the environment, etc., and not that of corporations. And yet, when governments attempt to enact laws that protect workers or allow unions to exist, it is seen as infringing on multinational corporations’ rights to participate in the free market, thus inevitably returning to the argument that corporations are entitled to their fifth freedom. For this reason, Allahar and Cote assert that “in liberal democratic states, governments do not govern. It is the shareholders and boards of directors of major corporations who have the main say in the economic management and direction of society” (1998:14).

Historically, liberal democracy as an ideology has only served to maintain the status quo; the interests of the elites who are in power. This ideology has worked to portray society as equal, in which anyone can get ahead or “make it to the top” if they work hard. The inverse of this idea is that if one remains poor (a key indicator of failure), it is a result of their own individual lack of skills, and not because of structural inequalities embedded in the system as a whole. As such, capitalists are applauded for their ambition and hard work, and are seen as deserving of all the money that they hoard. By extension, when capitalists outsource labour and open up factories in third world countries, they are seen as benevolently extending the opportunity of development to areas of the world steeped in backwardness and that have yet to modernize. Impediments to development occur when nations or groups of people oppose liberal democracy as the one and only true form of government and instead criticize it as aiding the greedy, exploitive nature of capitalism. These nations and groups of people end up being stigmatized as communist, and face restrictions in entering the free market, thus ensuring that they never get the chance to develop.
According to Bishop (2000), the only moral responsibilities corporations have are towards capitalist shareholders and board of directors, for they are the ones who must be answered to (not the government), they are the ones who invested in the corporations and to them are dues owed. For this reason, Allan Engler (2010) advocates working-class capitalism, in which corporations must instead answer to their workers. Engler shares similar sentiments with Allahar and Cote, stating that “the basic principle of corporate governance is not one person, one vote, but one share, one vote” (2010:16). This will change, Engler argues, when corporations become socially owned and run in ethical manners that “free people from the capitalist drive to maximize profits” (2010:37).

It is obvious that Engler is arguing from a Marxist perspective and is advocating for the end to alienation in the workplace. To say that workers must be free implies that they have been previously enslaved in this capitalist drive. This also presumes that previous to the advance of capitalism, whatever modes of labour and production existed allowed the worker freedom of choice, of negotiation, and so on. This makes sense, for one does not see the creation of laws protecting workers (such as prohibiting the employment of children in factories, and installing a maximum workday length) until the Industrial Revolution; in other words, these rules were not needed beforehand because the situations that called for them did not exist. Following this logic, one can then say that it is capitalism itself which has purposefully led to the elimination of ethical behaviour extended to workers because doing so would have slowed down the economic boom that was currently under way. Indeed, governments did eventually pass laws that ensured at least a minimum standard of treatment for workers, but stopped short of actually advocating on behalf of workers.
What all these examples strive to achieve is to show the reality of government intervention: a government cannot protect its workers beyond minimum standards (that may or may not even be adhered to), for fear of having corporations outsource to cheaper countries, yet governments are left to deal with the consequences of the unethical behaviours of said corporations. As such, any claims to democracy in nations such as the United States and other liberal democratic countries can be rejected on the grounds that equal representation is non-existent and votes count for nothing unless one is a shareholder.

**Capitalism as Ethical? The Debate Continues**

As it has been mentioned thus far, there are indeed those who argue that capitalism is ethical, it is just a matter of behaving ethically to whom and at what cost (we must always keep in mind that corporations are capitalists and as such everything will be analyzed on the basis of costs). George Vradenburg argues that “progressives seriously misunderstand corporate America if they assume that power and money are its only driving forces... [that] assumption is simply wrong. Inside corporate America are loving and caring managers motivated by service to others...” (2006:14-15). Vradenburg even cites Wal-Mart as an example of a caring corporation, stating “the mission of Wal-Mart is to provide a broad array of products and services at affordable prices to more Americans, thereby enabling Americans, including those of low income, to enjoy a greater sense of satisfaction in their daily lives” (2006: 15). Thus, he is making the claim that Wal-Mart is taking on the moral responsibility of ensuring an equal standard of living for all Americans out of the kindness of its heart—(and at the expense of non-Americans). Fishman (2008), on the other hand, argues that this is causing us to “buy ourselves out of jobs” because our constant quest for cheaper products is causing Wal-Mart to outsource.
Vradenburg also argues that “work will flow to those companies and workers that produce the most *congenial* work environment...” (2006: 15, italics added for emphasis). However, in so arguing, Vradenburg appears to dig his own grave, for when he speaks of congenial work environments, he means environments where corporations can do as they please with little to no government sanctions or repercussions against their actions. In so doing, multinational corporations are free to follow not those workers who are demanding and assertive of their rights, but the congenial ones who will, under the compulsion of the whip of hunger, meekly submit to any working condition. One wonders how it could possibly be considered ethical for capitalism to exploit in any manner it chooses and call it “congenial.”

The issue of caring that Vradenburg mentions as a trait inherent in American corporations is also discussed in *The Undemanding Ethics of Capitalism* by William N. Niskanen (2009). However, Niskanen (2009) argues that caring is a characteristic found in intimate relations with family and friends, whereas the market is defined by less altruistic exchange relationships. Capitalism is not about caring for others, but about making the best transactions in which the exchange is to one’s personal and corporate, benefit. Notice again that this entails concerning oneself with individual needs rather than collective needs. Naturally, this means that in the marketplace, there will be winners and losers, which would not exist if corporations “cared.” An individual would not exploit another if he exhibited care towards said other, but would instead act in an ethical manner. As such, Vradenburg is correct in his claim only insofar as that care is shown to shareholders. And yet, if capitalists all treated each other as they wished to be treated themselves, the very point of capitalism would become null and void.
Impact of Globalization

Critics of capitalism argue that it is morally wrong because it leads to gross inequalities between rich and poor, and that it alienates workers from their labour (Bishop, 2000:17). The disparities between rich and poor are exacerbated by the effects of globalization, which runs on the spread of capitalism to all parts of the world (Hebron and Stack, 2011). At the same time, globalization has lead to greater connectivity and communications between people all over the world, which has allowed more voices to be heard. In that way, globalization inadvertently works to ensure that corporations behave ethically no matter where they go for labour, because poor conditions can be shown to the world via media such as the Internet, and these corporations can and will face a negative backlash for immoral actions.

On the flip side, globalization can increase unethical behaviours exhibited by multinational corporations. This is because it allows them to participate in actions detrimental to workers and the environment precisely because they are doing so in developing nations, in which individuals usually do not care about what happens to the environment around them, or how many hours they must work, so long as they are able to provide much needed income for their families. And so, in such a case, when it is asked whether it is morally or ethically permissible for capitalists to exploit workers whom they know are desperate for sustenance, it becomes obvious that yes, it may be legal to do so, but it is just plain wrong. This practice can be compared to extortion, in which individuals in authority can force as much money (or in this case labour) out of others who are in no position to negotiate better terms. In a legal sense, it is considered extortion, yet in the market place, it is just good business.

In our current age of globalization, nations and corporations alike are jumping on the bandwagon of ethical responsibility. Those capitalists in the first world are quickly becoming
leaders of CSR with the influx in the amount of morally acceptable policies they are suddenly so keen on publicizing. In the end however, even those small businesses that one finds downtown that cater to today’s hippie (the vegan, fair-trade embracing, all-natural, organic, animal-friendly college student with too much disposable income) are after one thing: making money. Yet at least they are doing so in an ethical manner, which is a start, and a nice change to always having to shop at retail stores like Wal-Mart. Despite all the evidence presented that shows capitalism and ethics can coexist, it still seems like capitalists are only willing to “go green” when they realize that it could become financially beneficial to them.

In addition, it must be stressed that consumers play a huge role in influencing the choices made by multinational corporations. As we observed, Wal-Mart only implemented policies against gender discrimination after a large group of employees voiced their complaints collectively. As such, the power of grass-roots organizations and consumer choices made on the individual level should not be underestimated. To change the way the economy is run so that it provides fairer working conditions, allows for the protection of the environment and does away with all manners of exploitation requires a radical overhaul of dominant ideologies that currently infiltrate minds on a global scale. We must do away with the notion that capitalism as an economic system and liberal democracy as a system of government are the only ways in which things can be properly managed. There is something inherently wrong with the system if it allows for such gross manipulation of governments by multinational corporations, who conduct business whilst flagrantly disregarding any protection law or governmental regulations. And yet this analysis has provided evidence of a surprising number of those who continue to defend and promote a capitalist market system as grounded in the virtues of well-meaning, charity and service to others.
In the end, if multinational corporations did indeed conduct business using ethically and morally sound methods, we would not have to witness such tragic events such as Wal-Mart’s factory fire. The fact that Wal-Mart most likely got away without taking any responsibility for this event leads us to the sad realization that we are indeed at a point where ethics seem to have no place in capitalism. There is hope however, as is evidenced by more and more companies choosing to “go green”, use fair-trade products, or only produce ethical goods, yet there is still much to be done. As future citizens of the world, it is our collective duty and responsibility to look out and care for our fellow labourers. It is fitting that when Karl Marx advocated for socialism, he referred to labourers as “workers of the world” as opposed to workers of specific nations. We must look past shallow geographic differences and realize that everyone is entitled to safe working conditions, and that multinational corporations must be held accountable for their actions.
Reference List


