Debate

How to Regulate Global Business

ISSUE: Are less formal systems and agreements likely to be more successful than formal legal and regulatory systems?

A key lesson from the recent recession and business scandals in the financial sector is that responsible, transparent, and ethical leadership is needed in order for companies to develop and maintain a long-term commitment to corporate responsibility for the benefit of multiple stakeholders. This is especially true of multinational corporations (MNCs) because of the power and influence these businesses and their executives represent. MNCs operate in multiple environments and contexts where laws, rules, expectations, and mores are divergent. In addition, the enforcement and monitoring mechanisms to oversee these expectations range from the barely existent to well-resourced government agencies.

The failure to have a global legal and regulatory scheme has resulted in environmental disasters, child labor, financial fraud, antitrust violations, tainted food products, and other problems. For example, Mattel paid a $12 million settlement to thirty-nine U.S. states for shipping Chinese-made toys containing unsafe amounts of lead. The country's largest toy maker also agreed to new standards for lead content in its toys. To save on manufacturing costs, many U.S. companies make products where wages are lower and regulatory standards often differ.

Despite the new coverage of corporate wrongdoing and questionable decision making, many firms are making the commitment to corporate responsibility through self-regulation. More than 5,000 companies in 135 countries are signatories to the United Nation's (UN) Global Compact, signaling their agreement to ten principles on human rights, anticorruption, environmental issues, and labor. The Global Reporting Initiative (GRI) provides a framework for companies developing corporate responsibility reports that discuss key standards, are comparable to peers, and capture performance over time. The new ISO 26000 standards will assist in voluntary organizational self-analysis, media review, investor due diligence, and other reviews of corporate responsibility efforts. Finally, the Association to Advance Collegiate Schools of Business (AACSB) has developed a set of principles called the Principles for Responsible Management Education. The AACSB is asking colleges of business around the country to sign a pledge to adhere to these six principles (Go to http://www.unprme.org/the-6-principles/index.php) with the hope that such pledges will encourage greater ethics in business.

There are two sides to every issue:

1. Defend the need for a legal and regulatory system that would oversee international and multinational business operations. How would the system be developed? How would the system enact its responsibility for enforcing legal and regulatory standards?

2. Defend the efficacy of assurance systems and agreements, such as the UN Global Compact and ISO 26000 standards. Why are these less formal systems and agreements likely to be more successful than a formal legal and regulatory system?