Business ethics in the context of globalisation commerce essay

The following document aims at studying Business Ethics in the context of Globalization. In order to do so, let us start with the definitions of the two most important words in the title:

1. Business Ethics

" Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed."

It is worth stressing that by ' right' and ' wrong' we mean morally right and wrong as opposed to, for example, commercially, strategically, or financially right or wrong. Moreover, by ' business' ethics, we do not mean only commercial businesses, but also government organizations, pressure groups, not-for-profit businesses, charities, and other organizations. For example, questions of how to manage employees fairly, or what constitutes deception in advertising, are equally as important for organizations such as CRY, the University of Mumbai, or the Bhartiya Janata Party as they are for Satyam, P&G, or Infosys. However, given the high profile of ethical issues in relation to commercial businesses, it is these types of businesses that are predominantly focussed on in general.

Business ethics and the law

Having defined business ethics in terms of issues of right and wrong, one might quite naturally question whether this is in any way distinct from the law. Surely, the law is also about issues of right and wrong? This is true, and there is indeed considerable overlap between ethics and the law. In fact, the law is essentially an institutionalization or codification of ethics into specific social rules, regulations, and proscriptions. Nevertheless, the two are not

equivalent. Perhaps the best way of thinking about ethics and the law is in terms of two intersecting domains (see Figure). The law might be said to be a definition of the minimum acceptable standards of behaviour. However, many morally contestable issues, whether in business or elsewhere, are not explicitly covered by the law.

In one sense then, business ethics can be said to begin where the law ends. Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether something is right or wrong. Discussion about the ethics of particular business practices may eventually lead to legislation once some kind of consensus is reached, but for most of the issues of interest to business ethics, the law typically does not currently provide us with guidance.

2. GLOBALIZATION

" Globalization is the progressive eroding of the relevance of territorial bases for social, economic and political activities, processes and relations."

Globalization is not only a very controversial topic in the public debate; it is also a much contested term in academic discourse. Apart from the fact that – mirroring the public debate – the camps seems to be divided into supporters and critics, there is growing concern about whether globalization is a fact at all. So, for example, some argue that there is nothing like a ' global' economy, because roughly 90 per cent of world trade only takes place either within or between the three economic blocks of the EU, North America, and East Asia, leaving out all other major parts of the globe (Chortarea and Pelagidis 2004; World Trade Organization 2004). Obviously, we have to

examine the ' globalization' buzzword more carefully and to develop a more precise definition if we want to understand its character and its implication for business ethics.

Scholte (2000) says if we want to get a grasp on the decisive features of globalization, he suggests we can start by looking at the way social connections traditionally took place. These connections, be it personal relations to family members or friends, or economic relations such as shopping or working, took place within a certain territory. People had their family and friends in a certain village, they had their work and business relations within a certain town or even country. Social interaction traditionally needed a certain geographical space to take place. However, this link between social connections and a certain territory has been continuously weakened, with two main developments in the last few decades being particularly important.

The first development is technological in nature. Modern communication technology, from the telephone, to radio and television, and now the internet, open up the possibility of connecting and interacting with people despite the fact that there are large geographical distances between them. Furthermore, the rapid development of global transportation technologies allows people to easily connect with other people all over the globe. While Marco Polo had to travel many months to finally arrive in China, people today can step on a plane and, after a passable meal and a short sleep, arrive some time later on the other side of the globe. Territorial distances play a less and less important role today. The people we do business with, or that

we make friends with, no longer necessarily have to be in the same place as we are.

The second development is political in nature. Territorial borders have been the main obstacles to worldwide connections between people. Only 20 years ago, it was still largely impossible to enter the countries in the eastern bloc without lengthy visa procedures, and even then, interactions between people from the two sides were very limited. With the fall of the iron curtain, and substantial liberalization efforts elsewhere (for instance within the EU), national borders have been eroded and, in many cases, have even been abolished.

These two developments mainly account for the massive proliferation and spread territorial connections. These connections may not always necessarily have a global spread in the literal sense of worldwide spread. The new thing though about these connections is that they no longer need a geographical territory to take place and they are not restricted by territorial distances and borders any more.

Relevance of globalization for business ethics

Globalization as defined in terms of the deterritorialization of economic activities is particularly relevant for business ethics, and this is evident in three main areas – culture, law, and accountability.

1. CULTURAL ISSUES

As business becomes less fixed territorially, so corporations increasingly engage in overseas markets, suddenly finding themselves confronted with

new and diverse, sometimes even contradicting ethical demands. Moral values, which were taken for granted in the home market, may get questioned as soon as corporations enter foreign markets. For example, attitudes to racial and gender diversity in Europe may differ significantly to those in Middle Eastern countries. Similarly, Chinese people might regard it as more unethical to sack employees in times of economic downturns than would be typical in Europe. Again, whilst Europeans tend to regard child labour as strictly unethical, some Asian countries might have a more moderate approach. Consider the case of Playboy, the US adult magazine, which had to suspend its Indonesian edition and vacate the company premises in 2006 in the wake of violent protests by Islamic demonstrators – even though the Indonesian edition was a toned down version that did not show nudity. The reason why there is a potential for such problems is that whilst globalization results in the deterritorialization of some processes and activities, in many cases there is still a close connection between the local culture, including moral values, and a certain geographical region. For example, Europeans largely disapprove of capital punishment, whilst many Americans appear to regard it as morally acceptable. Women can freely sunbathe topless on most European beaches, yet in some states of America they can get fined for doing so – and in Pakistan would be expected to cover up much more. This is one of the contradictions of globalization: on the one hand globalization makes regional difference less important since it brings regions together and encourages a more uniform ' global culture'. On the other hand, in eroding the divisions of geographical distances, globalization reveals economic, political, and cultural differences and confronts people with them.

It has been said that countries exhibit very different views on the makeup of business ethics. These differences are regarded as based largely in cultural diversity. For example, Japan is considered to have an entirely different set of guidelines than the United States because the cultures of these two countries come from entirely different origins. However, if business ethics are based only in culture then businesses' global interactions should instigate much more conflict than currently exists. The basic cultures of Japan and the United States have very little common ground, therefore their views on business ethics would come from entirely opposite directions. Compromising a culture's moral values can be considered extremely difficult; it is much more likely that those same values would try to be imposed upon the other party. With each culture imposing its values on the other, the result would be adamant conflict. However, the rapid growth of global business paints this picture of conflict as false. Businesses can only expand quickly in global markets by being empathic to the needs, perspectives, and accepted procedures of their foreign counterparts and partners. Therefore, business ethics is not entirely based on the culture from which it is derived. It is based more on a basic human moral understanding that transcends international boundaries. Up to present, ethics have evolved through isolated pockets due to the limited scope of global communications. Today's close communication and cooperation of companies worldwide will have an evening out effect. Business ethics will eventually drive toward one general definition. What exactly constitutes that definition is yet to be determined. The certainty is that the definition will be fluid in nature and change as new principles are accepted and implemented. To know where we are headed we must understand how ethical business practices evolved. Although business

ethics is a relatively new study the concept has been around since commerce began. For instance, a blacksmith earned his reputation by treating his employees well and his customers fairly. As his reputation grew so did the size of his business. While this is a simplistic example it is meant to show that the concept of fair business practices has existed and contributed to the success of enterprises long before business ethics became an established study. Prior to today's multiple innovations in worldwide communications, business morals in each separate geographical area evolved on their own. Without much influence from the outside world, ethical behaviour was influenced by what was important to the society. What was significant to the society created expectations of fair business practices that have carried through the years? What do societies consider important?

Culture and ethics are interrelated and intertwined in such a way that it makes it difficult to know which factor guiding / motivating the behaviour is arising from a given situation. Is it the cultural vision of his/her ethics or is it the ethical vision of his/her culture that guides someone to do or not do certain things. Trompenaar's survey questioning people's reaction to a given situation shows that cultures with more emphasis on human relationships and loyalty (particularists) scored lower than those that emphasized obeying rules (Universalists).

The situation: you're riding in a car driven by a close friend, who's driving at least 35 mph in a 20 mph zone. He hits someone. No witnesses. His lawyer says if you testify under oath that your friend was driving at 20 miles per hour, it might save him from serious consequences.

What right has your friend to expect you to protect him?

Lying was more prominent in cultures stressing human relationships, whereas it was less prevalent in cultures stressing rules. Telling the truth is an ethical value that appears in this context. One could say, people in cultures emphasizing human relationships would most likely lie to protect the relationship; whereas, people in cultures putting a greater value on rules would lie less in order to abide by the rule. Adler differentiates between cultures that are universally oriented (all rules apply to everyone) and particularly oriented ' the nature of the relationship determines how someone will act in a particular situation'. When it comes to the actual experience of the individual in question it is not certain if that person is motivated by cultural influences and/or ethical implications of his/her act and/or decision. Paul Ricoeur suggests three positions in ethical development: 1) the self 2) relations with others, 3) institutional. Through this process of moral integration, the self eventually becomes autonomous (auto self- nomous – norms which becomes understood as self-regulatory) in its experiences and interactions with others and institutions. The self internalises the cultural norms and values through socialization (being in the world with others).

2. LEGAL ISSUES

A second aspect is closely linked to what we said previously about the relation of ethics and law. The more economic transactions lose their connection to a certain regional territory, the more they escape the control of the respective national governments. The power of a government has traditionally been confined to a certain territory, for example: French laws

are only binding on French territory, UK laws on UK territory, and so on. As soon as a company leaves its home territory and moves part of its production chain to, for example, a third world country, the legal framework becomes very different. Consequently, managers can no longer simply rely on the legal framework when deciding on the right or wrong of certain business practices. If, as we said earlier, business ethics largely begins where the law ends, then deterritorialization increases the demand for business ethics because deterritorialized economic activities are beyond the control of national (territorial) governments. For example, global financial markets are beyond the control of any national government, and the constant struggle of governments against issues such as child pornography on the internet shows the enormous difficulties in enforcing national laws in deterritorialized spaces.

A behavior may be perceived as ethical to one person or group but might not be perceived as ethical by another. Further complicating this dichotomy of behavior, laws may have been legislated, effectively stating the government's position, and presumably the majority opinion, on the behavior. As a result, in today's diverse business environment, one must consider that law and ethics are not necessarily the same thing. Though law often embodies ethical principles, law and ethics are far from co-extensive. The law does not prohibit many acts that would be widely condemned as unethical. And the contrary is true as well. The law also prohibits acts that some groups would perceive as ethical. For example lying or betraying the confidence of a friend is not illegal, but most people would consider it unethical. Yet, speeding is illegal, but many people do not have an ethical

conflict with exceeding the speed limit. Law is more than simply codifying ethical norms. Establishing a set of ethical guidelines for detecting, resolving, and forestalling ethical breaches often prevents a company from getting into subsequent legal conflicts. Having demonstrated a more positive approach to the problem may also ensure that punishment for legal violations will be less severe.

Some activities and beliefs may be legal, but not perceived as ethical. Marriott Corporation maintains very comprehensive ethics standards to which their employees must abide. Their Corporate Dress Code is an example. Several years ago, the orientation program at Marriott Corporate Headquarters included a presentation on what was and was not considered acceptable appearance in the company. Some requirements included:

Women could not wear skirts any shorter than 4 inches above the knee.

Women could show no bare leg. Either long pants or hose were required at all times.

Women's shoulders could not be exposed.

Men's hair could not reach their collar, except for religious reasons.

Men could not wear earrings.

Although these rules were part of company policy, there is nothing illegal about any one of these items. However, in the Marriott Corporate culture, each was considered unethical.

Another example is the manufacturing practices of Nike, one of the largest manufacturers of athletics sportswear in the world. Nike produces the majority of its goods in South East Asia. Despite the profits of the Nike organization, its foreign workers are paid substandard wages and work long hours in appalling conditions. In 1996, the entry-level wage at one of these factories was $2. 20 a day. Labour groups estimate that a liveable wage in Indonesia is about $4. 25 a day. Compare this with the pay of one of Nike's celebrity promoters, Michael Jordan, who gets $20 million a year to promote Nike sneakers. Jordan's compensation alone is more than the annual income of 20, 000 workers who make Nike shoes.

Nike's manufacturing practices are not illegal. There is nothing that says a company cannot take its manufacturing operations outside the United States. And as long as the company is meeting the minimum wage standards of the host country, there is nothing illegal about paying low wages. However, most Americans would look at these practices as unethical, especially considering the profits of Nike and their spending on celebrity promoters.

Clearly, there is a relationship between law and ethics, and this relationship is important in management. Managers must evaluate not only what is legal, but what they, their employees, and society consider ethical as well. Important here is that companies must also consider what behaviours their customers will and will not accept. The news is full of stories regarding the ethical issues with which companies are being confronted, such as the practices of Nike, as outlined above. No company wants to be forced to

defend itself over ethical issues involving wages, the environment, working issues, or human relations.

Managers play a vital role in a company's legal and ethical performance. It is in part their responsibility to ensure that their employees are abiding by Federal, State, and Local laws, as well as any ethical codes established at the company. But most importantly, the managers must provide a positive example to their employees of proper behaviour in light of laws and ethical codes.

Certainly, policies and procedures will never be developed to satisfy everyone, but the establishment of Codes of Ethics will at least provide a framework for ethical behavior, and allow customers to evaluate the type of company with whom they are doing business. With this knowledge, employees and customers must decide whether or not they are willing and able to conform to these Codes, as well as to the laws that have been enacted. Managers cannot simply limit their decisions to following the law. They must also consider the ethics of their employees and customers.

3. Accountability issues

Taking a closer look at global activities, one can easily identify corporations as the dominant actors on the global stage: MNCs own the mass media which influences much of the information and entertainment we are exposed to, they supply global products, they pay peoples' salaries, and they pay (directly or indirectly) much of the taxes that keep governments running. Furthermore, one could argue that MNCs are economically as powerful as many governments. For example, the GDP of Denmark is about the same as

the turnover of General Motors. However, whereas the Danish government has to be accountable to the Danish people and must face elections on a regular basis, the managers of General Motors are formally accountable only to the relatively small group of people who own shares in the company. The communities in the US, Brazil, or Germany that depend directly on General Motors' investment decisions however have next to no influence on the company and, unlike a regional or national government, General Motors is, at least in principle, not accountable to these constituencies. What this means is that the more economic activities get deterritorialized, the less governments can control them, and the less they are open to democratic control of the affected people. Consequently, the call for direct (democratic) accountability of MNCs has become louder during the last years, evidenced for example by the anti-globalization protests that we mentioned before. Put simply, globalization leads to a growing demand for corporate accountability. The corporate community has been shocked to attention by the recent corporate governance meltdowns. The silver lining is that these scandals are resulting in better financial oversight and more focused attention on the ethics of directors, officers, auditors and others. But while promises of increased ethical conduct focus the public's attention, self-scrutiny and accountability are also essential.

Ethics is easier in concept than in application. Codes of ethics are not new. Nor are efforts to encourage ethical corporate practices. In 1991, Congress enacted the U. S. Federal Sentencing Guidelines. These guidelines had a major impact on corporate America and were an effort to positively induce companies to prevent unethical activity by providing mitigation of some

punishment and reductions of fines for companies that proactively made a good faith effort to take steps to prevent unethical activity. Congress used the stick and the carrot approach to provide an incentive for companies to create or modify their ethics programs–good behavior is rewarded when companies involve themselves in crime controlling actions. Elements of an effective compliance program under the Guidelines include a code of conduct or ethics; oversight by high-level personnel; due care when delegating authority; effective training and communication; auditing and monitoring and reporting mechanisms; enforcement of disciplinary mechanisms; and appropriate response after detection. Five years later, a court case provided another wake-up call. In 1996, a court in Delaware held a board of directors responsible for the unethical and illegal actions of the organization and its employees. This case caught the attention of corporations and led some companies to institute compliance and reporting structures.

Of course, the Sarbanes-Oxley Act of 2002 has gotten the most attention recently. Sarbanes-Oxley was enacted in response to the conduct of corporations such as World Com, Enron and Arthur Andersen. While Sarbanes-Oxley largely affects only publicly traded companies, it has led to a trickledown effect. Its requirement that all publicly held corporations disclose whether or not they have a code of ethics for its Chief Financial Officers have led privately held companies and non-profit corporations to enact codes of ethics. The trend is that more companies are adopting and using codes of ethics.

There are several benefits of a formal ethics policy. As described above, there are legal benefits in the form of reduced fines and penalties. However, an ethical working environment is another important benefit. A formal ethics policy can lead to decreased job dissatisfaction, decreased pressure to violate ethical standards, improved communication, increased trust in management, greater consistency in decision-making, and fewer violations of law and regulation, just to name a few. Pragmatically, it is often true that good ethics equals good business. Consumers, employees, and vendors lose trust in companies which engage in unethical activities. Companies that promote trust, honesty, integrity, fairness and respect generally have an easier time attracting quality employees.

Less observable, a strong ethical environment can encourage conversations about ethical issues, questions, and gray areas. It can also provide a comfortable environment for employees to seek guidance and raise concerns. When given the opportunity to communicate expectations and requirements, a company can proactively influence its employees and officers to avoid unethical conduct and violations of law. A formal ethics policy reminds employees and officers what the company deems the right thing to do.

IMPLEMENTING A CODE OF ETHICS

Groucho Marx once said that " The secret of life is honesty and fair dealing. If you can fake that, you've got it made." Ethics is a lot easier in theory, but ethical conduct cannot be faked. Implementing a code of ethics policy takes careful study, time and training. A code of ethics can apply not just to

individuals–board members, officers and employees–but also to aspects of the company's business–ethical investing and pension fund management.

In adopting a code of ethics, a business must decide what type of code to adopt. Does it want a simple statement of aspirational values or does it want a complex manual that describes the company's rules and regulations and which provides detailed guidance about what conduct is not acceptable? What are the company's core values? How does the company want directors, officers and employees to reflect those values?

Codes of ethics are usually broken down into two types (or a hybrid of the two): values-based code of ethics and compliance-based code of ethics. A corporate values statement is an aspirational document which is based on underlying values or principles. It is not easy to enforce. A compliance-based code of ethics is a compliance document that emphasizes rules and written procedures, and, therefore, is easier to enforce. A hybrid consists of a statement of organizational values and how those values are to be applied. For example, because communications should reflect the ethics of the company, a code of ethics that has honesty as a core value may require that internal and external communications be truthful and respectful. The company may also require that product or service claims must be honest, straightforward and defensible. However, as with any company policy, it is important that this new code be reviewed by legal counsel before being formally incorporated into the company's policy.

Once the code of ethics policy is adopted, it must be communicated, enforced and effectively monitored. There is a natural reluctance to talk

about ethics and values; however, a company can integrate discussions of ethics into decision-making, and encourage employees to raise ethical concerns. This can be done through training, providing whistleblower procedures, monitoring and rewards. Almost every company will have employees that made the correct decision in spite of the difficulty in doing so. Communicating these stories is one way to make ethics more meaningful. Employees should understand the company's core values and why they are core values. The company should ensure that its decision-making process factors in the company's code of ethics.

The ethics policy should also be communicated to board members and employees before they join the company; if the company's products and services and the kinds of decisions needed to be made and actions to be taken are communicated, the potential employee or board member can decide whether employment with the company is consistent with their values.

CONCLUSION

In conclusion we would like to depict the effect that Globalization will have on the ethical behavior and understanding of various stakeholders in a global business environment.

STAKEHOLDERS

ETHICAL IMPACTS OF GLOBALIZATION

Shareholders

Globalization provides potential for greater profitability, but also greater

risks. Lack of regulation of global capital markets, leading to additional

financial risks and instability.

Employees

Corporations outsource production to developing countries in order to reduce

costs in global marketplace – this provides jobs but also raises the potential

for exploitation of employees through poor working conditions.

Consumers

Global products provide social benefits to consumers across the globe but

may also meet protests about cultural imperialism and westernization.

Globalization can bring cheaper prices to customers, but vulnerable

consumers in developing countries may also face the possibility of

exploitation by MNCs.

Suppliers and Competitors

Suppliers in developing countries face regulation from MNCs through supply

chain management. Small scale indigenous competitors exposed to powerful

global players.

Civil Society (Pressure groups, NGOs, etc.)

A global business activity brings the company in direct interaction to local

communities with possibility for erosion of traditional community life;

globally active pressure groups emerge with aim to ' police' the corporation

in countries where governments are weak and tolerant.

Government and Regulation

Globalization weakens governments and increases the corporate regulation

for jobs, welfare, maintenance of ethical standards, etc. Globalization also

confronts governments with corporations from different cultural expectations

about issues such as bribery, corruption, taxation, and philanthropy.