THE GLOBALIZATION AND GLOBAL ETHICS: THE CASE OF LESS DEVELOPED COUNTRIES

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Abstract

Global ethics is a guideline for companies in their world-wide operations. However, the case “how to behave ethically”, is not as clear as it is desired, when various cultures and different levels of economic development of countries involved. In this paper global ethics is discussed from the point of less developed countries (LDCs) and some problematic areas are explored.

Introduction

Laws and firms' rules establish guidelines for decision-makers, but there are still many “gray areas” not covered by laws and regulations. Some organizations develop ethical guidelines for their members. Here ethics involve standards about what is “right” and “wrong”. However, in a global setting it is not as easy as it seems to decide what is right and what is wrong. Actually it is the social responsibility of a firm which comes to debate.
In the past decade, there has been a proliferation of ideas about the proper role of global business organizations in a global world society. Interest in the topics such as damage to the environment, improper treatment of workers, and faulty production leading to consumer inconvenience or danger, increased sensibility to ethical issues among individuals and organizations especially in the more economically advanced nations. However heightened ethical sensitivity and increasing global competition create a very difficult management situation in firms in less developed countries. On the one hand the firms in LDCs must devise strategies that will make their organizations competitive in the world economy and on the other hand they must develop strategies to carry out the additional costs caused by implementing ethical standards.

The purpose of this paper is to discuss ethical behavior of firms, especially the ones in LDCs. The paper unfolds as three parts: First, the various definitions of ethics will be stated. We provide a brief review of the business ethics literature with an emphasis on traditional ethical problems. Later we discuss factors that influence ethical decision making in a global setting. In the third part the major components of the global ethical management process will be discussed. And in the final section, the pros and cons of ethical considerations in relation to business activities of firms in LDCs and how these firms are affected by ethical dilemmas (such as cultural consideration and labor practices) globally competitive world environment will be covered.

The Definition of Business Ethics

Ethics can be defined as guiding principles that help us decide between what is right and what is wrong. These principles are acceptable parameters in which the business firms are to operate. Ethical behavior means that the individual behaves in a right way which will be accepted by the whole society. Similar definitions are proposed by various researchers such as; “ethics refers to a set of standards used to judge the rightness or wrongness of a person’s relations to other in terms of truth and justice”; “business ethics is the set of rules that stipulates how business and their employees ought to behave”; “management ethics is conceptually identified as a group judgement, a collective set of principles, as an agreed upon set of standard”. As indicated in definitions stated above the field of ethics covers moral judgments and voluntary actions as to what is right and what is wrong.

The concern about ethics in business is closely related to the issue of social responsibility which is defined as “the doing of societal good unrelated or minimally related to the business activity in view”.

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3 Yeh-Yun L. C., p. 642.
Whatever it is called (ethics or social responsibility) literature that describes the theories of business ethics is abundant. According to De George, “the focus of ethics discussion has moved from theological and religious matters to ecological issues, social problems and more recently social responsibility and business ethics”.¹

From the point of business ethics, it has been determined that the managers who hold the authority and power have the following listed responsibilities;²

1. Individual ethics
2. Institutional ethics
3. Social Ethics

Individual ethics includes practices in private life of an individual and covers the consistent behavior according to the beliefs of an individual. The ethical duties and responsibilities can be listed such as not to tell lies, to keep one’s word, try not to hurt others. These listed duties and responsibilities may change from an individual to another. For this reason, no single universal right decision exists.

Institutional ethics includes democratic management. Besides that, economic and social development, mutual assistance, equal treatment, volunteering, solidarity, justice and peace are also the main elements of institutional ethics. If responsibilities aren’t generally shared, institution may create unethical pressure on individuals. When humans share their expectations, mutual aims and values, moral leaders and working people form a team and a family.

Social ethics stems from the relations of the institutions with society. The responsibilities of the managers are beyond the boundaries of the institutions. Managers have relations with public offices, unions, wholesalers, customers and even competitors. Managers are responsible for environmental pollution, unsafe product and unjust competition. Besides, managers have to abide by the standards determined by professional organizations or chambers, which they are attached.

Ethical problems in regard to individual, institutional or social ethics are abundant. In an empirical research ethical problems that business managers wanted to eliminate are listed as such:³ gifts, gratuities, bribes, “call girls”, price discrimination and unfair pricing, dishonest advertising, unfair competitive practices, cheating customers, unfair credit practices, overselling, price collusion by competitors, dishonesty in making or keeping a contract and unfairness to employees and prejudice in hiring. Although these applications are widely accepted as an unethical behavior, some corporations have questionable practices encouraging unethical behavior.

During last decade, knowledge about ethics has been substantially advanced. 1990s is called as “ethics era” and institutions became more responsible to society for meeting consumption needs and ethical and spiritual expectations as well. In the light of theories developed and parallel applications of theoretical knowledge shed a light to discuss the concern for ethical issues in less developed countries.

² Yüksel, p. 28-29.
Ethical Decision Making Factors

All managers and employees must consider the ethical dimensions of their decisions. In the course of everyday business, managers are faced with many ethical dilemmas. These dilemmas mostly involve standards, rules of conduct, perceptions and moral judgements regarding of what is right or wrong.\(^1\)

Ethical problems are human related and arise only when an individual interacts with other people. "Ethical conflicts then occur when people perceive that their duties toward one group are inconsistent with their duties and responsibilities toward some other group including oneself."\(^2\) Thus, ethical conflicts occur to balance the inconsistencies between various parties such as self, organization, customer, vendor, competitor etc. It is observed that the difficult problems in business ethics occur when it is necessary to find a balance between profits and the broader social good.\(^3\)

Ethical factors effecting managerial decisions are classified in various levels. Kavali et. al., classified factors affecting ethical decision making and behavior into four categories:\(^4\) personal factors, inter-organizational factors, issue related factors and extra-organizational factors. On the other hand, Jackson indicated the multilayered cultural, ethical and legal norms that subsist at local, national, regional, international and global level.\(^5\)

Sometimes there is conflict between that which is legal and that which is right. The following example can be given to this kind of situation: to increase prices in the absence of competition is clearly legal, however to charge exorbitant prices is unethical.

Buller & McEvoy refers to three types of ethical conflicts in decision making:\(^6\)
1. pressures on individuals to violate personal norms,
2. inconsistent cultural norms,
3. host country versus home country interests and values.

The second and the third type of conflicts call for global ethics as a necessity.

Global Ethics

The growth of international business urged the multinational corporations to develop universal ethical standards. One fundamental reason underlying this fact may be the continuous search for new competitive advantages by multinational companies (MNCs). Buller and McEvoy suggest that ethical capabilities can be an important source of sustainable

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advantage in addition to strategic, technological, financial, and organizational capabilities as source of competitive advantage. Ethical capability is defined as “an organization's capability to identify and respond effectively to ethical issues in a global context”.¹

Global ethics and standards appear in different forms and realities. Venardos and Fung state that these ethics and standards cover basic human interactions; respect of different, trust with counterparts and uprightness. Moreover they assert that the core of global ethics and standards is based on self-understanding, lenience of differences, appreciation for the unique and great interest in unknown.²

Global ethics is supposed to emerge from agreement among societies, corporations and other organizations regarding the appropriate ethical frameworks and behaviors in a given situation.³ It is also assumed that global business ethics takes into account moral attitudes and moral reasoning, but the relationship between the two elements is not clear. It is surprising that people of different cultures share similar attitudes toward questionable business practices, but the reasoning process is based on different values.⁴

Business ethics behavior of firms in a global context can be described in two different frameworks: relativism or absolutism. Relativism refers to behave which is applicable to the saying “when in Rome, do as the Romans do”. On the other hand absolutism argues that “home country cultural (and ethical) values must be applied everywhere as they are home”.⁵ This classification indicates that there is no simple answer to culturally bounded ethical questions because “right” or “wrong” may differ according to different cultures. However, some broad principles may be established as Donaldson proposed: respect for human dignity, respect for basic rights and good citizenship.⁶ Although there are some core principles, there is also a space where firms can apply their own judgement based upon the unique circumstances arising in different cultures.

Instead of absolutism or relativism Jackson suggests building a “cosmopolitan” culture which means to be sensitive to cross-cultural differences regarding ethical issues.⁷ Vega proposes “common norming” which indicates the attempt of conflicting parties to find the common moral ground through ongoing dialogue.⁸

Buller and McEvoy propose three possible general responses of MNCs when faced with a cross-cultural ethical conflict.⁹

1. Relativism: Adopting the local norms,
2. Cosmopolitanism: Identifying the common moral ground,

¹ Buller and McEvoy, p. 326-343.
³ Venardos, T. J.; Fung, M. L., p. 16-17
⁴ Barker, T. S.; Cobb, S. L., p. 11-18.
⁵ Buller & McEvoy, p. 327
⁷ Jackson, K., p. 1227-1235.
⁹ Buller & McEvoy, p. 329.
Successful MNCs are aware of the situation that they cannot simply export practices that are effective domestically to overseas operations. Assuming that ethical response of the MNC can be different according to developmental level of the host country how can its various stakeholders will be able to sustain its institutional legitimacy?

According to stakeholders theory, as Buller & McEvoy refer to, a firm that recognizes and effectively satisfies the diverse needs of its various stakeholders such as home and host country institutions, suppliers, customers and employees will be able to sustain its institutional legitimacy. However, the need to differentiate between global and local may occur sometimes. There may be some ethical issues that might require the MNC to follow a universal policy (e.g. a code legislating against child labor) under any circumstances, even if local customs and values allow the employment of young children. On the other hand there may be some ethical issues that might be handled more properly when the local ethics are taken into consideration. Example is Motorola’s specific guidelines for gift giving in Japan which is different than the company’s guidelines on gift giving in other countries.

The Effect of Global Ethics in LDCs

A few hundred giant MNCs dominate the world economy and they impose their own standards on LDCs. What mechanisms do we have available to encourage those business organizations to behave ethically?

Various international agreements and organizations formulated general principles for business practice such as:

- United Nations Code of Conduct on Transnational Corporations
- Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
- International Labor Office (ILO) Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy
- OECD Anti-Corruption Convention (signed by 29 members of OECD and five additional countries in Dec. 1997).
- Apparel Industry Partnership (AIP) (a global organization incorporating several international activist groups has worked to set high standards for corporate conduct and expose inhuman business practices in the industry all over the world.)

1 Buller & McEvoy, p.334.
3 Buller & McEvoy, p. 332.
4 Buller & McEvoy, p. 338.
But there are some shortcomings of these agreements. For example, the values represented by these codes may not fit with those of all countries. We will discuss this issue from two diverse points of view: culture of the countries and labor practices.

**Cultural Considerations.** Ethics is embedded in the culture of a nation. Hofstede defines culture as “the collective programming of the mind that distinguishes the members of one group or category of people from another. The core element in culture are values.”1 Thus, ethics is subject to cultural values and norms.

Ethics may be considered negatively or positively. Negative side of ethics is corruption. Corruption is a taboo in the management literature as Hofstede stated. However, it must be identified because of its frequency in the area of business practices. Hofstede defines corruption as “those in power use illegal means to get the collaboration of authorities or to enrich themselves”.2 Rather stick to the definition, cases must be worked out individually. For example, Hofstede asks if all the official and unofficial side payments to “agents” supposed to be means of corruption? Although formally legal, practices of lobbying and Chief Executive compensation should not be considered similar to corruption? Moreover as indicated by Hofstede, in some cultures like Japan and China gift giving is an important ritual and it is difficult to differentiate whether it is bribery or not.

Transparency International (TI) issues a yearly Corruption Perception Index (CPI) on the internet.3 The 1998 CPI covers 85 countries; the index runs from 1.0 (extremely corrupt) to 10.0 (entirely clean). In the list Denmark with a CPI score 10 is the cleanest and Cameron with a CPI score 1.4 is the most corrupt. As Peter Eigen the chairman of TI noted “scandalously and sadly there are about 50 countries that do not even achieve a score of 5, and there are numerous countries with a score less than 3”. Czech Republic is in the 37th order with a CPI score 4.8 and Turkey is on the 54th with a CPI score 3.4.

Both Hofstede and Berenbeim refer to 1998 CPI on their articles.4 Berenbeim’s interpretation is that there is a growing realization that people do not show respect in these societies for the ancient traditional bribing behaviors of their public officials. It is rather believed that “country’s continued high level of “corruption perception” impedes growth and development” and hence “every culture offers support for basic principles of honesty”.

In order to clarify why some countries were perceived more corrupt than others, Hofstede worked on some statistical analysis. He tried to find out the relationship between CPI scores and economic and cultural indexes. He used Gross National Product per capita and cultural dimensions such as individualism, power distance, uncertainty avoidance and masculinity/femininity derived from his widely known IBM research. He concluded his analysis that sixty-six percent of the differences in CPI could be predicted from a country’s poverty. He declares that “under conditions of poverty, acquiring money in unofficial ways is not just a matter of greed; it may be a matter of survival. Officials, police, and teachers in poor countries are often so ill paid that without side payments they cannot feed their families.” Hofstede also makes a comparison for cultural dimensions. Large power distance increases perceived corruption, masculinity stimulates corrupt behavior, femininity limits it, uncertainty avoidance heightens suspicion of abuse of authority.

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2 Hofstede, G., 34-45.
Labor Practices. There is a tendency to apply international labor standards across the countries. The standards can be regarded as “basic human rights”. In addition, they are universal standards in the sense of being independent of a country's economic development.\(^1\)

Two of the well known labor standards are fair working conditions and prohibition of child labor. For example there is a social clause in debate about restriction of products originating from countries, industries and firms where labor standards are below the certain minimum standards. Producers either must comply with the standards or get the risk to confront with increased barriers to trade.

However, there are arguments for and against labor standards policy. For example, GATT agreements (General Agreement on Trade and Tariffs) prevent nations from trying to raise international business standards since GATT aims the removal of any kind of restrictions for a free trade world economy. In addition, the world Trade Organization (WTO) tries to prevent discriminations against its members and therefore sides with corporations against AIP standards.\(^2\)

Labor standards have been opposed by some countries asserting that that these standards will increase their labor costs relative to other countries not applying the common rule. Moreover some developing countries feel that “trade-linked labor standards are disguised form of protectionism on the part of industrialized countries”.\(^3\) They believe that by applying these standards one of their competitive advantages, such as low wages and low labor cost will be removed and their competitiveness will be eroded. As a consequence, they will lose the attraction of MNCs. Unfortunately, it is possible that some nation states “may suppress wages and working conditions to offer global companies low operating costs as an incentive to establish facilities within their borders”.\(^4\)

As regard the child labor, absolute standards might do more harms than good for children whom the standards are designed to help. If the alternatives to working are worse, (like starving) children would not benefit from prohibition of child work. In case income transfers to families and also educational and training opportunities are available to those children, employment might be less attractive to them.\(^5\) Strictly enforcing the standards without any compensation would lower family welfare who are already desperately poor.

Most American companies, throughout the Fortune 500 voluntarily have signed an ethical commitment drafted together with US officials. These ethical principles are “to develop their company operations in ways that:

1. provide a safe and healthy workplace,
2. use fair employment practices,
3. be responsible for environmental protection,

4. comply with federal, state and local laws, and
5. maintain a corporate culture .... where ethical conduct is recognized, valued, and
exemplified by all employees.”

These examples indicate that labor practices of various countries are culture-specific
and under pressure of economic conditions as well.

Conclusion

MNCs must establish a corporate code of ethics that is globally integrative yet locally
responsive and create an ethical culture which never allows discrimination against LDCs in
deciding ethical issues.

To establish codes of ethics are essential but not sufficient to conduct ethical behavior.
Managers and employees must have the ability, motivation and organizational support to learn
and implement the code of ethics as well as international law and codes of conduct and
therefore must be trained for this purpose. Moreover selection criteria for personnel working
overseas must include ethical considerations such as moral development, sensitivity to
cultural differences in ethical applications, and ability to make sound decisions in situations
when home and host country interests collide.

Unfortunately, unethical acts of fraud, vast abuse and corrupt practices are all around
the world in virtually every aspects of life. Inappropriate gifts, unauthorized payments,
employee conflict of interests, and fiscal infractions are the unethical and illegal problems
most noted. As Burke stated, historically firms were interested with tree E’s as efficiency,
effectiveness and economy which were basic and vital tools in every nation’s development.
But reliance on the early three E’s is not sufficient any more. .... E’s such as Empathy,
Evaluation and Ethics prevail currently.2

Rather then emphasizing on unethical behaviors organizations must try to use ethics
more positively by setting principles such as those dealing with justice, freedom, honesty,
beauty, order and loyalty and employee training must include all these topics, whether the
country is economically developed or underdeveloped.

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1 Burke, F., “Ethical Decision Making: Global Concerns, Frameworks and Approaches”, Public Personnel
2 Burke, F., p. 534.


