GLOBAL BUSINESS ETHICS AND THE MULTINATIONAL COMPANIES

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The globalization of the world’s economies and the intense competition which ensues therefrom require the international business community to adopt standard rules. The adoption of these self-disciplinary rules is the best way that business leaders have of demonstrating that they are motivated by a sense of social responsibility, particularly in light of the increased liberalization of markets.

Much is being demanded of companies because they are prime movers in making globalization happen. Indeed, it is difficult to imagine the emergence of a global economy without the stimulus of business enterprise. The only effective response is for businesses to demonstrate that they are both responsible and accountable. This means that business must engage in dialogue and debate, unafraid to justify itself and explain its constructive and indispensable role in society.

Global business ethics is no longer just a matter of playing by the rules. It’s a matter of making the rules to ensure that the global economy reaches its full potential and everyone gets a piece of the pie. The global companies have the mission to create a stable, healthy global community out of an untamed global frontier. Each emerging market is a new frontier and cyberspace is the wildest frontier at all.

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1. The Specificity of International Business Ethics

Business ethics is an important part of the education of any manager, but managers with responsibility for foreign operations are confronted with many ethical issues that do not arise in domestic business. The distinctive ethical problems of international business are due to many factors, including: different ethical traditions and political and legal systems, diverse forms of economic organization and different levels of economic development, inadequate or ineffectual regulation, especially in less-developed countries, conflicts between national and regional economic and political interests, a lack of background institutions and guidelines for international business, the scope and power of multinational corporations and their ability to evade regulation, and pervasive corruption in some parts of the world.

Companies today are facing multiple challenges that go beyond the traditional objectives of running a profitable business, serving shareholder interests, meeting the needs of consumers and providing a fair wage and good working conditions for employees. Increasingly, companies are responding to these challenges by means of explicit business principles that set out their commitment to act as responsible members of society in the way they conduct their business. When establishing these principles - whether formally expressed or an unwritten part of the corporate culture - companies need above all to maintain a balance between economic responsibilities to customers, employees and shareholders and their responsibilities as global citizens and members of the local communities in which they operate. One reason why companies are increasingly being pressed to solve problems outside their economic area is that they are rightly seen as contributors to the positive aspects of globalization. Research by various international organizations on the activities of multinational corporations has found that they have contributed to raising standards in the countries in which they operate.

Above all, business must demonstrate that:

- global economic development is the best way to increase prosperity within and among countries and create opportunities for millions of people, especially in the developing world, to secure a decent life for themselves and their children;
- companies most effectively establish their credentials of good corporate citizenship by applying their own principles of corporate conduct. These may take the form of formal codes or unwritten values and internal monitoring, appraisal and reporting procedures that guide corporate operations.

2. The Ethical Codes of Conduct

Global businesses cannot abandon the global frontier. It’s all around us. We are no longer insulated by distance. What happens on another continent or in another country is as important as what happens next door. We see this very clearly today. International scandals make headlines daily. Many of the recent incidents have one thing in common: they’re a matter of ethics – or a lack of it. To combat this, many global business are creating codes of conduct, like the ones such companies as IBM, Xerox and Shell Oil have had for years. These three companies, and others, including Levi Strauss, Nestlé, Siemens, Nortel, Matsushita Electric and Canon are taking their efforts further, by incorporating their messages into everyday business practices and making them living documents with global applicability.

Consciousness of the growing interdependence of all people on the earth – globalization – calls for more uniform treatment of people and their environment in every corner of the world. Globalization is one factor that
has pushed multinationals to initiate uniform standards of conduct in all countries in which they operate. It may have seemed acceptable decades ago for Shell to apply lower environmental standards to its drilling in Africa than those applied in Europe or North America, but in an era of acute consciousness of the interdependence of the world ecosystem, the same standards are rightly expected on every continent.

Several changes in the global economy have contributed to the growing interest in corporate social responsibility and ethical codes of conduct. The growth of global value chains, through which Northern buyers control a web of suppliers in the South, has led to calls for the latter to take responsibility not only for aspects such as quality and delivery dates, but also for working conditions and environmental impacts. At the same time, the increased significance of brands and corporate reputation makes leading companies particularly vulnerable to bad publicity. Changing public attitudes are also an important part of the context in which corporate codes of conduct have been adopted. Companies in the North can no longer ignore the impact of their activities on the environment with impunity. Developments in global communications, which have enabled corporations to control production activities on an ever-widening scale, have also facilitated the international transmission of information about working conditions in their overseas suppliers, increasing public awareness and facilitating campaigning activities.

There are two kinds of ethical codes of conduct for multinational companies. We can make the difference between corporate codes of conduct and codes of conduct for multinational corporations. Corporate codes of conduct are individual company policy statements that define a company’s own ethical standards, while codes of conduct for multinationals are externally generated and to some degree imposed on multinationals.

3. Corporate Codes of Conducts

Companies have adopted their own codes “voluntarily” or in direct response to publicized scandals. Public relations preservation of brand image and humanitarian concerns have both been cited as motivating factors in the formation of such in-house guidelines. The implementation of these codes depends totally on the company concerned.

Worldwide interest in corporate conduct was initially awakened in the 1980s by scandals in the defense industry and on Wall Street. Companies viewed business ethics as a way of promoting self-regulation and diminishing government intervention and regulatory action. Corporate interest quickly led to the „institutionalization” of business ethics programs, consisting largely of codes of conduct, ethics officers and ethics training. Among the first companies to establish codes were General Electric, General Dynamics, Lockheed Martin and other defense contractors.

Following the pricing scandals that rocked the defense industry in the 1980s, General Electric became a prime example of an American corporation in need of an image overhaul. In response, the company created a corporate ombudsman’s office, originally for the purpose of examining its government defense contracts. The company also drew up a summary of in-house rules on ethical concerns, called “Integrity: The Spirit & the Letter of Our Commitment”, which is eighty pages long and is available in most languages that are spoken in the General Electric worldwide network.

The recent wave of corporate codes has tended to focus on the impact of multinationals in two main areas - social conditions and the environment. They are part of a much wider debate concerning the impact of globalization on labour and the environment, which is also reflected in the call for social and environmental clauses in trade agreements and within the World Trade Organization.

There are many issue areas dealt with in corporate codes: issues related to the employee’s contract with the company (workplace safety, confidentiality of employee records, employee privacy) and issues focused on employee honesty (purchasing guidelines and security of proprietary information). Codes in the United States are more likely to include sections on the security of proprietary information, while workplace safety is a more frequent subject of European ethics statements. Most codes include some formal statement of the company’s fundamental principles.

Fundamentally, a code of conduct depends on its credibility: the extent to which it is taken seriously by industry, unions, consumers and governments. Credibility, in turn, depends on monitoring, enforcement and transparency; the extent to which foreign contractors and subcontractors, workers, the public, non-governmental organizations and governments are aware of the code’s existence and meaning. A code can be made transparent through its posting and dissemination and through training regarding its provisions. Monitoring can be internal (for example, through a committee, ombudsman, regular reporting obligation, field visit or hot lines) or external (for example, through a non-governmental organization, outside auditor or consultant).

There are four major criticisms of company codes:

1. Vaguely Defined. Corporate codes do not specify precisely the limits of their responsibility. Does the code only apply to the direct employees or also to the employees of the subcontractors and suppliers? And if so, who is considered to be a subcontractor or supplier? Does the code apply to all products? A good code needs to answer these questions. Most company codes do not.

2. Incomplete. Many company codes exclude the right to organize, refer only to child labour or in other ways are not complete.
3. Not Implemented. An important flaw in company codes of conduct is the lack of information on how these codes are being implemented and monitored. Companies often say they instruct their buyers or send special teams to implement and monitor their codes. It is impossible to know if they really do so consistently, because records of these activities are not publicly available for scrutiny or follow-up. Research shows that sometimes they do, sometimes they do not. Sometimes only a questionnaire is sent which management is required to fill in. This implies that anything written about company codes could possibly be true: that the code could be nothing more than a piece of paper that serves a public relations function or, the other extreme, that an extensive implementation and monitoring system might have been developed by the company. Often companies do not have a consistent policy in this respect; they check in some places and monitor some issues, while other places and issues are ignored.

4. Not Independently Monitored. Even if a company has a good code of conduct and it has done it’s utmost to implement it, company-controlled or internal monitoring assumes a willingness to take the company at its word only. Staff of the company, special division, subsidiary or external company involved in such monitoring efforts only report to the company that has hired them. Those outside of company management have no way of knowing if violations have been found, how many, what kind and what steps have been undertaken to improve the situation, to name just a few obvious questions.

4. Codes of Conduct for Multinationals

Codes of Conduct or Guidelines for Multinationals do not have any fixed definition. These codes are not of the companies’ own making, nor are they agreements between companies and the entities which create the codes. In some cases, however, multinationals are involved in the drafting process. The fact that these codes are externally established standards while other corporate codes of conduct are of a voluntary and internal nature has important implications when considering their implementation in corporate practice. The value of such codes is in: setting minimum standards and raising the level of general multinationals behaviour, raising consciousness about the need for standards and in providing guidance for laws that can be adopted at the national level.

Most intergovernmental guidelines for multinational corporations emerged in the 1970s. In the early 1970s, multinational enterprises were widely criticized for their behaviour in developing countries. Host governments and labour organizations claimed that these corporations failed to operate in harmony with local economic, social and political objectives. A number of interrelated developments – decolonialization, new movements and organizations of developing countries – provided the background for these criticisms.

The mood to define a social purpose for multinational companies and control their activities was symbolized by the 1974 United Nations’ resolution advocating a New International Economic Order and by the Report of the Group of Eminent Persons, which was convened by the United Nations’ Economic and Social Council to report on the regulation of multinational companies. The Report gave rise to negotiations on a United Nations Draft Code on Multinational Companies.

In response to pressure from developing countries and human rights groups, several international organizations developed ethics guidelines addressing the conduct of multinational companies. In 1976, the OECD (Organization for Economic Cooperation and Development) adopted its “Declaration on International Investment and Multinational Enterprises”. The Declaration constitutes a political commitment, adopted by the governments of OECD member states, to facilitate direct investment among OECD members. The Declaration contains the “OECD Guidelines for Multinational Enterprises”, which deal with general policies, information disclosure, competition, financing, taxation, employment and industrial relations, the environment and science and technology. All of these requirements are voluntary. Multinationals are recommended to adhere to these guidelines. Member states, on the other hand, are obliged to treat multinationals on a basis equal to that of their own national companies and to the restriction of investment incentives and restrictions. The code is aimed specifically at improving the climate for investment and to put an end to discrimination against multinationals.

In 1977, the “International Labor Organization (ILO) Tripartite Declaration of Principles Concerning Multinational Enterprises” was issued. The principles cover multinationals activities related to labor markets, such as employment, conditions of work and life, industrial relations, consultation, examination of grievances and settlement of industrial disputes. This code is voluntary, despite efforts by unions and developing countries to make it binding.

In relation to multinationals, these codes of conduct are recommendations. Even if the codes have been agreed by a number of sovereign states or such over entities as have been granted international personality by sovereign states, they do not have a status of international law, which would set a binding effect on multinationals operating in those states which have adopted or joined the code. Hence, codes of conduct for multinationals impose no legal, but only moral obligations on companies.

Codes of conduct for multinationals may address any issue relevant to their activities. Codes have in fact addressed a wide variety of issues, including: relations between multinationals in world markets (with regard to advertising, marketing, sponsorship and competition in general), labor markets (terms and conditions of work and equality), environmental standards (emissions, waste or safety in production and transportation) and health and safety issues related to individual products (toys, baby milk substitutes and other products). These codes of conduct can take various forms. Their credibility depends on three main factors: the governments that have adopted them or companies that have subscribed to them (in number, size or nationality), the nature of the
substantive provisions of the code and any related monitoring mechanism (such as investigation methods, reporting on investigation result and dissemination of reports).

5. Conclusion

As deregulation and privatization continue, the global companies are expected to assume responsibilities and roles which used to be the province of the public sector. As business and its effects have greater global impact, corporations are expected to bear the responsibility for the consequences globally.

References

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