

GLOBAL BUSINESS ETHICS

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Summary

Ethical challenges have always been integral to business. Globalization does raise new ethical dilemmas and constraints as well as opportunities. Key drivers of ethical behavior in business include *civil regulation*, broadly public pressure to demonstrate “good behavior,” and the increased levels of complexity in managing extended business processes. Furthermore, the instrumental drivers underlying business ethics should not obscure the fact that it also involves people’s real values, aspirations, and efforts to collaborate in addressing social and environmental challenges.

Global business requires global ethics—but which ones? A sound starting point are the internationally agreed UN conventions covering labor standards, human rights, and environmental security. Beyond this are the profusion of private voluntary initiatives taken by individual companies, company associations, and increasingly multiconstituency partnerships involving business, nongovernmental organizations (NGOs), labor organizations, and governments and intergovernmental agencies. A number of these latter partnerships are beginning to stabilize the international arena of nonregulatory initiatives, including the UN Secretary-General’s Global Compact.

The prospects for business ethics providing a robust basis for competitive advantage and addressing social and environmental challenges depend on continued leadership by individual companies, but also the continued evolution of complementary enabling public regulation.

1. Introduction

Business is about making goods and services that people are willing and able to buy. It achieves this by combining natural resources, financial, social and physical capital, and people's competencies, insights, and energies. Businesses, or the people that run, work in, buy from, and own them, find themselves making ethical decisions every day. How to treat a job applicant who is disabled or pregnant, how to pay their suppliers quickly, and where to invest in new facilities or close down financially unattractive bits of the business. Sometimes these decisions, the resulting actions and outcomes, and the underlying issues, become high-profile *causes célèbres*—such as Nike and labor conditions in their supply chains; Monsanto and genetically modified organisms; Nestle and baby milk; and Total in Burma. More often the ethics of business concern the daily millions of decisions and actions that every business stakeholder makes. Ethics is therefore not a recent invention, or one that is particular to what the media or single-issue groups choose to highlight. Ethics is an integral part of day-to-day business; the question is how it is played out in practice.

Most usually we think of businesses as being created to generate financial returns for their initiators, owners, or managers. Milton Friedman caricatured this in his infamous statement that the central responsibility of business to society is fulfilled by making as much money as possible for its shareholders. Certainly most businesses do indeed seek to earn a financial return on their investments. In finding General Electric to be the world's most respected company, a *Financial Times* survey concluded:

It is not hard to see why General Electric is so widely respected...few companies have ever created so much wealth for their shareholders in so short a period...The company had a market capitalisation of less than \$20 bn when Jack Welch took over as chairman in 1981: last month, as share prices recovered from their early autumn swoon, it topped \$300 bn. "A phenomenal return to shareholders," as another respondent put it.

Financial returns to capital are, however, by no means the sole or even necessarily the most central aim of business owners and leaders.

First, is the large number of "business vehicles" designed specifically to deliver social and environmental "goods." Cooperatives, for example, do business on behalf of over 150 million members worldwide. Many of these were initiated to provide affordable and high quality goods and services to their, largely lower income, members.

Second, is the burgeoning nonprofit sector comprising an extraordinary assortment of organizations designed to deliver social and environmental benefits. Increasingly this sector includes many enterprises providing goods and services. The measured financial income flows through this sector in most developed countries amount to anything up to 3–5% of gross domestic product (GDP). The voluntary sector is one of the most rapidly growing parts of many economies as we enter the new millennium.

Third, are the millions of small businesses that are vehicles for securing the independent livelihood of the families that initiate, own, and run them. Financial rewards are of

course important to these families, but a traditional cost–benefit analysis that factors in their enormous and often poorly-paid “sweat equity” would quickly reveal that there must be other “returns” for the enterprises to be worthwhile.

Fourth, are the growing number of “new social partnerships” that combine the resources of businesses, not-for-profit organizations, and governments. Here we find that businesses are in part seeking financial returns from their involvement in partnerships that have at their core social and environmental aims. However, beyond this instrumental interest in nonfinancial goals lies increasingly an understanding on the part of those involved that contributing to achieving societal aims is an integral part of doing business even where the visible bottom line effects are negligible or even at times negative.

Business ethics needs to be understood in this broader context. Business ethics is too often taken to be about the unusual company, the visionary leader, the organization that is somehow “more than” a business. Certainly inspired leadership plays a role in those enterprises that are notable in their social and environmental responsibility. Equally, however, inspired leadership is required for almost any business to become and remain successful. It is unhelpful to pose the question “should businesses have ethics” since it frames the matter of ethics as somehow “unworldly” or concerning an aberration from “normal” business behavior. The realm of ethics is where people have some degree of choice in how they are to handle dilemmas and take actions that will affect both themselves and others. It concerns how we interpret the rules and norms that evolve organically in society through our own practice, and how we in turn affect those norms. The realm of ethics is far from “other worldly.” It is the world we all inhabit, whether we are in our homes, within our families and communities, or at work.

Today’s businesses are faced with the particular pressures that arise from the current pattern of globalization. Deeply rooted social and cultural norms that have for generations, or centuries, guided business in defining what practices are or are not acceptable are being eroded. This is as true for companies in Jakarta as it is for those in London, large and small. For larger companies, particularly those with publicly traded shares, the pressure to constantly enhance shareholder value creates downward pressure on costs and ever-sharper marketing that penetrates what were previously the private areas of, for example, family and child and youth development. Smaller companies find themselves swept along in increasingly globalized markets, constantly in danger of being absorbed by larger players, or of being stripped of and ousted from their markets by these larger players. This creates pressure to cut costs and can lead to a “race for the floor” in social and environmental standards practices. Bribery, corruption, worker abuse, and damage to the environment are not merely the playing out of bad habits and tradition, as some would claim. These traits of business practice are in part the inappropriate but understandable responses to market pressures.

Yet the pressures of globalization should not be caricatured as *necessarily* making business less ethical. Indeed, many do argue that “open markets” raise the ethical playing field when it comes to some aspects of business behavior and outcomes. However, the globalization of markets erodes traditional ways in which accountability is framed and overseen, for example, in shifting the locus of key decision-making away

from national governments and towards international, intergovernmental, and business institutions and processes. This can undermine more localized accountability mechanisms, particularly those involving direct citizen participation in decision-making. Globalization raises fundamental questions as to what are the most appropriate reference points for business in defining their approach to social and environmental issues, including financial and economic matters, and how these reference points might be institutionalized and their effectiveness ensured. This might concern high-profile issues such as the use of child labor or bribery and corruption. Equally, it may concern the more obscure but equally relevant issues of where corporate taxes are paid, and where legal liability lies for extraterritorial activities. These are all concrete issues concerning practice, but can increasingly only be systematically addressed at the level of corporate and indeed global governance.

2. Framing the Questions

So business ethics is both about the way in which businesses do, and have always done, business, and is also about the specific historical context of contemporary patterns of globalization of markets. Key questions linking these two dimensions of business ethics include:

- What are the contemporary drivers that make social and environmental gains and costs more or less difficult to integrate into business practice and impacts?
- How can norms of desired behavior and outcomes be defined in a world that has both extraordinary diversity and increasingly globalized business and other institutions and processes?
- What are some of the headline initiatives that are, or symbolize, a deeper shift in the approach to business?
- How far can business values and ethics play roles in the societies' handling of these dilemmas and challenges?

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Biographical Sketch

Simon Zadek is chair of the Institute of Social and Ethical AccountAbility and visiting professor at the Copenhagen Business School. He works with businesses, NGOs, and governments as advisor, external reviewer and trainer; and at the governance level of the Global Reporting Initiative, the Global Alliance for Workers and Communities, and the *Copenhagen Centre*. His publications include *Building Corporate AccountAbility* (with Peter Pruzan and Richard Evans), *Partnership Alchemy* (with Jane Nelson), *Ethical Trade Futures*, and *Unlocking Potential: the Business Case for Employing Disabled People* (with Susan Scott-Parker). He is currently completing a book entitled *The Civil Corporation*. Simon can be contacted at zadek@csi.com and further information on his activities and publications can be found at www.zadek.net.