Ethics in international business

Soproni, Luminita

University of Oradea, Romania

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Luminiţa Şoproni
Chair of European Studies and International Relations
Faculty of History, Geography and International Relations, University of Oradea

Abstract

Globalization, technology and the increasing importance of business contribute to a growing public demand for corporate responsibility. The global transactions are nowadays at the crossroads due to the fundamental changes that take place in the world; the business sector has an essential role in indentifying and promoting the solutions to the problems that are blocking the responsible and sustainable economic development of a society. The corporations cannot act isolated in achieving this part, for they have to unify their efforts with their governments, local communities and other institutions and international organizations.

***Keywords**: ethics, international business, corporations, codes of conduct*

Among the eternal business issues we can find the ones related to ethics and behavior. Every time we make a decision or accomplish an action, we wonder if our conscience is clean, if we behave proper. Many wonder what ethics is and how it alters our behavior towards others, especially in a business environment where the competition and profit chase determines us to hesitate or to act out on making decisions.

Ethics is a system of moral principles and methods of applying them. It offers the instruments needed for these to be applied. It holds the language, conception and models that allow the individual to make moral decisions (Ionescu, 1997: 204). Ethics is the science about morals, about right and wrong (Popa, Filip, 1999: 249).

1.1. Business in the international context

The company becomes interested in the international environment when it engages in operations (sales, services, finances and payments, investments) with other states. It needs to pay close attention to the specific of the cross-border operations that come with illicit or illegal temptations. It also needs to keep the intercultural dimension in mind: the product, the service or exported activity will be inserted in a different society, with its own customs, behaviors, codes and values. In international business, considering ethics is based on knowledge of foreign lifestyles and customs and especially of the existing moral principles.

Alongside of technical reason (effective or not, profitable or not, certain or not), the company faces moral reasons coming from customers, partners, social institutions (family, school, church), regional institutions, states and public or private international organizations. Each of these entities has its own vision of the world, therefore determining its behavior and judgment.

1.2. Ethics in international business

According to Velasquez, business ethics represents "a specialized study of moral right and wrong. It concentrates on how moral standards apply particularly to business policies, institutions, and behavior" (Velasquez, 2006:16). Goodpaster has a similar approach: "Business ethics . . . is the study of business action—individual or corporate—with special attention to its moral adequacy" (Goodpaster, 1997:51). Based on these core definitions, Schwartz and Weber consider that "business ethics involves any formal activity taking place among individuals, organizations, or other entities operating within or related to a business context that involves the explicit interaction and/or application of ethical (i.e., moral) standards" (Schwartz, Weber, 2006:386).

Business ethics is an important component of each manager's education, but managers dealing with international operations deal with countless ethic problems that are not found in the internal context. Specific ethic problems that rise in international affairs are due to several factors, amongst which:

- the diversity of political and law regulation systems;
- the diversity of economical organizing forms and levels of economic development;
- insufficient regulations, especially in less developed countries;
- existing conflicts between national and regional economic interests;
- the influenced area and power of the multinational corporations, as well as their ability to elude law regulations;
- corruption in some areas of the world.

Business ethics does not exist in an empty space. Other related business and society concepts or frameworks, such as corporate social responsibility or corporate citizenship, could infiltrate an exploration of a nation's business ethics activity (Schwartz, Weber, 2006: 386).

In order to be able to respond to ethic challenges encountered in international business, managers must understand the increasing complexity of the global business environment and its ethic issues and to develop strategies for decision making and for forming and implementing corporate ethic policies, keeping in mind the conditions imposed by the international business context.

There are differences between firms in how they approach the practice of ethical management. This variation may be attributed to exogenous factors such as socio-cultural factors, and the type and quality of the legal system, as well as endogenous factors such as the form of the organization and the manner in which the relationships between the various stakeholders in the firm are defined (Batten et al., 2008: 3).

The specialists have identified several types of companies, depending on the manner in which they are dealing with the ethical problems (Neck et al., 2009: 15-16):

- *Social Purpose Firms* – which are founded on the premise that a social problem will be solved, yet the venture is for-profit and the impact on the market is typically perceived as economic)
- *Traditional Firms* – which focus primarily on economic mission. They have no explicit social mission beyond running a good and profitable business through the exploitation of market-based opportunities.
- *Social Consequence Firms* – similar to the traditional firm, except that many of their practices have social outcomes, although these social outcomes are not the reason for the firm's existence but an outcome of doing business. The term *corporate social responsibility* most closely aligns with this form of company.
- *Enterprising Nonprofits* – which have earned income activities which very much apply the general principles of entrepreneurship. Additionally, these organizations focus on growth and economic sustainability, and may be funded by venture philanthropists.

There are also *hybrid forms* that have a combination of behaviors and characteristics that are found in more than one type.

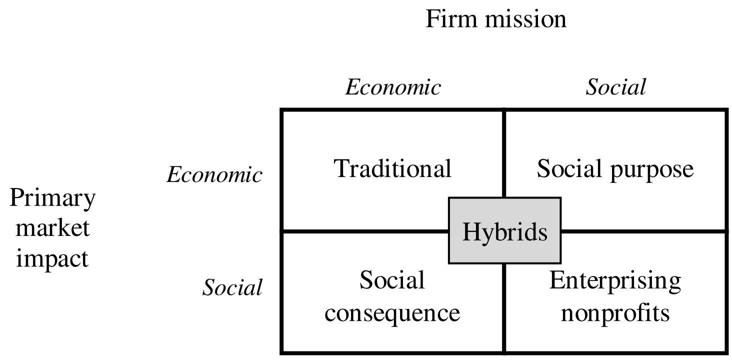

Figure 1. Types of firms

Source: Heidi Neck, Candida Brush, Elaine Allen, "The landscape of social entrepreneurship", in *Business Horizons*, Volume 52, Issue 1, January-February 2009, p.16

Corporate social responsibility, along with such variants as corporate citizenship and sustainability is the new business credo. Many leaders of the business world have come to realize the consequences of globalization for their companies, therefore defending a consensus regarding the fact that companies are liable towards the communities they serve and rely on. This proves that companies in real world are not those rational actors of Adam Smith, led by their own interest and not by good intention. Milton Friedman (Smith's modern American successor), which specifically rejected the notion of corporate social responsibility in a still widely quoted 1970 New York Times Magazine article entitled "The Social Responsibility of Business is to Increase its Profits" is contradicted as well by the economic reality. That is why Tom Price considers that „Adam Smith and Milton Friedman must be spinning in their graves" (Price, 2009: 3).

Many companies argue this trend of thought, which claims that "the business of business" is to make a profit for the share holders, leaving ethics to the philosophers and priests. This standpoint forgets to admit the fact that business cannot prosper in amidst of poverty, ignorance, disease, persecution and anarchy. James W. Rouse, founder of The Rouse Company said "Profit is not the legitimate purpose of business. Its purpose is to provide a service needed by society. If this is done efficiently, companies will be profitable". Clearly, he felt there is no tension between responsible behavior and business success. Companies that effectively exercise their social responsibility, in fact, maximize their stake holder value in the long term (Tarantino, 1998).

A 2005 survey of 1,189 U.S. businesses realized by the Boston College Center for Corporate Citizenship and the U.S. Chamber of Commerce found that almost all (98 percent) large companies make corporate citizenship a priority. And two-thirds of large businesses incorporate citizenship into their business strategy (Dyer, 2005). This strong commitment reflects factors such as advocacy group pressures, fear of (or efforts to shape) government regulations, recruitment and retention of top employees and efforts to make their companies more attractive to investors and customers.

"The Coca-Cola Company must be both a great business and a great corporate citizen", Coke Chairman and CEO E. Neville Isdell said (*Corporate Responsibility Review*, The Coca-Cola Co., 2006:8). General Electric "must be a great company with the capability, reach and resources to make a difference," GE chief Jeffrey R. Immelt said. "But we must also be a good company, because true impact means defining success in ways that go well beyond the bottom line" (*2006 Citizenship Report*, General Electric Co., 2006). After being attacked for buying products from Third World sweatshops, Nike began to publish its supply-chain information and to engage in other good-citizen activities. The Environmental Defense advocacy group has served as a consultant to FedEx, Wal-Mart, DuPont and other corporations trying to improve their environmental records (Price, 2009: 2-4).

The company is not a neutral mechanism that balances costs and revenues, but a social institution similar to a family, association, political organization which forms the human environment. It has its own ethics in order to be able to function alongside of its economic partners. The company's ethics issues result from its inclusion in a wider social environment, with its institutions, codes and values. It may be wrong about economical principles (settlements, avoiding competition laws, disloyal competition…) or its partners' interests (tax evasion, crime concerning work law, abuse of social goods, and inequity towards the minority of shareholders…). It may make mistakes through negligence and underestimation of damage caused. Ultimately, it can show no respect towards the members and values of another company, which isn't necessarily illegal, but brings to discussion the legitimacy of looking to the company with respect.

People want to work for companies that are socially responsible and that create directions for them to be as well. Companies also realize that a healthy community is a great place to operate a business, to hire people, to locate a store, a great place for people to come and shop. The health of the community represents a platform for economic success.

In international business, complexity rises from the combining of two or more national spaces, with its specific restrictions and values, without eluding the international environment with its own standards. The difficulty increases along with considering administrative, logistic and financial techniques which are clearly less familiar than those of the national environment.

1.3. Ethics principles and behavior in business

The mobility of work force, capitals, goods and technology lead to an increasing globalization of transactions and its effects. In this context, laws and instruments of the market are necessary but insufficient to form a behavior. It is necessary that companies feel responsible for their policies and actions and to respect the dignity of all those involved.

Aware of the fact that their company can be a strong factor of positive social change, some international organizations have come up with sets of principles that are to be considered a base for dialogue and action for companies in search of social responsibility.

1.3.1. Codes created by international organizations

The Principles of Business drafted by the Caux Round Table

The Caux Round Table, organization that aligns managers of European, Japanese and American companies, has the mission to favor industrial initiatives and those in the business world as a vital force of innovation and change, in a world that is in a profound alteration. Founded in 1986 by Frederik Philips, the former president of Philips and Oliver Giscard d'Estaing, vice-president of INSEAD, it was initially aiming to reduce increasing techniques between economic blocks. It would initially pursuit to develop constructive relations both in the economic and social area between participant countries, looking into the urgent responsibilities that they had in common towards the rest of the world.

Looking into Rvuzaburo Kaku's recommendations, president of Canon Inc., the Round Table stopped to look at the crucial role that leaders of companies had in reducing social and economical inequities that threaten the planet's peace and stability. They need to establish relations based on trust, understanding and cooperation, starting with respect towards high moral values. Therefore, responsible action of each individual in its own sphere of influence will be possible.

The participants of the Caux Round Table are convinced that the business world needs to have an important role in improving social and economic conditions. Thus, in 1994, they have come up with a set of business behavior principles, called *Principles for business*, which translates aspirations, and offers a global standard that companies can relate to concerning business behavior. This code allows the common values to be identified and the different ones to be conciliated, describing a common conception about a practice behavior that is acceptable to all and respected by all. These principles are originated in three fundamental ethic notions: the Japanese notion of "kyosei", respect and protection of human dignity and responsible stewardship. Kyosei refers to living and working together for the common good, in a manner that combines cooperation and prosperity with healthy and loyal competition.

In 2009 CRT *Principles for Responsible Business* comprise seven principles and more detailed Stakeholder Management Guidelines covering each of the key stakeholder dimensions of ethical business practices: customers, employees, shareholders, suppliers, competitors, and communities.

The CRT 7 principles for business are: Recognize stakeholder constituencies; Create wealth for development of the world; Act with sincerity, candor and truthfulness; Respect the law; The World is one economic community; Sustain the environment; Avoid corruption and illicit dealings[1].

The principles for business are widely used not just by business companies and organizations, but also by universities from all over the world and are included in several different books and publications. They have been offered as a guideline for companies in order to create, examine, implement and monitor their own principles, as real value of each set of principles resides in its utility and implementation in daily activities.

The economic development does not occur independently from social, cultural and political institutions. The institutes, values, and practices that participate in shaping wealth creation are the social capital of a society. This is the reason why starting with 2005, Caux Round Table makes a top of countries taking into consideration an indicator called *Social Capital Achievement (SCA),* which measures the social capital of a country. SCA is an aggregate of three community sub-systems: economic activity, social/cultural variables, and legal and political institutions. The economic components for the SCA rankings embrace GDP per capital and sovereign currency ratings. Relevant cultural variables and social richness are modeled by indices of corruption, economic freedom, political freedom and human development. Legal and political institutions can be assessed through measures of the rule of law, 12 core best practice standards for management of financial institutions, and other governance indicators.

Countries with high levels of social capital achievement are more economically prosperous and provide a higher quality of life for those who live in them. Countries with low levels of social capital are more prone to poverty, and more severe economic, political, and social inequities. On the top places (SCA > 0.78) there are countries like Denmark, Finland, New Zealand, Australia, Luxemburg, Norway, Netherlands, Switzerland, whereas on the final places (SCA < 0.30) we can find Venezuela, Tajikistan, Angola, Turkmenistan, Chad, Sudan, Guinea (Young, Lindstrom, 2009).

Behavior principles of Caux Round Table require that the company makes the rules of the game in order to be an agent of positive social change. They have probably touched a sensible cord, as today they are the most widely accepted ethic standards of business behavior. They are therefore an outstanding accomplishment. This accomplishment, however, induces a challenge: principles lose their meaning unless they cause action. Therefore, the time has come for companies to behave according to these rules.

Global Sullivan Principles

Issued in 1999, the *Global Sullivan Principles of Social Responsibility*, developed with the input of several multinational corporations, provide a framework by which socially responsible companies and organizations can be aligned.[2]

The principles include eight broad directives on labor, business ethics and environmental practices of multinational companies and their business partners. The *Principles* were written by the Reverend Leon Sullivan, whose original Sullivan Principles provided guidelines for companies doing business in South Africa during the period of apartheid. Companies endorse the *Principles* by publicly pledging to integrate them into their operations. Continuing support requires that companies provide an annual letter to Reverend Sullivan restating the company's commitment and outlining progress to date.

Business ethic rules for Rotary International

Rotary International is one of the largest aid organization in the world (more than 30.000 clubs and 1.2 million members) formed of business people who encourage the usage of high ethic standards in all areas and contribute to the good understanding and peace in the world. It has elaborated one of the most highly used ethic codes in business, called "The 4-Way Test". According to it, each person needs to ask themselves the following questions referring to things they think, say or do: Is this true?

[1] Caux Round Table, "Principles for Business", *Caux Round Table* website, http://www.cauxroundtable.org/index.cfm?&menuid=8

[2] Global Sullivan Principles of Social Responsibility, http://www.globalsullivanprinciples.org/principles.htm

Is it just for all those involved? Will it lead to good understanding and consolidation of friendship? Will all those involved benefit from this?

They are banal questions, but represent some of the most important ideas that should be pursuit in life. “The 4-Way Test” is universally valid. It was created in 1932 by a member of the Rotary club who was dealing with the most difficult situation that can occur in business: bankruptcy. Even during the Great Crisis he gave credit to these simple questions in order to save his company. Ever since, the test has been translated in over one hundred languages and has been published in numerous publications.

In 1989, Rotary International has created a broader and more specific to the business world set of rules concerning ethic standards, called *“Declaration of Rotarians in Business and Professions”*:[3]

As a Rotarian engaged in a business or profession, I am expected to:

- Consider my vocation to be another opportunity to serve;
- Be faithful to the letter and to the spirit of the ethical codes of my vocation, to the laws of my country, and to the moral standards of my community;
- Do all in my power to dignify my vocation and to promote the highest ethical standards in my chosen vocation;
- Be fair to my employer, employees, associates, competitors, customers, the public, and all those with whom I have a business or professional relationship;
- Recognize the honor and respect due to all occupations which are useful to society;
- Offer my vocational talents: to provide opportunities for young people, to work for the relief of the special needs of others, and to improve the quality of life in my community;
- Adhere to honesty in my advertising and in all representations to the public concerning my business or profession;
- Neither seek from nor grant to a fellow Rotarian a privilege or advantage not normally accorded others in a business or professional relationship.

Business relations are built on trust. Trust is the most important element within a work relation. When reflecting upon the way in with your actions will affect others, think of it on long term and do whatever you can to say the truth, in order to be fair to everybody, to create good understanding and friendship and be sure that whatever you do is for the benefit of all. This is the philosophy of those at Rotary International, which determines ethics to become a non-problem (Hart, 2000).

Global Reporting Initiative

The GRI[4] (issued in 1999, but development is ongoing) is an international reporting standard for voluntary use by organizations reporting on the economic, environmental and social dimensions of their activities, products and services. Using input from reporters and report users, the GRI has sought to develop a list of specific indicators for reporting on social, environmental and economic performance. The GRI, since it is a non-financial reporting framework, does not provide recommendations on business conduct, but the framework is necessarily underpinned by norms for business conduct. The GRI is led by the Coalition of Environmentally Responsible Economies (CERES) and includes NGOs, corporations, consultancies, accounting firms, business associations, academics and others. UNEP provided some financing. The GRI does not assess companies’ conformity with its reporting guidelines.

In March 2009, the board of GRI adopted *The Amsterdam Declaration on Transparency and Reporting,* which contains a call on all governments to extend and strengthen the global regime of sustainability reporting.[5]

1.3.2. Ethics within the global community

[3] Rotary International, “Declaration of Rotarians in Business and Professions”, http://www.sumterrotary.org/Declaration.pdf

[4] Global Reporting Initiative, http://www.globalreporting.org/AboutGRI/

[5] Global Reporting Initiative, „The Amsterdam Declaration on Transparency and Reporting”, http://www.globalreporting.org/CurrentPriorities/AmsterdamDeclaration/

Although a mutual effort is required, many consider that there must be a leader in the area of business ethics and social responsibility. Business people and international organizations agree that the business environment is the one which needs make this effort. Governments still place national interests ahead of the global ones and local communities often fail to notice the strong connection between the global prosperity and their own prosperity. Many other institutions have one purpose, excluding the others: environment protection, protection of the workers' rights and ceasing corruption.

Scandals connected to globalization make the front page of newspapers daily. Many of these incidents have something in common: they represent an ethic issue or lack thereof. In order to prevent this, many global companies create behavior codes just as IBM or Xerox have done a long while ago. These companies, like others, such as Levi Strauss, Siemens, Nortel, ITT Corporation, Matsushita Electric and Canon go even further and include their messages in their business practice and daily affairs, turning these into vital documents with global applicability (Tarantino, 1998).

Many companies build credos of their organizational philosophies and state their fundamental values, which include ethic values as well. Avon Cosmetics, Toys R Us and Otto-Versand (the largest company of postal sales, with headquarters in Germany) are the first to have signed the first universal standard of ethic resources: Social Accountability 8000. SA 8000 is an initiative of the Council for Economic Priorities, a research organization based in New York. It offers a common general environment regarding ethic resources for companies of any size and any type from all over the world. It is based on the principles of international human rights norms as described in International Labor Organization (ILO) conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights. It measures the performance of companies in eight key areas: child labor, forced labor, health and safety, free association and collective bargaining, discrimination, disciplinary practices, working hours and compensation. SA8000 also provides for a social accountability management system to demonstrate ongoing conformance with the standard.[6]

Global companies exert a strong influence on society, with both benefic and negative effects. Social contributions of global corporations are connected to creation of new work places, the improvement of life standards in the host areas, the ease of access to modern technology offered by business or management expertise, the introduction of ethic practices within the competition and the creation of relations within the community based on social responsibility. The disadvantages induced by business globalization include power abuse within nations where institutions exert a reduced control, bribe and corruption, loss of work places, disrespecting the human rights, involvement in political affairs and influence abuse, pollution and negative effects upon the environment.

There are factors that increase the chances of success of the non-ethic behavior in international business when

- within the host culture, men have more power than institutions;
- there is an unbalanced distribution of power and wealth in the host culture;
- the company's values of internal cultures are offered by the market;
- competition in that particular branch is very strong.

Thus, it is necessary that all global companies adopt and respect a series of guidelines in order to be able to solve some problems of a certain community and for their influence upon society to be positive. They need to:

- develop politics concerning non-discriminatory usage of work force and to promote equal work opportunities;
- respect the freedom of thought, conscience, religion, opinion and expression;
- maintain ecologic balance, to protect the environment and to adopt measures to avoid environmental deterioration;
- elaborate a "win-win" type of economic partnership report for each host state and to engage long term relations with the host countries.

Behavior codes in global business

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[6] Social Accountability International, http://www.sa-intl.org/index.cfm?fuseaction=Page.viewPage&pageId=472

The primary purpose of each corporation is to administrate its business effectively, without thinking that *the only business of business is business*. It needs to profit by the favorable opportunity that is offered to contribute to a greater stability and prosperity. Many leaders of the business world have come to realize what the implications of globalization are to their companies, defending a unity concerning the fact that companies are responsible to the communities they serve and depend on the necessity of elaboration of business behavior codes.

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.

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 codes can take a number of formats and address any issue – workplace issues and workers' rights being just one possible category. Also, their implementation depends totally on the company concerned. Potential authors of a code are the founder, board of directors, CEO, top management, legal departments and consultants. The process can involve employee representatives and/or randomly or otherwise selected employees.

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* and other defense contractors.

Corporate codes of conduct existed prior to the movement of the 1980s. For example, *Johnson & Johnson's Credo* was published in 1943. As early as 1935, general Robert Wood Johnson urged his fellow industrialists to embrace what he termed „a new industrial philosophy". Johnson defined this as the corporation's responsibility to customers, employees, the community and stockholders.

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[7].

The 1990s saw a proliferation of corporate codes of conduct and an increased emphasis on corporate responsibility. These emerged in the aftermath of a period that saw a major shift in the economic role of the state, and in policies toward transnational corporations and foreign direct investment (Jenkins, 2001).

The Conference Board (a non-profit, non-advocacy business membership and research organization, connecting senior executives from more than 2300 enterprises in over 60 nations) considers three categories of codes[8]:

- *Compliance codes:* directive statements giving guidance and prohibiting certain kinds of conduct.
- *Corporate credos:* broad general statements of corporate commitments to clients, values and objectives.
- *Management philosophy statements:* formal enunciations of the company or CEO's way of doing business.

[7] International Labour Organization, „Corporate Codes of Conduct", http://actrav.itcilo.org/actrav-english/telearn/global/ilo/code/main.htm

[8] *Ibidem*

Batten et al. have identified three dimensions of ethical practices in corporations (Batten et al., 2008:4):

- *Written codes of ethics*
- *Forums for the discussion of ethics,* which provide an informal mechanism for developing and monitoring ethical practice in the firm.
- *Environmental sensitivity* – formal written environmental policies and practices.

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.

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. They address a limited number of issues. Many company codes exclude the right to organize, refer only to child labor 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.

Codes of Conduct for Multinationals

The Codes of Conduct or Guidelines for Multinationals 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 consists in setting minimum standards and raising the level of general multinationals behavior, raising consciousness about the need for standards and in providing guidance for laws that can be adopted at the national level.

The first international code of conduct for multinationals was created by the *International Chamber of Commerce*: "Code of Standards of Advertising Practice" in 1937. Since then, the Code has been revised a number of times and a number of new marketing-related codes have been introduced by the International Chamber of Commerce. These include the "International Code of Sales Promotion", "International Code of Practice on Direct Marketing", "Code on Environmental Advertising", "International Chamber of Commerce Code on Sponsorship" and the "International Code of Marketing and Social Research Practice". The codes of the International Chamber of Commerce set rules for member companies and intend to restrict inter-company competition to certain acceptable forms, in order to help prevent competition from damaging the environment or society in locations where the companies operate.[9]

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*[10]. 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*[11] (revised in 2000), which deal with general policies, information disclosure, competition, financing, taxation, employment and industrial relations, the environment and science and technology. The Guidelines are recommendations covering some areas of business conduct addressed by governments to multinational enterprises. While observance of the recommendations by enterprises is purely voluntary, adhering governments sign a binding decision to participate in Guidelines implementation and to promote their observance by enterprises operating in or from their territory. The code is aimed specifically at improving the climate for investment and to put an end to discrimination against multinationals.

The ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy[12]*,* issued in 1977, is a global instrument designed to provide guidelines to governments, employers and workers in areas of employment, training, conditions of work and industrial relations. All core labor standards are covered in the Declaration. Although it is a non-binding instrument, its implementation is nevertheless the object of regular reviews and there is a procedure for examining disagreements concerning its application by means of an interpretation of its provisions.

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.

Anyone may introduce a code. Besides governments and intergovernmental organizations, codes have been introduced by trade union organizations, employers' organizations, various environmental, consumer, investor, religious, ethical and other organizations and by various groups protesting certain international phenomena. Some of the codes have been adopted multilaterally, some unilaterally. 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 (for example, with regard to advertising, marketing, sponsorship and competition in general), labor markets (for example, terms and conditions of work and equality), environmental standards (for example, emissions, waste or safety in production and transportation) and health and safety issues related to individual products (for example, 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

[9] International Labour Organization, „Codes of Conduct for Multinationals", http://actrav.itcilo.org/actrav-english/telearn/global/ilo/guide/main.htm

[10] OECD, „The Declaration on International Investment and Multinational Enterprises", http://actrav.itcilo.org/actrav-english/telearn/global/ilo/guide/oecddec.htm

[11] OECD, „The OECD Guidelines for Multinational Enterprises",

[12] International Labour Organization, „Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy", http://actrav.itcilo.org/actrav-english/telearn/global/ilo/guide/triparti.htm

monitoring mechanism (such as investigation methods, reporting on investigation result and dissemination of reports).

Conclusions

Business globalization, with its multiple consequences, has been accelerated during the previous years by three phenomena: advance in communication technology which has created an explosion of information; massive cross-border flows of capitals, goods and services; abolishment of communism. However, despite opportunities for social progress being greater than ever, the benefits of globalizations are not equally distributed, hence human dissatisfaction and risk of social agitation.

Many global companies have become huge; they operate in a manner that doesn't keep borders in mind and cross many Nation States with their qualities of entities and have the largest influence upon global trade. Meanwhile, distrust and lack of understanding of business in some places make it difficult for business, as well as the benefits that it can bring to the society, to progress.

Given the circumstances, the business world needs to come up with new initiatives. Its primary responsibility is to act with competence, respecting the interests of all its actors. But for its own sake and that of the society as a whole, it should become more active in search of solutions for global problems and the development of a growing cooperation with governments and other institutions.

In the era of "global village", transnational companies operate under the critic watch of mass media, international organizations and citizens. Their respecting the human rights, business partners and consumers is perceived more as a normal part of their responsibility as well as respect towards culture and environment; the more so, as these companies operate in an uncertain and risky political environment.

Behavior codes, as an expression of value and optimization of values, represents an integral part of corporative governance. In order to act based on ethic principles within the contemporary market, global companies need to make sure that these behavior codes have become culturally coherent to all their employees. When is a behavior code not enough? The answer, relatively simple, is: when there is a cultural contradiction between the desired behavior and the existing practices.

Solving the complex problems created by globalization needs a joint effort of business environments, governments and other institutions. If acting separately, these powerful players would fail. But collaboration allows them to use local patterns in international context and to find multiple solutions to complex issues. Partnership accomplished in several cities where companies work together with local authorities, central governments, educational institutions, emergency services and interest groups may be adapted to the case of global initiatives. Although the difficulties in accomplishing efficient and long term collaboration are hard to ignore, the business world needs to have initiative and to persevere in this process.

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