Governance and Business Ethics in Developing Countries

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Abstract

Globalization and rise of emerging countries attracted many western companies to the rapid developing markets. These new locations are much different from their home countries in terms of social, economic, political and cultural aspects that have important effects on managerial practices including governance and business ethics. Western companies need to go beyond the host countries regulations for implementing ethical standards and should do the trade-off between following their home countries ethical practices and host counties ethical concerns. Based on comprehensive literature review, this paper develops several propositions for empirically testing in a future paper.

Keywords: Business ethics, Developing countries, Globalization

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1. Introduction

The free flow of Goods & capital and opening of national borders towards foreign investment and know-how have contributed tremendously the rapid Globalisation process in the world for the last twenty years. The fierce competition and financial notion of "Share Holders Value Creation (SHVC)" in any cost put sometimes some managers to take some activities which can't be accepted from the ethical point of view but may be there is no direct conflict with the Law. This is where the Ethical responsibilities are essential as laws are not adequate (Carroll, 2004). The pursuit of individual interest has been identified as pecuniary profit maximization and, in this sense, Peter Drucker states that this has been the fundamental motivation of any economic agent, even before capitalism was born and Galbraith pointed out that the lack of consideration of "other motivations", apart from earning money, has been one of the biggest mistakes in economics (Galindo, & Cuevas, 2008). The ethical concerns in Business fall in this "other motivations" and try to remedy the shortfalls of economic theories. Thus the field of Business Ethics (BE) is considered as relatively recent field. As it is impossible to cover all the aspects in this paper, we would go first for the conceptual aspects of the Ethics and then try to shed light on the importance and challenges of Business Ethics in International Business as well as the way to operationalize this in international business context.

2. Ethics in the developing: A multidimensional concept

According to Etymologic meaning, the word ethics comes from the Greek word "Ethique", which meant "morals". In the classical sense, Ethics is considered as the science of morality. The Philosophers and thinkers have studied the various religious doctrines (Jewish, Christian, Islamic and so on ...) on value systems to understand the origin, the nature, the foundations, the principles and the logics of good and bad. In short, they made a new "science", the philosophical study of moral ethics, (eg. Spinoza Ethica, Wolff Ethica ...).

Ethics is commonly defined as a set of principles prescribing a behavior code that explains what is good and right or bad and wrong, it may even outline moral duty and obligations generally (Henderson & Williams, 2002). However, this conventional definition is far too static to be useful as businesses these days must operate in a dynamic environment. In a dynamic environment, Ethics can be defined according to Charles Powers and David Vogel (1980) “In essence ethics is concerned with clarifying what constitutes human welfare and the kind of conduct necessary to promote it”.

In contemporary sense, Ethics should not be confused with the law and legal systems. The law is the product of the power of a sovereign state, which is implemented under threat of sanctions. (if the state is democratic, the law is the expression of the will of the majority of citizens). Any law seeks to be moral and just, but it is never complete, as it has to be refined by judges creating jurisprudence in its applications and constantly changed to reflect the changing world, technology and mores. The legislation that says "everything which is not forbidden is allowed," denies the moral and ethical values. Ethics also differ from deontology as the deontology is a set of rules for a particular professional practice, which are proposed by representatives of the profession and can be imposed when the state has delegated some of its powers to "a professional body" par example, the College of Physicians. The deontology is at the service of an organization, whereas ethics is for “public good” and can be contradictory with the interest of an organizational practice. In short, the difference between Ethics, law and moral can be defined as follows "The law decides, the moral orders, ethics recommends".

Currently, there are few different kind of ethics such as environmental ethics, bio-medical ethics, ethics in war, business ethics, financial and accounting ethics. This emergence of Ethics has caused a number of statements and ethical codes (Declaration of the Human Rights, 1947 Nuremberg Code, Code of October 1949 in London, Helsinki Declaration of Alma-Ata 1978, Manila 1981, European conference of 1987). In our current paper, we will discuss about the Business Ethics. According to the Anglo Saxon’s “Utilitarian” conception, this concept is viewed as a profitable concept because “Ethics pays”. Business leaders increasingly recognize the direct relationship between fulfilling a company’s responsibilities and corporate survival. The respect to ethical standards helps organizations in the following way:

- *A Marketplace Advantage*: Customers and investors cite corporate practices and values as primary considerations in their decision-making.

- *Superior Employee Performance*: Companies with sound business practices and established values report improved employee morale, reduced employee turnover and increased productivity.
- *Reputation Management*: Once damaged by scandal or unethical behavior, a company's reputation may never recover - resulting in lost revenue, low employee morale and increased governmental and public scrutiny. Emphasizing responsible business conduct is the surest means of preserving a company's intangible assets.
- *Powerful Legal and Financial Incentives*: International regulatory developments provide strong legal and financial incentives to corporations that establish standards of conduct and provide ethics education and training to employees.

The entrepreneurs or managers need to implement ethical standards to keep or improve the image as it is considered, in the long term, that the investments in respecting ethical norms pay back. So there must be a code of good conduct and respect for others in order to generate respect and trust. This means business managers should establish the ethical values in the business dealings (respect for the word, the quality of the goods ...) and the honesty with suppliers and customers. Business Ethics (BE) is then be considered as a means of competitive advantage in global marketplace. Some business people argue that there is a symbiotic relation between ethics and business in which ethics naturally emerges from a profit oriented business (James Fieser, www.utm.edu). According to this school of thought, as consumers increasingly demand the safe products and workers demand the privacy and decent work environment, then they will deal with companies which meet their demands. Businesses that do not heed these demands will not survive.

Business Ethics is defined as to take in consideration of the responsibilities in relation "with others" in the framework of management and free market economy. This "others" can be the clients, employees, managers, shareholders, competitors, community, society, planet and environment. Business Ethics deals with the behavior of individuals but also social groups, enterprises, associations to which these people belong to. So Business Ethics is a form of applied ethics in a field which deals with the rules and principles of the Ethics in context of the Economic and Business affairs, the various moral and ethical questions which arises in economic and business context, and The obligations and responsibilities for a person who deals with the Business activities.

In general, the business ethics is a normative discipline where the specific ethical norms are defended and then applied This concept judge the business activities which is good or bad or what should do or not to do. With some exceptions, the theoreticians of the Business Ethics are less interested in the foundation of the Ethics (Meta Ethics) and more interested in specific business issues. Some of these issues are ; Ethics of the Finance and Accounting, Ethics of the Human Resource Management, Ethics of Marketing, Ethics of production and Ethics of Intellectual property etc.

The rapid globalization has helped to emerge many types of constraints in international business. Some of them are ; The cultural relativity and the ethics in different countries of the world, and Heterogeneity of social norms in across the world, par example, the children workers, heterogeneous social norms in many parts of the planet.

The Business Ethics can be seen from different point of view as there are various kind of **stakeholders** related to the business organization and its surroundings and sometimes they have conflicting interest among themselves. According to Henry Sidwick, the most important role of the business ethics is to harmonize and reconcile with the conflicting interest among its stakeholders. The philosophers and theoreticians in Business Ethics differ in the "end purpose" of the business in human society. Some of them think that the principal purpose of the Business is to maximize the financial return or profits of its owners (**stockholders**) or in case of a company enlisted in the stock exchange, for its shareholders. According to this perspective, only those activities which increase the profitability and shareholders value should be encouraged. Some authors even think that only those companies are to survive in a competitive business environment which put "the maximization of profit" on the top of everything else. However, more and more researchers are in the view that the companies for their own interest should respect the laws and conform to basic moral values and rules. The reason is that if these companies don't follow the laws and basic moral values and rules, they will pay very high price at the end or loose their reputation among the consumers. Economist Milton Friedman is the leader of this school of thought in Business Ethics (BE). He said "There is one and only one social responsibility of business- to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman, 1970, P.126).

There are some other authors who consider that the companies are as like social institutions and they have moral obligations beyond the fulfilling the interest of its stockholders or shareholders and these obligations don't limit to the respect of the law. They think companies have the responsibilities to their ***stakeholders*** and these stakeholders have the right to oversee the way these companies function and some authors even in the view that these stakeholders have even right to the governance of these companies.

Some authors incorporated the social contract theory to the business world and think that the companies are like a quasi-democratic associations and the stakeholders are its constituency. This approach became particularly popular in the 90s following the re-dynamisation of the contract theory in political philosophy, which is largely due to the "Theory of social justice" of John Rowls (2001) and to the emergence, in the 80s, of the consensual approach to solve the business world's problems.

3. Ethics and Social Corporate Responsibility (SCR)

The corporate ethics are evolving into two separate fields: *Business Ethics* (BE) and *Corporate Social Responsibility* (CSR). BE is concerned to *prevent harm* while the objective of CSR initiatives is to *do good*. The difference of the BE and CSR can be explained in terms of the following four areas of distinction (Altham, 2004, London, England); Relation to regulation, Reactive versus proactive strategy, Identification of stakeholders, and Extent of responsibility to stakeholders.

3.1 Relation to Regulation

The BE is relatively a recent phenomenon and was developed in the 90s in the USA. The motivation for many BE programs are compliance with regulatory guidance and company standards of conduct. Business Ethics (BE) programs also provide a method of managing risk by developing early warning mechanisms to identify and address potential problems. These methods of managing ethical issues prevent harm, first by defining boundaries of acceptable behavior, then by mitigating such potential damages as monetary penalties, loss of contracts or loss of reputation.

CSR dates to the 1950s when academics and corporate leaders began to recognize and articulate the impact of corporations on society. Today, numerous constituency groups recognize what pervasive effects business has in such areas as the community and the environment, in addition to the economy. Now more than ever, demands are being placed on business to have a positive effect in these areas. The general public's expectations of corporations have risen: corporations are no longer expected only to obey laws, but also to be accountable to higher principles and values like economic justice, human rights and environmental stewardship.

3.2 Reactive or Proactive Strategy

Another distinction between BE and CSR can be drawn from the strategies that each approach deploys. For example, ethics officers focus on responding to hotline calls: employee questions and concerns. Therefore, they become involved in resolving a problem only after it has been identified. While this reactive strategy does little to prevent a problem, it can succeed in minimizing the risk of more serious problems. Resolving a problem can, however, lead to the development and implementation of processes and procedures to help avoid the problem's reoccurrence.

CSR's approach involves the use of proactive strategies, like creating new business practices to initiate change. Ironically, by sticking its neck out in the support of certain causes or values, a CSR company may actually increase rather than minimize its risk, depending upon which causes or values it elects to support. Many companies have also used CSR as an effective marketing tool to enhance their reputations (Tsalikis, & Fritzsche, 1989). Several critics have reported that companies have used CSR programs as a means to effectively deflect criticism or public outcry when they do err.

3.3 Identification of Stakeholders

Most business ethics programs are focused internally by making employees responsible for their behavior with regard to other employees, as well as with respect to the company's other primary stakeholders (Kimiagari, Keivanpour, Mohiuddin & Van Horne, 2013). Codes, therefore, often identify areas of potential harm in the immediate relationship a company has with shareholders, suppliers and customers. For example, a code might espouse the principles of honesty and fairness in contract negotiations because their absence would increase the possibility of harm to the relationship. The CSR approach typically defines stakeholders more broadly and is more concerned with the company's responsibility to the community. Such an approach recognizes a contractual bond between business and society, whereby society provides essential resources to businesses in exchange for social benefits.

3.4 Extent of Responsibility

Once a company has identified its stakeholders, the extent of responsibility it assumes for these stakeholders varies according to whether a BE or CSR strategy is employed. A company might implement a BE program to prevent such employee problems as abuse by managers, sexual harassment and discrimination. Few companies develop ethics programs with elements that take responsibility for doing well on behalf of their employees, like reviewing family benefits or addressing unfair pay scales. The CSR is implemented, generally, after the bad reputation and very often extend to the community development in order to regain the lost reputation.

4. Theoretical foundation of Business Ethics

The rapid globalization and failure of market forces or invisible hands of the market to regulate the business transactions have promoted many authors to raise the ethical questions in Business dealings. Even though the BE is relatively young field of research and studies, there emerged considerable numbers of theories and scientific work during the last 20 years. In this paper, we discuss briefly about the two most cited theories; Integrated Social Contract Theory (ISCT) and Stakeholder Theory (ST).

4.1. Integrated Social Contract Theory (ISCT)

This theory was developed by Donaldson and Dunfee (1999). The ISCT incorporates empirical findings as part of a contractarian process of making normative judgments. This theory was based on the two concepts such as "bounded moral rationality" and "social contracts». The authors introduced four new concepts such as Hypernorms, Consistent Norms, Moral free space and Illegitimate Norms (Donaldson and Dunfee, 1999).

Hypernorms : These include fundamental human rights or basic prescriptions common to most major religions. The values they represent are by definition acceptable to all cultures and all organizations (Izraeli, 1988).

Consistent Norms: These values are more culturally specific than the hypernorms, but are consistent with other legitimate norms including those of other economic cultures. The ethical codes and vision-statements of most corporations fall within this norms.

Moral free space: These norms are unique and very often attached with the cultural belief. This is the crucial stage where managers need to be trained in international business context and to follow the universally applicable principles (Institute of Moralogy, Japan). These principles are self-renunciation, realization of benevolence, precedence of duty over personal rights, respect for ortholinons (benefactors who contributed to the development and happiness of humankind) and enlightment/salvation.

Illegitimate Norms: These are norms which are contradictory with other norms in every culture and must be avoided.

Derived from the roots in classical and social contract theory, the ISCT prescribe that the conflicting interest among the different stakeholders can be solved by the fair agreement among the parties involved through using in combinations of following principles; Macro principles that every rational person will accept the macro principles and Micro principles that are formulated by the consent of the parties involved.

The critics of the ISCT says that the defenders of this theory along with its foundations in social contract theory neglect the essential point in a corporation, they take a company as a property of someone and not as a mini-state where all the stakeholders have their say and implement social justice concepts.

Some other critics of this theory say the moral principles on which the ISCT is based are too **general.** These principles do not tell the specific context of international business. These are abstract in nature so these will be difficult to apply to concrete situations and consequently not give clear guidance in complex situations. An alternative approach is to focus on concrete situations that affect the particular interests of consumers, workers, stockholders, or the community. The stakeholder approach to business ethics attempts to do this systematically.

4.2 Stakeholder Theory

A stakeholder is "any individual or group who benefits from or is harmed by or whose rights are affected (e.g violated, restricted or ignored) by an organization's actions (Werhane & Freeman, 1999).

The stakeholder theory was popularized by Professor Robert Phillips by his book on "Stakeholder theory and Organizational Ethics". According to him, Equating share ownership with firm ownership is unjustified because the firm is an independent entity that is not "owned" by anyone (Phillips, 2004). This theory includes groups such as financiers, employees, customers, suppliers and local communities as the stakeholders and to whom the organization has incurred obligations of fairness. He divided stakeholders in two distinctive groups as normative or legitimate stakeholders (i.e. financiers, employees, customers) who owed an obligation by the organization and its leaders, while the second group is derivative stakeholders who hold power over the organization and may exert either a beneficial or harmful influence on it. Managers need to communicate with stakeholders which are considered as a moral obligation. Individuals and groups who contribute to the organization should be permitted some say in how that organization is managed. Generally normative or legitimate stakeholders get preferences over the derivative stakeholders. Stakeholder theory is helpful in assessing whether business ethics is distinctive from ordinary, everyday ethics.

Stakeholder theory is a promising framework for business ethics because it acknowledges a plurality of values and moral agency on different levels. The complexity of an organization and its moral responsibilities can be better understood on the basis of this theory than from rational choice theory or from ISCT. The stakeholder theory by incorporating of its various stakeholders' can provide a framework for understanding and explicating the possibility of conflicts of value, of loyalty, of commitment and of interests. This theory challenges the shareholder value creation (SHVC) concept. The stakeholder theory argues that the goal of any firm and its management is or should be the flourishing of the firm and all its primary stakeholders.

5. Business Ethics and International Business

The moral challenges for businesses are huge and it's difficult to fulfill the moral obligations of all kind the stakeholders. The moral challenges are even more intense for multinational companies who need to live up to moral expectations of the country of origin as well as the host country. Researchers are very often having diverse point of views in this issue.

5.1 Challenges of Business Ethics in International Business context

Implementing business ethics in international context is a challenging job. According to Professor Peter singer (university of Princeton) "How well we come through the era of globalization will depend on how we respond ethically to the idea that we live in one world". In Global ethics decision-making, much focus is on the extent to which the manager uses home country ethical standards versus host country ethical standards in making decisions and shaping practices. This is called cultural relativity concept. According to Enderle (2004), there are at least four different types of global firms with respect to their use home country vs. host country ethical standards. Enderle's purpose in this typology is to identify and illustrate the various mixture or combinations of ethical standards in respective countries based on the local reality but not to conflict with universal values. As Norman Bowie argues, cultural differences should not be equated with irresolvable "moral differences". Bowie points out that what appear to be cultural differences is usually, in fact, differences in perspectives (Werhane & Freeman, 1999). Donaldson proposes a set of moral minimums that both respects human rights and preserves a sense of cultural diversity. These minimums include freedom of association, speech and movement, property rights, rights to fair trials, nondiscrimination, physical and political security and rights to subsistence and a minimum education. Donaldson develops what he calls a two-step moral algorithm that takes into account basic rights, economic development in the host country, and host and home country norms, whether this algorithm works in all cases is subject to debate, but Donaldson's proposal offers concrete guidance applicable in global contexts (Donaldson, 1989). De George (1993) finds relativism (cultural relativity theory) implausible. He points out, however, that there are practical difficulties in specifying particular ethical principles that apply universally. This is because background institutions such as socialism, capitalism and cultural and religious mores confound cross-cultural operations. These background institutions create different ethical point of view, and because of their endemic nature, these are difficult for a corporation to confront. Business ethics is always embedded in socio-economic, religious and political institutions, and dealing with these background institutions can prove enormously challenging to multinational corporations (De Geogre, 1993). Caroll (2004) said global business ethics is about the reconciliation of home and host country ethical standards and the identification of norms that will satisfy both. International business ethics might involve broad issues about the economic inequality of nations, the justice of the present international economic order, the ethical status and justifiability of such organizations as the world bank and the International Monetary Fund (IMF) as well as the ethical dimensions of international debt, global issues such as the role of industry in the depletion of the ozone level (De Geogre, 1993). In order to ensure that the Business code of ethics, companies should take various steps and motivated by the moral values and self-conscious nesses and self-responsibility of the senior executives. Training and motivating of the personnel are also very important for the multinational companies working specially in the developing country. Implementing international business code of ethics will certainly face numerous hurdles. Many special interests in the developed countries may wish to use an international code of business ethics as a vehicle to advance their own agendas rather than as a means of ensuring fair play. On the other hand, in the host country, local officials may wish to use the threat of ethical complaints as a means to extract “gifts” or reward friends. So it’s very challenging for multinationals to implement the ethical standards in their multinational settings. The real self-conscious leadership and heartfelt cooperation from all stakeholders are needed for truly application of the business ethics regardless of the country or the regions. The greatest challenge is to integrate the objectives of the firm such as ‘shareholder value creation’ (SHVC), earn profit, obeying the law, be ethical in practices and be a good corporate citizen which needs a multidimensional approach.

5.2 Challenges in the developing countries Business

Implementing business ethics in the developing countries are more challenging than the developed countries. The developing countries often lack the business ethics infrastructure and the awareness as well as laxed moral expectation. The multinationals exploit, very often, this gap and weakness of host governments. The most three unethical practices in the developing countries are the bribery, influencing foreign governments and exploiting third world resources. Implementation of business ethics in these countries need also to combat the notion in developing countries that the real purpose of stringent environmental and labor standards is to keep them economically downtrodden (Asgary & Mitschew, 2002). The bribery in the developing countries hinders the entrepreneurial creativity which is badly needed in these countries for the socio-economic development. Sometimes, even some multinationals use different terminology in order to avoid the home country restriction on unethical practices. Although bribery is prohibited under the Foreign Corrupt Act of USA, grease or facilitation payments are allowed. Ranging from 30%-10% of licensing fees in various countries, these payments often make business process proceed quickly for a US company. Thus, a US company can, without violating the law, pay a foreign government official independently of government licensing fees to speed up processing for anything (Smeltzer & Jennings, 1998). Thus the challenges in implementation of business ethics in the developing country are manifold and need to adopt a multidimensional strategy. Multinationals need to be very careful in dealing with the bribery and sensitive payments, employment issues, marketing practices, impact on the economy and development of host countries, effects on the natural environment, cultural impacts of operations, relations with host governments, and relations with home countries (Donaldson, 2003). At a strategic level, companies should develop both global corporate codes of conduct and subscribe to global codes that have been developed by independent international bodies such as the UN Global compact, OECD Guidelines for Multinational Enterprises, the Caux principles and the principles for Global corporate Responsibility developed by the Interfaith Center on Corporations. Companies need to integrate the ethical principles into strategic decision-making process. Thus the Business ethics (BE) in the developing countries need to follow both the home country's higher level standards adapting with local contexts in the developing country markets. The following figure shows the framework of business ethics in the developing weak economies:

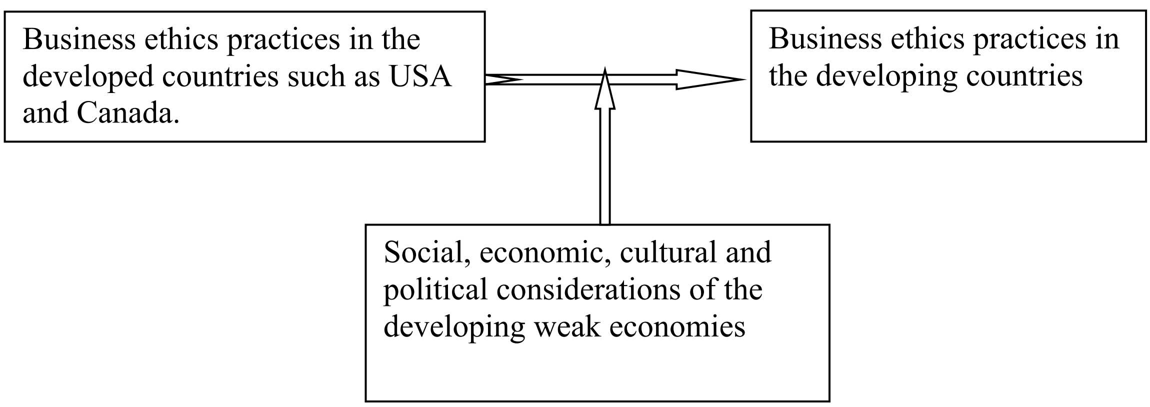

Figure 1: Business ethics in the developing weak economies.

6. Conclusion and future research direction

Ethics is a complex subject and its history is filled with diverse theories that are systematically refuted by the rival theories. So if we try to find any business ethics that is free from conceptual debates, we will not find any. So, we should expect to find controversies when applying ethics to the specific practices of business. Close attention to one's profit motive and the moral interests of consumers might in fact generate some morally responsible business decisions. We can also find additional moral guidance from **the spirit of Laws** specially the commercial laws, not always directly from the law itself. In gray areas of moral controversy that are not adequately treated by the profit motives and law, we need to turn to the guidance of a variety of general and specific moral principles. It's also necessary to study the moral drifts of past scandals such as Enron, WorldCom, and others and take lessons from their experiences. Such cases often reveal blatantly crude, intensive or reckless attitudes of business, which we can view as warning signs of unethical conduct. Finally, Business ethics is still a young field, and its international dimensions have scarcely been raised, much less adequately addressed. They cannot be satisfactorily addressed unilaterally by any company or even country. A necessary first step is greater articulation of many divergent perspectives that must be reconciled (De George, 1993).

The biggest challenges in business ethics are to implement and adapt in the developing countries context where the ethics and other infrastructure are absent or vulnerable and culturally different. Integration of ethical norms in this type of environment is not a easy job. The future research can explore this field with incorporating the specific ethical standards and operational process in the developing countries keeping in considerations of its socio-economic perspectives and reality. Future research can also focus on the process by which organizations can use dialogue, communication strategies and multi-loop learning to put system in place for ethical conversations. Business can also focus on the strengthening the links with the practice of business, and increasing the relevance of the frameworks and models of business ethics to the daily lives of managers and other business stakeholders. The awareness among the consumers and increased interest in Business ethics during the last decades are the sign of emergence of this field. With this new interest, it's very important to of developing a new and exciting framework for a more comprehensive understanding of how business and ethics go together.

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