

## **Transparency and Sustainability: The Role of Global Ethics**

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### **Abstract**

*Milton Friedman, once said that, “There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits.”<sup>1</sup> Mr. Friedman might respond differently today in light of increasing controversy over ethics and economics. Today every manager deals with ethical issues either in person or by outsourcing them to an accountancy firm who will audit ethical performance of a company. Companies grapple with the wording of ethics policies for fear they will have to follow them. Much research has been done to establish which countries are the most ethical and to encourage developing countries to “play by the rules.” Still, some corruption is inevitable. One Shell executive, working in some of the harshest countries on earth, says the following. “If someone sticks a Kalashnikov through the window of your car and asks for 20 naira, we don’t say that you shouldn’t pay. We say it should be recorded”<sup>2</sup>*

**Keywords:** Bribery, Corruption, Culture, Ethics, Global, Opacity, Sustainability, Transparency

### **1. Introduction**

To understand the implication of this paper, it is important to define the parameters of the term “ethics” as it appears herein. The intent is to see ethics in terms of a “Code of Ethics” which can be applied to the global free-market economy. This code of ethics is seen as a set of professional rules that provide guidance for the treatment of a defined group of people. Ethics in this sense is *external* to the individual and behavioral in nature. This code of ethics and ethics in general, does not imply a set of moral beliefs. Morals are, for the purpose of this paper seen as a larger set of *internal* beliefs which may or may not be relevant to the construction of a global set of business ethics. It is important to note that it is not the intent of the authors to place judgment on any person’s set of moral beliefs.

Globalization has created an environment of multicultural and multinational challenges. Ethics and more specifically, a code of ethics can no longer originate from a single “universal” set of morals or values. Instead, a global business code of ethics must consider many situations and consequences.<sup>3</sup>

### **2. Ethical Theories**

In their paper on racism and ethics, Teppo Sintonen and Tuomo Takala use the three ethical traditions: deontological, utilitarian, and virtue ethics, to understand the moral issues of business. These traditions can be applied to the development of a global code of business ethics. They are not meant to provide direct answers to the question of how to develop a code of ethics, but are meant to be used as tools of understanding for the leaders of multicultural organizations.

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<sup>1</sup> Anonymous, “Doing well by Doing Good,” *The Economist*, 355 (April 2000): 65.

<sup>2</sup> Ibid.

<sup>3</sup> Teppo M. Sintonen and Tumo Takala. “Racism and Ethics in the Globalized Business World,” *International Journal of Social Economics* 29 (2002): 851.

## 2.1 Deontological Reasoning

Used in constructing ethical models of marketing, deontological reasoning supports the idea that there are certain truths which direct human thinking. Immanuel Kant (1959) presented much of the reasoning of modern deontology. The two salient concepts of this school of thought are 1) that moral tradition must be based on human reason or logic and 2) that goodwill can be universalized.<sup>4</sup> When applied to the notion that business ethics can be globalized, one can then make the assumption that all human cultures reason alike. This assumption may not be appropriate in regard to the matter of business ethics.

## 2.2 Utilitarian Ideal

The tradition of the utilitarian ideal is willingly accepted by business people due to its roots in economics. Herein lays the foundation of capitalism. The utilitarian ideal is that an act is morally acceptable if it provides the greatest amount of good for the greatest number of people. This “good” is measured in terms of a social cost/benefit analysis. On this basis, capitalist systems are considered to be ethical from the perspective of the traditional economic philosophy by virtue of providing the greatest material good for the greatest number of people.<sup>5</sup> This theory becomes less clear as technology continues to draw the world’s people together. Where once the greatest number of people was limited to one country, today the global population must be considered, creating a more variable “greatest number.”

## 2.3 Virtue Ethics

Virtue ethics for the purpose of this paper is related to the analysis of ethical concerns of professionals. This assumes that all professional activities are guided by a specific set of virtues. Due to professional specialization, such as doctors, police, or marketers, the virtues of the profession are role-related, artificial character traits which become the goal of the profession as a whole. While professional goals are generally seen as good, there is often a gap between moral thought and professional duties.<sup>6</sup> Therefore, this tradition too leaves a controversial area in the pursuit of a standard of global business ethics.

## 3. Cultural Perspectives

Applying business strategies in a global society requires competition and an understanding of developing plans in regard to each individual culture or a single strategy that can be implemented worldwide. Three perspectives that are used in marketing that consequently apply to marketing a global policy of business ethics are the etic perspective, the emic perspective, and creolization.

### 3.1 Ethic Perspective

Proponents of a standardized policy of business ethics contend that many cultures, especially those of industrialized countries, have become so homogenized as to lead to one approach that will work worldwide. This approach, the etic perspective focuses on commonalities across cultures. This objective and analytical approach may seem most feasible in that all are treated equally, but it does little to preserve the cultural heritage of the local business community.<sup>7</sup>

### 3.2 Emic Perspective

A second approach to marketing a policy of global business ethics is the emic perspective which recognizes the importance of variation across cultures. Proponents of the emic perspective contend that each culture is unique, has a national character, and an individual set of behavior and personality characteristics.<sup>8</sup> This approach is subjective, attempting to understand individual cultures. When dealing with traditions and cultures of business that have been in place for hundreds of years, it is imperative to not only understand, but also to respect the individualism of national cultures.

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<sup>4</sup> Teppo M. Sintonen and Tumo Takala. “Racism and Ethics in the Globalized Business World,” *International Journal of Social Economics* 29 (2002): 849-850.

<sup>5</sup> Ibid., 850.

<sup>6</sup> Ibid.

<sup>7</sup> Michael R. Solomon, *Consumer Behavior: Buying, Having, Being* (Upper Saddle River, New Jersey: Pearson Prentice Hall, 2004), 581.

<sup>8</sup> Ibid., 582.

### 3.3 Creolization

Finally, as the world through technology becomes a smaller, blended environment, a process of creolization occurs. As local customs, products, and lifestyles meld together, new meanings emerge in society. If young Hispanic Americans can spread peanut butter and jelly on tortillas, there is the possibility that Hispanic and American CEO's and government leaders can define a code of business ethics that will be acceptable to both countries.<sup>9</sup>

## 4. Regulatory Compliance

The United States has a history of creating, implementing, and enforcing rules and regulations for the purpose of fair and equal trade. The history of some of the more salient legislation follows, beginning with those that relate merely to the United States, and expanding to those whose reach is global. With the enactment of each legislation is the assumption that all members will comply. For legislation to be effective, there must however, be incentives for compliance and provisions for enforcement of that compliance.

### 4.1 Sherman Antitrust Act of 1890

Congress passed the Sherman Antitrust Act, the foundation of all of America's anti monopoly laws, in 1890. The act forbids all efforts to restrain trade or secure a monopoly of a given industry whether through contracts, schemes, deals, or conspiracy. The restraint of illegal trade includes the United States and foreign nations. Additionally, violations result in felony offenses and convictions are punishable by fines up to \$10 million and imprisonment up to three years or both.<sup>10</sup>

### 4.2 Foreign Corrupt Practices Act of 1977

As a result of a Security and Exchange Commission investigation during the 1970's where over 400 United States companies admitted to making questionable or illegal payments in excess of \$300 million to foreign government officials, the Foreign Corrupt Practices Act (FCPA) of 1977 was implemented. The FCPA was to eliminate bribes by US companies to foreign officials.<sup>11</sup> The success of this act is debatable. While the Department of Justice states that the penalties of jail time and fines imposed by the FCPA has had an enormous impact on the way that American companies do business, John O'Gara, retired Senior Director—Audit for a Fortune 250 multi-industrial company says emphatically that it has not. O'Gara tells of an international construction company that publicly stated that there are over 70 countries in the world where they cannot compete without paying bribes.<sup>12</sup>

### 4.3 Organization of Economic Cooperation and Development

In 1961, the Organization of Economic Cooperation and Development grew out of the Organization for European Economic Co-operation formed under the Marshall Plan to administer aid to America and Canada after World War II. With the emergence of globalization, the OECD's work has grown to encompass such sustainable development as environmental, economic, and social issues across the globe.<sup>13</sup>

In 1988, negotiation began in the Organization of Economic Cooperation and Development (OECD) to obtain agreement of the United States' major trading partners to enact legislation similar to the FCPA. By 1977, the United States and 33 other countries signed the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The United States ratified this convention in 1998 and began implementing legislation.<sup>14</sup>

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<sup>9</sup> Ibid., 588.

<sup>10</sup> United States Department of Justice, *Antitrust Division Manual*  
<http://www.justice.gov/atr/public/divisionmanual/chapter2.pdf> (accessed 27 November 2012).

<sup>11</sup> United States Department of Justice, *Foreign Corrupt Practices Act Antibribery Provisions*,  
<http://www.justice.gov/criminal/fraud/fcpa/> (accessed 27 November 2012).

<sup>12</sup> John D. O'Gara, *Corporate Fraud: Case Studies in Detection and Prevention* (Hoboken, New Jersey: John Wiley & Sons, 2004). 112.

<sup>13</sup> Organisation for Economic Co-operation and Development, *Building Partnerships for Progress*,  
<http://www.oecd.org/about> (accessed 27 November 2012).

<sup>14</sup> United States Department of Justice, *Foreign Corrupt Practices Act Antibribery Provisions*,  
<http://www.usdoj.gov/criminal/fraud/fcpa/> (accessed 27 November 2012).

Today the OECD includes 30 member countries and another 70 countries maintain an active relationship. The organization's work covers economic and social issues including macroeconomics, trade, education, development, and science and innovation.<sup>15</sup>

#### 4.4 Robinson Patman Act

The Robinson-Patman Act of 1936 was, in effect, an amendment to the Clayton Act.<sup>16</sup> The Robinson-Patman Act was initiated to protect the local corner grocery shops from the A&P company. The prominent result of this act was to make it illegal for a supplier to charge companies different prices based on quantities ordered (price discrimination) unless all competing customers or purchasers can claim the discounts. Federal antitrust laws are generally designed to promote competition as a whole, not in regard to specific competitors. As such, the Robinson-Patman Act is rarely enforced by the government.<sup>17</sup>

### 5. Major Economic Treaties

Numerous international institutions have been established to serve the needs of the people and governments of our global society. During the next 25 years, as the world adds over 3 billion people to its population, institutions such as the World Trade Organization, the United Nations, the European Union, the International Monetary Fund, and the World Bank must meet the challenges of the world.

#### 5.1 General Agreement on Tariffs and Trade

The General Agreement on Tariffs and Trade (GATT) was signed in 1947. At its pinnacle, more than 110 countries were participating members. The purpose of the agreement was to encourage free trade among members by reducing and regulating tariffs and to settle trade disputes among the participating countries. In 1971, a GATT committee on environmental concerns was developed. This committee met for the first time in 1991 to settle a dispute between the United States and Mexico involving limiting imports of tuna due to fishing practices involving dolphin killing. The impact of this and subsequent cases was to suggest that a global consensus on sustainable development be a guiding policy principle toward environmental concerns in regard to trade policy.<sup>18</sup>

#### 5.2 World Trade Organization

The World Trade Organization (WTO), located in Geneva, Switzerland was established in January of 1995. It is the only global organization dealing with rules of trade between and among countries. The goal of the 157 country membership of the WTO is to aid producers of goods and services, exporters, and importers in conducting multinational business. In 1995, the WTO replaced the General Agreement on Tariffs and Trade as the organization that oversees the multilateral trading system and began work on the General Agreement on Trade and Services.<sup>19</sup>

#### 5.3 General Agreement on Trade and Services

The General Agreement on Trade and Services (GATS), according to the World Trade Organization (WTO), is one of the organization's most important agreements. First put into practice in 1995, it is the set of multilateral rules that covers international trade of services. Since January of 2000, over 140 members of the WTO have continued negotiating toward liberalization of the global services market. GATS is significant in that for any country to prosper, it must have a developed system of services.

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<sup>15</sup> Organisation for Economic Co-operation and Development, *Building Partnerships for Progress*, <http://www.oecd.org/about> (accessed 27 November 2012).

<sup>16</sup> For more information see United States Department of Justice, *Antitrust Division Manual*, <http://www.justice.gov/atr/public/divisionmanual/chapter2.pdf> (accessed 27 November 2012).

<sup>17</sup> William Hancock, *Executive Legal Summary: The Robinson-Patman Act* (Chesterland, OH: Business Laws, 2000).

<sup>18</sup> CIESIN Trade Policy and Global Environment Change, *General Agreement on Tariffs and Trade*, <http://sedac.ciesin.columbia.edu/entri/guides/sec3-T+E.html#Disputes> (accessed 7 December 2012).

<sup>19</sup> The World Trade Organization, *What is the WTO?* [www.wto.org/english/thewto\\_e/whatis\\_e/whatis\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm) (accessed 7 December 2012).

In less economically developed countries particularly, there is the need for efficient banking, insurance, accountancy, communication and transportation. The WTO states that the liberalization of trade in goods through GATT has been one of the greatest contributors to economic growth and relief in poverty stricken countries. The GATS will further this growth through liberalization of services, the largest and fastest growing sector of world economy.<sup>20</sup>

Because “services” includes water supply, healthcare, and education, GATS has met with some resistance of organizations such as World Development Movement<sup>21</sup> which argues that the agreement will have “devastating effects on the ability of governments to meet the needs of the poorest and most powerless of their citizens.”<sup>22</sup>

#### **5.4 North American Free Trade Agreement**

The final provisions of the North American Free Trade Agreement (NAFTA) were fully implemented on January 1, 2008. Launched on January 1, 1994, NAFTA reportedly is one of the most successful trade agreements in history. It has contributed to significant increases in agricultural trade and investment among the United States, Canada and Mexico, and it has benefited farmers, ranchers and consumers throughout North America.

As previously indicated, the United States, Mexico, and Canada began working on the North American Free Trade Agreement (NAFTA) in 1994 in order to remove barriers to trade and investment among the three countries. The agreement incorporated the US-Canada Free Trade Agreement (CFTA) of 1989 that had removed tariffs on agricultural trade between the United States and Canada. As of 2008, the last remaining trade restrictions on a handful of agricultural commodities between the United States and Mexico also were eliminated.

In 2007, Canada and Mexico were the first and second largest export markets for US agricultural products. Additionally, during 1992-2007 the value of US agricultural exports worldwide grew 65%. Over that same period, agricultural exports to Canada and Mexico grew 156%. Opening borders has potential for increased trade. However, much effort has gone into establishing the set of rules by which each country must abide. This emic perspective of marketing products works well when only a few countries are involved. However, it requires massive amounts of legislation to establish a set of quotas and provisions for each country with which a country trades.<sup>23</sup>

#### **5.5 European Union**

The European Union is an excellent example of how individual countries can join together for the common good while remaining individually autonomous. The European integration began after World War II in an effort to prevent a reoccurrence of such killing and destruction. Initially consisting of six countries in 1958, there now are 27 member countries and ten more countries in various stages of candidacy. Originally geared toward trade and economic issues, today the EU also deals with freedom, security, jobs, regional development, and environmental protection. This possibility of promoting unity while preserving diversity of traditions, languages, and values, gives credence to a global system of cooperation in the spirit of curiosity, tolerance, and solidarity. The current decade begins with yet new opportunities and challenges: a severe economic crisis, but also with the hope that investments in new green and climate-friendly technologies and closer European cooperation will bring lasting growth and welfare to the region.<sup>24</sup>

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<sup>20</sup> World Trade Organization, *GATS—Fact and Fiction* [http://www.wto.org/english/tratop\\_e/serv\\_e/gats\\_factfiction\\_e.htm](http://www.wto.org/english/tratop_e/serv_e/gats_factfiction_e.htm) (accessed 7 December 2012).

<sup>21</sup> For more information see World Development Movement, *Welcome to WDM*, <http://www.wdm.org.uk> (accessed 7 December 2012).

<sup>22</sup> Anup Shah, *General Agreement on Trade in Services*, <http://www.globalissues.org/TradeRelated/FreeTrade/GATS.asp> (accessed 7 December 2012).

<sup>23</sup> United States Department of Agriculture, *Fact Sheet, North American Free Trade Agreement* <http://www.fas.usda.gov/info/factsheets/NAFTA.asp> (accessed 8 December 2012).

<sup>24</sup> Europa, *The European Union at a Glance*, [http://europa.eu/index\\_en.htm](http://europa.eu/index_en.htm) (accessed 29 November 2012).

## 6. Global Ethics Ratings

Several organizations have developed elaborate systems of rating countries' ethical practices and the perception of those practices. This paper highlights the research of the Transparency International, PricewaterhouseCoopers, and the Milken Institute ratings.

### 6.1 Transparency International

Transparency International (TI) is a non-governmental global coalition devoted to combating the supply and demand of corruption on a national and international level. TI works to raise awareness of the damaging effects of corruption and to increase levels of accountability and transparency by monitoring the performance of institutions and pressing for reform. TI does not attempt to expose individual cases, but focuses on prevention and reform in an effort to create long-term gains against corruption. To that end, Transparency International publishes the Corruption Perceptions Index and the Bribe Payers Index to bring attention, focus, and solutions to global corruption.<sup>25</sup>

#### 6.1.1 Corruption Perceptions Index

Looking at the Corruption Perceptions Index 2012, it is clear that corruption is a major threat confronting humanity. Corruption destroys lives and communities, and it undermines both countries and institutions. It creates popular anger that threatens to further destabilize societies and intensify violent conflicts. The Corruption Perceptions Index scores countries on a scale from 0 (highly corrupt) to 100 (very clean). While no country earned a perfect score, two-thirds of countries scored below 50, indicating a serious corruption problem. Three countries tied for first place with respective scores of 90: Denmark, Finland, and New Zealand. Three countries also tied for last place with respective scores of 8: Afghanistan, North Korea, and Somalia. The United States placed 19<sup>th</sup> with a score of 73.

Corruption morphs into human suffering, with poor families being extorted for bribes to see physicians or even to gain access to clean drinking water. It leads to failure in the timely delivery of basic services such as education and healthcare. It precludes the building of essential infrastructure, as corrupt leaders misappropriate funds for personal use. Corruption amounts to the extraction of a dirty tax by governments, with the poor and most vulnerable its primary victims.

So, how do concerned citizens counter the effects of public sector corruption? Citizens must demand that their respective governments incorporate anti-corruption measures into all aspects of decision-making. Governments must develop more stringent rules on lobbying and political financing, improve transparency as relates to public spending and contracting, and require public agencies to be more accountable—and they need to enforce the rules!

Candidly, after the last year with widespread global focus on corruption, Transparency International expected more governments to take a tougher stance against the abuse of power. Apparently, it did not happen. The Corruption Perceptions Index results reveal that there are still many societies and governments that need to give a much higher priority to this issue. Obviously, governments must prioritize the fight against corruption.<sup>26</sup>

#### 6.1.2 Bribe Payers Index

The 2011 Bribe Payers Index ranks 28 of the world's largest economies according to the perceived likelihood that companies from these countries pay bribes abroad. The Index is based on the views of business executives surveyed by Transparency International's 2011 Bribe Payers Survey. Countries are scored on a scale of 0-10, where a maximum score of 10 corresponds with the view that companies from that country never bribe abroad and a 0 corresponds with the view that they always do.

While no country earned a perfect score, over one-third of countries scored 7.5 or below, indicating that bribery continues to be a serious issue.

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<sup>25</sup> Transparency International, *About TI*, [http://www.transparency.org/about\\_ti/index.html](http://www.transparency.org/about_ti/index.html) (accessed 15 November 2012).

<sup>26</sup> Transparency International Corruption Perception Index 2012, <http://cpi.transparency.org/cpi2012/results/> (accessed 8 December 2012).

Two countries tied for first place with respective scores of 8.8: Netherlands and Switzerland. Three countries earned scores of 7.0 or less: Mexico (7.0); China (6.5) and Russia (6.1). The United States ranked 10<sup>th</sup> with a score of 8.8. The countries and territories ranked in the Index encompass all regions of the world and embody almost 80 per cent of the total world outflow of goods, services and investments. The 2011 report reviews and analyzes different types of bribery across sectors – including, for the first time, bribery among companies ('private-to-private' bribery).

Foreign bribery causes significant adverse effects on public well-being globally. It has the effect of distorting the competitive awarding of contracts, reducing the quality of basic public services, limiting opportunities to develop a competitive private sector and undermining trust in public institutions.

Engaging in bribery also creates instability for companies themselves and presents increasing credibility and financial risks. This is especially relevant in light of recent anti-bribery reforms in a number of key countries around the world, including China and the United Kingdom.

Russian and Chinese companies, which invested \$120 billion USD overseas in 2010 and are increasingly active in global markets; thus, are perceived as most likely to pay international bribes. Netherland and Swiss companies are seen as least likely to bribe.

The 2011 Bribe Payers Index report directs attention to the role that both the private and public sectors can play in mitigating the issue. The report also makes a number of constructive recommendations as to how both businesses and governments can reinforce their efforts to make substantial progress in reducing the pervasiveness of foreign bribery around the world.<sup>27</sup>

## **6.2 Opacity Indices**

### **6.2.1 PricewaterhouseCoopers**

A panel of economist and researchers representing PricewaterhouseCoopers first conceived the model in 1999 and published the results in 2000. The model correlates five key opacity factors to the cost of capital in 35 countries. These countries represent not only geographical areas, but also the World Bank's economic tiers. This tool is intended to provide policy makers and investors the ability to identify incremental borrowing costs of the lack of transparency in the areas of legal protection for business, macro-economic policies, corporate reporting, corruption, and government regulations.

Two aspects of opacity are considered for the report 1) the impact of hidden corporate tax and 2) the risk premium when countries borrow through sovereign bond issuance. While many developing countries would like to cut taxes to encourage development, the Opacity Index suggests that reducing opacity would significantly boost foreign direct investment without sacrificing tax revenues. Opacity also contributes to the inability of countries to borrow in their own currencies, resulting in economic instability.<sup>28</sup>

### **6.2.2 Milken Institute**

The empirical model for the Opacity Index has since been refined, and now is published by the Milken Institute. The Opacity Index is a measure of five components that may be thought of as "negative social capital." These are **C**orruption, **L**egal system inadequacies, **E**conomic **E**nforcement policies, **A**ccounting standards and corporate governance, and **R**egulation. Together, these five factors spell **CLEAR**. A high score on the Index indicates higher levels of opacity in each of the areas.<sup>29</sup> Opacity, as defined in the book *Global Edge: Using the Opacity Index to Manage the Risks of Cross-Border Business*, is the "lack of clear, accurate, formal, clear-cut practices in the broad arena where business, finance, and government meet."

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<sup>27</sup> Transparency International Bribe Payers Index 2011, <http://bpi.transparency.org/bpi2011/results/> (accessed 15 November 2012).

<sup>28</sup> PricewaterhouseCoopers, PwC Launches First Global Index that Measures the Impact of Business, Economic, Legal and Ethical Opacity on the Cost of Capital Around the World, <http://cnrp.ccnmatthews.com/news/releases/show.jsp?action=showRelease&actionFor=480961&searchText=false&showText=all> (accessed 30 November 2012).

<sup>29</sup> Milken Institute, *2009 Opacity Index: Measuring Global Risks*, [http://www.kurtzmangroup.com/pdf/InstituteOpacityIndex\\_Apr8.pdf](http://www.kurtzmangroup.com/pdf/InstituteOpacityIndex_Apr8.pdf) (accessed 28 November 2012).

It is a broad measure of the effectiveness of a country's economic and financial institutions, as well as its overall risk. Unlike other analyses that examine country risks by summarizing the expert opinion of academics, analysts, former governmental officials, and the media, the Opacity Index is based entirely on empirical observations.<sup>30</sup> In a recent update<sup>31</sup> of the Opacity Index (released in April 2008), the Index revealed an increasing level of economic and financial risk across all regions of the world—and indeed, in the intervening year, most countries analyzed in the Index have been negatively affected by the global financial crisis.<sup>32</sup>

The latest available update (released in April 2009) finds the United States, whose financial and housing sectors have been the epicenter of the current turmoil, continuing its slow descent in the rankings, a trend that has been evident since the Opacity Index was first conceived in 1999 and introduced in 2000. The United States is now ranked 13<sup>th</sup> with a score of 22, maintaining last year's position but posting a significant drop from the 4<sup>th</sup>-place position it held in 2001. The four top-rated countries in the 2009 update (with scores in parentheses) are Finland (9), Hong Kong (12), Australia (14), and Singapore (14) were all among the previous year's top four; although, they have moved relative to one another within that top tier. Contrastingly, the lowest ranked countries in the 2009 update are Venezuela (48) and Nigeria (55). Overall scores ranged from 9 to 55. The survey currently includes a total of 48 countries.<sup>33</sup>

### 6.3 Correlation

While certainly not absolute, there appears to be considerable correlation among the three aforementioned indices. This correlation among opacity, bribery, and the perception of corruption by independent sources also tends to validate the basic premise that underdeveloped poverty ridden countries need guidance to escape their economic maladies which will in turn lead to improved humanitarian conditions.<sup>34</sup>

## 7. Potential Consequences

Solutions are needed to help developing countries in their efforts to escape the negative areas of the bribery, corruption, and opacity charts. In 1998, then President Bill Clinton formatted a plan of action for Russia in a speech to students at Moscow University. His comments are highlighted below. Additionally, while President Clinton's outline for successful emergence can be applied to other countries today as well, it is important to realize that each country is unique in its cultural and economic needs. Finally, as global outsourcing reaches out to assist underdeveloped countries, caution must be exerted to insure that the social fiber of a country is left intact. Three real-life cases are used to illustrate this concept.

### 7.1 Bill Clinton's 1998 Remarks to the Next Generation of Russian Leaders

Clinton begins his speech by recognizing that in 1998, Russia, as many other countries had in their past, was going through a time of extreme difficulty. They were confronted with debates between people of different races and religions, between the rich and the poor, between crime and punishment, between war and peace. Clinton explains that America overcame these difficulties by,

...continuing to respect the dignity of every man, woman and child: to tolerate those with different ideas and beliefs than our own; to demand equality of opportunity; to give everyone a chance to make the most of his or her life.<sup>35</sup>

<sup>30</sup> Joel Kurtzman and Glenn Yago, *Global Edge: Using the Opacity Index to Manage the Risks of Cross-Border Business* (Boston: Harvard Business School Press, 2007).

<sup>31</sup> The Opacity Index is updated in two ways: Every five years, all country data is updated. This represents as many as seventy variable inputs per country. The next complete update will be conducted in 2011. In addition, each year the authors conduct a "light update," which encompasses only fast-changing data. While laws, regulations, and many procedures within countries change slowly, other reforms, such as shifts in accounting standards, change much more quickly. This 2009 edition is a light update, capturing approximately ten to twenty changes per country.

<sup>32</sup> Milken Institute, *2009 Opacity Index: Measuring Global Risks*, [http://www.kurtzmandgroup.com/pdf/InstutureOpacityIndex\\_Apr8.pdf](http://www.kurtzmandgroup.com/pdf/InstutureOpacityIndex_Apr8.pdf) (accessed 28 November 2012).

<sup>33</sup> Ibid.

<sup>34</sup> Transparency International. *Corruption is Rampant in 60 Countries and the Public Sector is Plagued by Bribery, says TI*, [http://archive.transparency.org/policy\\_research/surveys\\_indices/cpi/2004](http://archive.transparency.org/policy_research/surveys_indices/cpi/2004) (accessed 8 December 2012).

<sup>35</sup> Remarks by the President to the Next Generation of Russian Leaders, William Jefferson Clinton, Moscow, 1 September 1998, <http://clinton5.nara.gov/WH/New/html/19980901-3106.html> (accessed 28 November 2012).

Clinton further states that the challenges of global economy are great, as are the rewards. These challenges and the rewards they bring are important, not only to Russia, but to all countries. (Interestingly, Clinton references among other countries, not only Russia but also China—two countries which continue to struggle with successful conversion to free-market economies, as evidenced by their poor rankings on the indices of corruption, bribery, and opacity.) To this new generation, who represent the “future of your dreams,” Clinton defines four lessons gleaned from international experience. First there is a need for revenue to pay bills and support salaries, pensions, and healthcare. This revenue is realized when everyone pays their fair share of taxes. Second, printing money to provide revenue does not help; it causes inflation and worsens the economy. Third, special bail-outs for select few do not help the nation as a whole. Forth, fair and equitable treatment of creditors will encourage continued future investment.

Fair tax laws and enforcement of those laws, easier transfer of land, strong intellectual property rights, independent courts, social spending that promotes hope and opportunity, and vigilance against inappropriate ties between business and government will convince foreign and domestic investors to invest in Russia. No nation can escape the fundamental economic imperatives of the global market.

Finally, Clinton encourages Russian to play by the rules—the rules of law. This is what foreign investors expect, fair rules and strong checks on corruption and abuse of authority. While no country can abandon the rules of an international economy, a balance must be maintained. A state must be strong enough to control the abuses of violence, theft, fraud, bribery, and monopolism, while still allowing the rights, dreams, and creativity of the people.<sup>36</sup>

## **7.2 Cases in Point**

Culture is the heart of a civilization and there is much to be shared from one culture to another. As human events often bring more relevance to the reader, the following three brief case scenarios illustrate how a country’s culture may be affected by global business ethics.

### **7.2.1 India**

Dr. Sid Gautam, then Director of Center for Entrepreneurship at Methodist College, Fayetteville, North Carolina, once addressed an international conference in Belgium to speak on the entrepreneurial experience of Indian immigrants in the United States. The effort was to find ways to encourage Indians in Europe to be more proactive in India’s economic development. According to a Merrill Lynch study of immigrating Indians currently residing in the United States at the time, twenty percent of the nearly two million resident Indians were millionaires. This is because, says Gautam, the Indian culture prepares them for success in America. From birth Indians are told that hard work pays off. While Americans once followed this advice, Gautam says that the “MTV generation” has an entrepreneurial spirit that is “slow to move”. The most successful entrepreneurs in the world, especially Indian entrepreneurs don’t drink, don’t smoke, don’t gamble, and don’t chase women or men. The only vice these successful business people apparently have is success.<sup>37</sup>

### **7.2.2 Mexico**

The executive team of a manufacturing company, in an effort to improve operation efficiency and reduce labor costs decided, to move operations to Mexico. NAFTA provided the opportunity for favorable tax provisions, and a maquiladora, (Mexican corporation allowing participation of foreign investment and management) was formed. Human resource professionals were involved in training a few US managers who would then determine the training needed for the Mexican workers. While some of the training involved technical and team skills, an important component of the training focused on pregnancy prevention for female workers.

This practice put the human resource professionals in an ethical quandary involving gender discrimination versus cultural and religious freedoms.<sup>38</sup>

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<sup>36</sup> Ibid.

<sup>37</sup> Rebecca Logan, “For Indians in U.S., No Option but Success,” *The Fayetteville Observer*, (24 October 2004).

<sup>38</sup> Russ-Eft, Darlene and Timothy Hatcher, “The Issues of International Values and Beliefs: the Debate for a Global HRD Code of Ethics,” *Advances in Developing Human Resources* 5 (August 2003): 297.

### 7.2.3 Vietnam

The Nike sporting good company has been chastised by some for failing to pay a living wage. In Vietnam, Nike workers are paid more than physicians. Obviously, the social cost is great when doctors leave the medical profession to manufacture shoes so that they can better support their families.<sup>39</sup>

## 8. Concluding Comments

Mr. Mike Moore, Director-General of the World Trade Organizations quite accurately summarized the findings of the question of transparency and sustainability of global ethics some years ago in his address to the 11<sup>th</sup> International Military Chiefs of Chaplains Conference.<sup>40</sup> First, the obvious, there is injustice in the world. The globalized explosion of humans and their resources have brought challenges and opportunities. It is the finding of this paper, as well as the opinion of Moore, that societies do better when people and nations respect each others culture, music, ideas, and commerce. History reflects time and again that nations which trade and respect and enjoy each others ideas have better human, environmental and labor rights. Previous generations had great vision when they created governmental compliance and regulations for trade among nations.

More recently, the development of the international institutions such as the World Trade Organization, the United Nations, GATT, and the World Bank has met the challenges of persuasion and cooperation. States must now settle differences through a binding dispute mechanism, “that great equalizer, the law.”<sup>41</sup> Companies have to accept the fact that virtue must sometimes be its own reward. “One of the eternal truths of morality has been that the bad do not always do badly and the good do not always do well.”<sup>42</sup> But people all do better when they work together, following the same rules of business and commerce. Every parent of a sick child wants the best the world has to offer from science.<sup>43</sup> But, we must not compromise our global ethics in order to reap the rewards of global accomplishments.

The need for a sustainable, transparent code of business is apparent. As Transparency International Chairman Peter Eigen said at the launch of the 2004 TI Corruption Perceptions Index:

Across the world, corruption in large-scale public projects is a daunting obstacle to sustainable development, tearing at the social fabric and contributing to civil unrest and conflict. It is a blow to the hopes of millions, one that results in a major loss of public funds needed for education, healthcare and poverty alleviation, both in developed and developing countries.<sup>44</sup>

Using the European Union, the North American Free Trade Agreement treaties and regulatory compliance acts implemented within the United States as guides, The World Trade Organization and the United Nations must encourage countries to work together toward a global code of ethics.

As technology continues to reduce the boundaries of individual countries and their trade, it becomes apparent that no country can stand alone and prosper the interests of her citizens.<sup>45</sup> Furthermore, no country can ignore the ethical standards of the world and actively participate in global trade.

Moore quoted Mahatma Gandhi for guidance to managing globalization. Gandhi’s seven deadly sins include:

<sup>39</sup> Anonymous, “Doing Well by Doing Good.” *The Economist*, 355 (April, 2000): 67.

<sup>40</sup> Open Societies Do Better, statement by Mike Moore, Director-General, World Trade Organization at the 11<sup>th</sup> International Military Chiefs of Chaplains Conference, Geneva, 9 February 2000, [http://www.wto.org/english/news\\_e/spmm\\_e/spmm22\\_e.htm](http://www.wto.org/english/news_e/spmm_e/spmm22_e.htm), (accessed December 2012).

<sup>41</sup> Ibid.

<sup>42</sup> Anonymous, “Doing Well by Doing Good,” *the Economist*, 355 (April 2000): 67.

<sup>43</sup> Open Societies Do Better, statement by Mike Moore, director-General, World Trade Organization at the 11<sup>th</sup> International Military Chiefs of Chaplains Conference, Geneva, 8 February 2000, [http://www.wto.org/english/news\\_e/spmm\\_e/spmm22\\_e.htm](http://www.wto.org/english/news_e/spmm_e/spmm22_e.htm) (accessed 8 December 2012).

<sup>44</sup> Transparency International. *Corruption is Rampant in 60 Countries and the Public Sector is Plagued by Bribery, says TI*, [http://archive.transparency.org/policy\\_research/surveys\\_indices/cpi/2004](http://archive.transparency.org/policy_research/surveys_indices/cpi/2004) (accessed 8 December 2012).

<sup>45</sup> Open Societies Do Better, statement by Mike Moore, Director-General, World Trade Organization at the 11<sup>th</sup> International Military Chiefs of Chaplains Conference, Geneva, 9 February 2000, [http://www.wto.org/english/news\\_e/spmm\\_e/spmm22\\_e.htm](http://www.wto.org/english/news_e/spmm_e/spmm22_e.htm) (accessed 8 December 2012).

- Wealth without work
- Enjoyment without conscience
- Knowledge without character
- Business without morality
- Science without humanity
- Religion without sacrifice and
- Politics without principles.<sup>46</sup>

Thus, a code of global business ethics is needed to establish equitable trade in goods and services among international companies. Increased populations, technology, and trade will lead to the need for more outsourcing in some areas, and the return of outsourced work in other areas. Tax holidays, tariffs, and unethical business practices may hinder the growth of lesser developed countries by sending valuable economic resources out of such countries or into private pockets. In this regard, more research is needed to determine how the more developed countries associated with lesser developed countries through outsourcing can provide benefit to lesser developed countries while still maintaining each country's sense of national pride and individualism.

The Honorable Kilroy Genia, Papua New Guinea, M.P., Minister for Foreign Affairs and Trade, speaking at the Ministerial Conference of the WTO in December of 1996, told the group that Papua New Guinea, like other countries, has its own business culture which it wants to preserve. He suggested that transparency and code of conduct be left up to the individual countries.<sup>47</sup> To the contrary, the World Trade Organization and other world groups are moving to assist developing countries with technical, financial, and institutional difficulties through various programs. Thus, more research is needed in cross-cultural competence to encourage informed participation by nations in various world organizations, while simultaneously embracing and respecting the social mores and rights of sovereign nations. Put simply, individuals working across cultures in both the public and private sectors must be able to earn the respect and trust of others quickly in order to acquire timely information that is valid and reliable for decision-making purposes. Thus, it is imperative that such individuals readily **ADAPT** to other cultures, not **ADOPT** them—and to do so ethically!<sup>48</sup>

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<sup>46</sup> Ibid.

<sup>47</sup> Statement by The Honourable Kilroy Genia, Papua New Guinea, M.P., Minister for Foreign Affairs and Trade, World Trade Organization Ministerial Conference, Singapore, 12 December 1996,  
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<sup>48</sup> William Brent Carper, Ph.D., CPA, CGMA, "Global Business: a Cultural Perspective," *International Journal of Business, Humanities, and Social Science*, Vol. 1, No. 2, (November, 2012): 1; and Danielle Walker, Thomas Walker, and Joerg Schmitz, *Doing Business Internationally: The Guide to Cross-Cultural Success* (New York: McGraw-Hill, 2003): 203.

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