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## **Globalization, *minima moralia*, and the responsibilities of multinational companies**

### **1. Globalization: distorted perceptions**

For about four years now, students of politics, social sciences, and economics have been snowed under by an overwhelming mass of publications on the subject of globalization.<sup>1</sup> This literature employs divergent and frequently fuzzy definitions and (like the issue of transnational corporations in the early 1970s) is characterized by a degree of polarization which seems to herald the triumphant return of the ancient Persian religion of Manichaeism.

In order not to add to the plethora of definitions, let us take that given by the Future Commission of the Friedrich-Ebert-Stiftung, according to which the concept of globalization denotes

"... a complex set of overlapping and interacting processes at a global level. A distinction must be drawn between narrower and broader concepts of globalization. In the narrower sense, one speaks of globalization in connection with the growing international interrelatedness of markets, economies, and companies. The widespread public debate is essentially concerned with the social, political, and economic effects of globalization. Defining the concept more broadly, one can identify two important topics which, though global in nature, are frequently obscured by the debate on globalization in the narrower sense: firstly, the slow process whereby the Third World is catching up on the First, and secondly, the increasingly evident scarcity of natural resources."<sup>2</sup>

It should also be pointed out that the type of globalization under discussion differs from previous forms of world economic development facilitated by free-trade agreements: the dynamics which has arisen due to the rapid expansion of technological progress - particularly in the areas of transport and telecommunications and also with regard to financial instruments - is unprecedented. For almost all national economies, and many parties within these economies, this has led to changes in the problems to be dealt with, the number of players involved, and *some* of the rules of the game. Companies which operate internationally are affected by and must respond to these changes. Given the wide variety of effects currently attributed to "globalization", two questions arise for the critical observer. The first is a question raised over 20 years ago by PAUL WATZLAWIK, namely "How real is the reality?"<sup>3</sup> If one assumes, realistically, that companies operating internationally will not in the long term, out of charity or patriotism, forgo advantages of cost and price abroad, then one cannot expect the highest environmental and social standards to be applied automatically throughout the world. This then raises the second question, that of *minima moralia* - a concern addressed almost 50 years ago by THEODOR ADORNO.<sup>4</sup>

#### **■ 1.1. How real is the reality?**

If one had to explain the effects of globalization to a visitor from another planet, referring to standard publications, the bias displayed in the treatment of this issue would be immediately apparent: tell me whose interests you represent, and I will show you what literature to cite in support of your claims. Tell me whether you want to demonstrate a breach of the moral law or a feat of entrepreneurialism, and I will provide the relevant facts - or at least the anecdotal evidence.

#### **■ ■ 1.1.1. The proponents' reality**

*Proponents* of globalization see vital opportunities for most industrialized and developing nations and major advantages for producers and consumers: the greater international division of labour primarily increases the demand for workers and incomes in low-wage countries. However,

advantages also arise wherever high-quality, innovative capital and consumer goods are offered for sale at competitive prices.

From the point of view of redistribution of income from the First to the Third World, many developing (emerging) nations have indeed benefited greatly from globalization.<sup>5</sup> In the last 10 years, a large number of jobs have been created outside the agricultural sector, contributing substantially to the alleviation of absolute and relative poverty. In some cases, increased demand for certain products worldwide led to the creation of entirely new jobs; in others, jobs arose as a result of the relocation of production plants, with corresponding losses in mature industrialized countries. The incentives for companies to relocate production facilities have generally been, and continue to be, wages, salaries, and social contributions which are substantially lower than in traditional industrialized countries. In cases where production was transferred abroad by companies which operate internationally, the effects in receiving countries have generally been favourable: the 1994 *World Investment Report* described transnationals as the main vehicle for the achievement of economic stability and prosperity in developing nations, as they stimulated economic growth and improved the receiving countries' international competitiveness.<sup>6</sup> The fact that this has led to a considerable increase in the indigenous employees' standard of living is apparent not just in the coastal regions of China.

The findings of the United Nations (a source above suspicion) regarding the fulfilment of social responsibilities are also favourable: multinationals (at least the larger companies) are reported to discharge their social responsibilities much more seriously and comprehensively than indigenous companies. They not only provide significant numbers of jobs in developing countries but also make an important qualitative contribution. Thus, multinational companies pay higher wages and offer more secure conditions of employment, with better social benefits, than the great majority of indigenous companies. In addition - according to the UN report - through formal training programmes and training on the job, these companies offer their employees the opportunity to acquire up-to-date knowledge and skills, thereby significantly increasing their employability on the local market. The resultant transfer of knowledge and technology, which is not reflected in any trade balance, is extremely valuable in terms of development.

Economists at the OECD see globalization as a global "window of opportunity"<sup>7</sup>, since growth in world trade has beneficial effects for all the parties involved. As a result of the greater variety of products and increased choice, with corresponding advantages of quality and price, the main beneficiaries are consumers.

### ■ ■ 1.1.2. The critics' reality

Naturally, the effects of a phenomenon as complex as globalization are not exclusively beneficial. As with any social change, there are risks as well as benefits, both winners and losers. However, in an intellectually sophisticated discussion, one must differentiate between the various risks involved. Certain risks result from a lack of social and environmental responsibility on the part of companies; others are a consequence of structural changes in the world economy. While the first set of risks are a matter for business ethics, responsibility for the management of structural risks resides largely outside of corporations.

Structural risks are also recognized by proponents of globalization. However, in their view, such risks are not inherent in globalization as such, but are caused by governance deficits in industrialized and developing countries. The idea is explained by the former German Chancellor HELMUT SCHMIDT as follows:

"When one considers the economic and social misery of German and European mass unemployment, it would be a mistake to attribute it solely to globalization. In fact, the reasons are manifold: the inefficiency of completely impenetrable systems of taxation, the inefficiency of similarly impenetrable social security systems, rampant overregulation [...] by thousands of regulations and approval procedures, a welter of employment law, wage agreements, and labour court decisions. However, the reasons are also to be found in the relative neglect of basic research in the natural sciences and advanced engineering research, and in the relative neglect of industrial development and state-of-the-art technology by enterprises."<sup>8</sup>

Responsibility for minimizing or overcoming these risks lies with politicians and society as a whole, and only partly with companies, e.g. through the encouragement of innovation. However, innovation can only develop if it is not prevented by "rampant overregulation and thousands of approval procedures" on the part of the state, or by vociferous protests from certain sectors of

society. Genetic engineering and biotechnology are highly pertinent examples. It is simply not possible to prevent innovation and seek to combat structural unemployment.

Most opponents of globalization, or at least their most conspicuous representatives, do not consider the risks to be a result of governance deficits in industrialized and developing countries; rather, they have objections of principle either to "multinationals" in the abstract, or to the freedom currently prevailing on the markets: they argue, firstly, that the associated social and environmental, but also economic, risks outweigh the benefits by far; secondly, the objection is raised in terms of distribution theory that the advantages are restricted to a small number of practitioners of social-Darwinist predatory capitalism, while the damage must be borne by the great majority of working people. An empirical example where such criticism is justified is financial speculation directed against the currencies of various emerging nations.

Opponents of economic globalization as currently practised claim that it lacks an ethical framework and political underpinnings (if not control) to ensure that economic performance is subordinated to human and social goals.<sup>9</sup> Various critics are concerned that, without the political framework for a global social market economy, economic globalization may precipitate a return to a type of global Manchester capitalism, leading to the worldwide erosion of social and environmental standards, more marked social asymmetries and even the re proletarianization of labour, and permanent damage to the environment.<sup>10</sup>

Admittedly, it is easier to gain a hearing by employing exaggerated criticism and highlighting obvious abuses. This may be a rational political intention, but it should not lead to wholesale condemnations or irresponsible "historical cynicism" in the Popperian sense<sup>11</sup>: a good deal of what is portrayed as the adverse effects of globalization - deliberately brought about or condoned - assumes either complete ignorance, blindness, and stupidity or a breathtaking degree of malevolence, coarseness, violence, and acceptance of the repugnant and inhuman on the part of those responsible. Neither of these conceptions matches my own perception of the reality after more than a quarter-century's practical experience in a multinational company. It seems to me that, once again, Aunt Sallies are being set up to be attacked with claims of moral superiority. Doubtless, there will always be people who deliberately take advantage of deficiencies in legislation or enforcement to do things which may just be legal in certain countries but which cannot be regarded as legitimate if considered responsibly. It is part of human nature and an element in the constructivist debate that isolated cases of unethical or even illegal behaviour attract greater attention and are more memorable than normal behaviour based on enlightened self-interest. This is compounded by a peculiarity of discussions on the politics of development: most of those with an interest in development issues and especially fundamentalist critics of globalization have little use for favourable case studies or ethically exemplary conduct on the part of multinationals in developing countries. It would appear that those who champion "the interests of the poor in developing countries" think in terms of diametrical opposition and require no exceptions to the perceived rule. But sophisticated judgement is essential - the subject-matter is difficult enough as it is.

### ■ 1.1.3. The "real" reality

How "real" is the "reality" of globalization? Do the potential risks outweigh the benefits or vice versa? And in either case, who is affected and over what period? General questions of this nature cannot be answered. To believe that there is only one reality would be the most dangerous form of self-deception. Perceptions of reality differ and are in some cases contradictory not just between people in industrialized and developing countries, nor only within the various groups of countries and between various professional groupings in these countries, but also between individuals who are more or less affected and well-informed in all countries.

Thus, the perception of reality of a young factory-worker in an export-oriented company on the south coast of China will differ substantially, and probably irreconcilably, from that of an older German steel-worker whose job is under threat. There will also be a considerable gap between the way reality is perceived by a trade union leader whose members are facing plant closures due to globalization and the perceptions of a company board which can take advantage of differences in costs for legitimate relocations. A disinterested observer who considers speculative capital flows in the context of economies facing devaluation, or discusses the "moral hazards" associated with previous IMF interventions, will probably arrive at different conclusions concerning the merits of globalization than if the subject under discussion were relocation of the textile industry from his own country.

The fact is that the construction of scientific, social, political, and personal realities depends on an approach to supposedly "objective" reality which is predetermined by individuals' experience, value systems, optimistic or pessimistic view of the future, etc. Since "what" we know is always

determined by the cognitive process - "how" we know - our perception of reality depends not just on *what* occurs in our social environment but also inevitably on *how* we apprehend this "what". What is taken by an individual to be the clearly perceptible "objective" reality is conditioned by the subjective manner in which we seek "our" reality: information is selected, evaluated, and classified, and anything which does not bear subjective inspection is not admitted to the judgment-forming process.

In the context of globalization, reactions to other people's perceptions of reality are also designed to protect the individual's own reality, and range from incomprehension and resistance, to projections and defamatory recriminations. This type of behaviour makes even minor family conflicts insoluble; constructive discussion of complex global economic problems is rendered utterly impossible. Since there are no easy and certainly no quick solutions to complicated problems, only procedural advice is offered here - but it is intended for all the parties concerned: communication on an equal footing, engagement with other peoples' perceptions, and a search, inspired by the ethics of responsibility, for ways to achieve a consensus in the interests of all parties - these are certainly the first steps along the uphill road leading away from the current polarization. Clinging to prejudices and generalizing from anecdotal evidence leads to further entrenchment, making it impossible to achieve solutions for which responsibility must ultimately be shared. However, a price must also be paid for failure to act.

## 2. Global responsibility and modern management

### ■ 2.1. Sustainable development promoted by a suitable political climate

Today, anyone who wants to can easily find out what economic<sup>13</sup>, social<sup>14</sup>, political<sup>15</sup>, and environmental<sup>16</sup> measures hold out the greatest promise of sustainable success for industrialized and developing countries. Wherever in the world avoidable suffering now occurs, it is generally due less to a lack of knowledge than to deficits in the responsible application of what is known - in other words, to governance deficits.<sup>17</sup>

Stability, environmental sustainability, and prosperity continue to depend crucially on high-quality government and politics within a state which is as "lean" as possible - since it acts according to the principle of subsidiarity - but is nonetheless "strong" - since it acts consistently and coherently. In the era of globalization, there are still some problems which the market can solve and others which it is incapable of solving. Since the fundamental question of "market or state?" is no longer relevant - the answer has been provided by history - it is now a matter of categorizing problems appropriately, which requires wisdom and sensitivity on the part of government and its bureaucracy. The recurrent challenge for those in authority is to exploit the efficiency of the market in allocating scarce resources and to reconcile this with the principles of social justice and environmental acceptability.<sup>18</sup> In the context of globalization, as before, there is no apparent alternative to the social market economy.

There may indeed be times of visions and times of revisions. Consequently, not everything that was affordable in good times can remain in place for all time. However, the pendulum must not be allowed to swing too far back, for otherwise the dynamics of the whole system will be affected and political transaction costs will result which are ultimately detrimental to the industrial locality.

There are, moreover, no sensible alternatives to free trade: the erection of new trade barriers as a defence against cheap goods and services from developing countries would lead to major economic disadvantages for exporting countries and at best offer only short-term benefits for our economies. Thus, competitive pressure from cheap imports will persist, or even increase. In this situation, responsible behaviour is required from all members of society - including transnational corporations.

### ■ 2.2. Corporate activity

The fact that a company knows what the state and the authorities should do or has identified governance deficits does not release it from its own obligation to behave responsibly. Or, to quote ADORNO again, there must be no quid pro quo between one's own guilt and that of others. In concrete terms, if the government of a developing country fails to enact or enforce appropriate legislation regulating social and environmental matters, a responsible company must not take advantage of these deficits and remain inactive itself. However, this is easier said than done. In a globalized economy, there is global competition with regard to the entire regulatory framework for corporate activity. If a company is confronted with competitors whose social and environmental

standards are much lower - in business terms, "less costly" - adjustments will eventually become indispensable. The extent and limits of such adjustments are then a matter for business ethics. Ethically responsible corporate activity in developing countries is also dependent on the ability not just to cover costs but to make a profit and thereby achieve a return on the capital employed. It is also true in the context of globalization that "... any endeavour to bring ethics to bear on the structure of the economy or the conduct of those employed within it must pay due attention to what is economically appropriate. In economic affairs, nothing which contradicts that which is appropriate can ever be ethically acceptable."<sup>19</sup> Ethically acceptable corporate activity and profit-making are not mutually exclusive. Both are required for sustainable business success.

Whenever several different goals are to be achieved over the same period with the same resources, conflicts are inevitable. Anyone who is seriously striving to base his decisions and actions on the fundamental principle of morality will consider - *in advance* - whether the intended course of action is not merely appropriate to the case but also satisfies the demands of reason and justice. Reason and justice are the two supreme principles in any system of ethics - including business ethics. Those who take business ethics seriously will constantly come up against dilemmas where, in order to attain a certain desirable end (e.g. environmental protection), other desirable ends (e.g. the current year's profits) will have to be "sacrificed". Such conflicts are the stuff of the dialectic whereby the quality of practical business ethics can be improved. The aim cannot be to avoid conflicts but to overcome them in an ethically acceptable way. Decisions must not be taken arbitrarily; here too the principles of reason and justice should be applied, and after responsible deliberation the "lesser evil" should, if necessary, be chosen.

For those in a position of responsibility, there arises the ancient philosophical problem of the "golden mean", the extent to which the various goals are to be translated into practical business conduct. Finding this golden mean and implementing it in sustainable business practices should be regarded as a type of Quality Management, such as is already striven for with regard to business and technological parameters.

### ■ 2.3. Minima moralia

While profits are a prerequisite for a company's long-term existence, they must not be attained regardless of any social or environmental costs. But what "costs" are acceptable from the point of view of business ethics? At what point do deviations from the quality of social, environmental, or other standards currently regarded as legitimate e.g. in Germany raise issues of business ethics when operating in a developing country within a completely different framework? In the case of direct investment in a developing country, should the environmental standards applied be those which have developed over a number of decades within a quite specific political, economic, and cultural framework, say in Frankfurt, Leverkusen, or Basel? To take an example, if the indicator for the cleanness of the Rhine is the successful re-establishment of salmon, do similar criteria apply for investments on the Ganges or the Yellow River? Or is compliance with local legislation sufficient to ensure "legitimacy"? If two extremes have to be considered, is there such a thing as a "golden mean" environmentally speaking? And if there is, who is to determine where it lies?

In view of today's global environmental problems, the ideal to be aspired to would be an industrial "catching-up" process, with the highest environmental standards for production technology and products being transferred.<sup>20</sup> However, it is also clear that the benefits of this idealistic approach will be limited in a completely different national environment: What would be the advantage for the local ecosystem if a German company were to comply with German wastewater purification standards, e.g. in the Lagos Lagoon, while everyone else, including the Lagos municipal authority, behaved quite differently? While drinking-water quality for industrial wastewater may be the "upper" extreme of environmental care, there are also "lower" limits for the adjustment of standards. These are to be found where, against their better judgment, companies engage in environmental practices which endanger human health or even life, or where the carrying capacity of the ecosystem is permanently exceeded. Examples of such black sheep may be found, particularly among national companies. Among multinational companies they are the exception.

Multinational companies play a leading role in ensuring that the greening of business is also pursued in developing countries. In practice, this means that their environmental policy makes more efficient use of natural resources, minimizes emissions, and contributes to environmental rehabilitation. Many multinationals improve environmental standards in developing countries simply by seeking to achieve a degree of technological uniformity in their subsidiaries worldwide, and thus employing environmentally friendly technology not just in industrialized but also in developing countries. In addition, such companies also play an important role in shaping national environmental policy in developing countries. An international workshop held by the United Nations Research Institute for Social Development (UNRISD) concluded that in a number of countries the most significant

improvements in national environmental policy were achieved as a result of the support given to the activities of national environmental institutes by influential companies.<sup>21</sup>

And what about wages, salaries, and social contributions? While one can arrive at a reasonable judgment fairly rapidly when discussing "unpaid captive labour in the prisons of despotic regimes", it is much more difficult to assess differences in wages, salaries, and social contributions (in short, the competitive advantage of developing countries). Differences in wages per se are by no means an indication of differing moral standards. Clearly, as a result of substantial differences e.g. in the cost of living, but also in baskets of goods and other factors, one cannot determine legitimate wage levels for workers and employees in a developing African nation by considering levels of pay for comparable work in Germany. The principle of equal pay for equal work is justified when comparing men and women, natives and foreigners, or other groups with equal qualifications *within* a given company. However, at the international level, comparisons of this type are misleading. It only makes sense to compare like with like, i.e. differences in productivity and purchasing power parity must also be taken into account. Different standards should only be condemned if wages fall below a certain level (according to as yet undefined criteria), constituting a violation of universally valid norms.

In determining social and environmental *minima moralia*, at least the following factors should be taken into account.

### ■ ■ 2.3.1. Respect for human dignity and satisfaction of basic needs

In many developing countries, the social situation is still marked by great individual and collective poverty, persistent population growth, and rural-urban migration. High levels of unemployment and underemployment produce a permanent oversupply on the labour market. Under such conditions, a wage cannot be called just merely because it is "freely" agreed between employer and employee. "Market wages" which do not enable a family to live above subsistence level are not legitimate. In addition to the usual criteria for setting levels of pay (degree of responsibility, performance, skills, experience, etc.), the criterion of *satisfaction of basic needs* must be taken into account - a demand, incidentally, which was made over a century ago by Pope LEO XIII in his social encyclical *Rerum novarum*.<sup>22</sup>

Even in cases where governments seek to secure the satisfaction of basic needs for impoverished urban populations by imposing minimum wage levels, there is by no means any guarantee that this will enable an average family to enjoy a quality of life worthy of human dignity. Such cases require companies to take action. Provision of a living wage is a moral obligation even when local market or legal conditions would permit a company to do the opposite.

Action may also be required in other spheres: in many developing countries at the stage of early industrialization, deficiencies exist with regard to employment rights (e.g. freedom of speech, right of assembly, unionization, and - as a last resort - the right to strike). It may be that conditions of employment are not subject to statutory requirements or contractual agreements (e.g. protection from harmful emissions, lighting conditions, work-breaks, and other basic provisions long since taken for granted in mature industrialized countries). Nevertheless, these belong to the inalienable *minima moralia*, since they are of the nature of human rights.<sup>23</sup>

Although it might today be considered extremely old-fashioned, if not "way off beam", one could recommend, in connection with social *minima moralia*, not just the publications of the International Labour Organization (ILO) but also social encyclicals such as *Laborem exercens* and *Centesimus annus*.<sup>24</sup> Consideration of the principles enunciated therein has little to do with religious enthusiasm, and implementation of the relevant recommendations represents a challenge for every company in an industrialized or developing country.

The fact is that labour is not a special type of commodity, and even in poor developing nations workers are not mere tools to be employed for production, but possess an inviolable human dignity. If work is felt in a variety of senses to be a duty (social subsidiarity, the employee's duty to do his best, etc.), then at the same time it is also a source of rights, in particular human rights. This rules out discrimination on grounds of race, colour, sex, language, religion, political opinions, social origin or other circumstances, as specified in Article 2 of the Universal Declaration of Human Rights. Equally, it is not legitimate to make distinctions with regard to the matters referred to in Articles 6 (recognition as a person before the law), 7 (equality before the law and entitlement to equal protection of the law), and especially 23 (just and favourable conditions of work, equal pay for equal work, social protection, right to form and to join trade unions).

Finally, the desirability of additional social benefits should also be mentioned: free or heavily subsidized benefits such as canteen meals, company health service, transport to the workplace, and educational and training programmes often make a substantial contribution to improving the quality of life of the workforce in poor countries. Action inspired by business ethics is called for, going

beyond legal requirements and market practice. The fact that such demands may give rise to conflicts between labour and capital is nothing new; however, the fact that from an ethical point of view capital is subordinate to labour as a production factor is also nothing new.

### ■ 2.3.2. Corporate activity in line with a global consensus

Certain cornerstones for a conflict-free existence and non-violent reconciliation of interests are recognized throughout the world.<sup>25</sup> These are generally standards which for centuries have served as a guide for humanity in all its cultural and religious diversity. Whether we consult LAO-TZU, CONFUCIUS, the authors of the Gospels, the Koran or Hindu Scriptures, we find similar conceptions of ethical behaviour and a meaningful human existence. There is no reason to call these into question in an age of globalization.

Even if only the Golden Rule, in its passive (Book of Tobit 4:15) or active formulation (Matthew 7:12), were to be observed, individual and corporate behaviour would bear a stamp of quality that would undercut most contemporary criticism. Double standards - high for oneself, low for everyone else - are ethically particularly unacceptable when people suffer avoidable or even irreversible harm as a result. In a social environment of poverty, the adjustment of standards to local practices becomes illegitimate as soon as there is any deviation from what is held to be right *as a matter of principle* by those who bear responsibility within a company. Excuses which point to others' deficiencies lack credibility: the power to act is rarely and need not be unrestricted. Those who can exercise only indirect or minor influence still bear responsibility. Globalization may thus be guided by behaviour consistently based on a universal ethical consensus - a "world ethic".<sup>26</sup> A pragmatic approach is required:

### ■ 2.3.3. Pragmatism: an ethical obligation

Contrary to widespread belief, business ethics and pragmatism are not mutually exclusive; on the contrary, pragmatism is an integral part of the practice of business ethics. Properly understood, pragmatism is guided by an ethical ideal and seeks to come as close to it as possible. At the same time, it recognizes the limits of what is possible. To take an example: a company which attempts to put ethical maxims into practice will aspire to a particular social or environmental ideal, but it will only go as far as its economic capacity permits; otherwise its very existence would be threatened. But, for companies as for individuals, ethical conduct presupposes existence. This line of thought is pragmatic; it does not run counter to the ethical ideal, but is an approximation to it. To ignore the limits of what is ethically practicable would be just as unpragmatic as it is to omit to do what is ethically feasible merely because it is difficult. Pragmatism makes concessions not just "downwards" but also "upwards". To do what is ethically feasible is not merely morally valuable in itself; it also secures a company's long-term future.

### ■ 2.4. The rewards of ethical behaviour

At least in the short term, putting business ethics into practice and thus eschewing illegitimate (though legal) behaviour generally leads to increased costs and reductions in sales and profits. It would be unrealistic, indeed dishonest, to deny this. On the other hand, many examples could also be cited where unethical business conduct led to a public outcry and even to intervention by the authorities and was thus not a preferable option. In such cases, it is easy to show that unethical behaviour is a liability for a company - e.g. due to the resultant damage to the company's image in sensitive markets. It is logically easier but in practice more difficult to demonstrate that high ethical standards may prove to be an asset for a company. Nowadays, for enlightened companies at least, success is a matter of more than simply the level of annual or even quarterly profits. Making a profit is for a company what nutrition is for a human being - an absolute necessity, without food one will die. However, few (healthy) people would see the intake of food as the central purpose of human existence. Key elements in the larger picture of business success are the satisfaction of consumer needs in a broader sense, responsible human relations, conservation of energy and non-renewable resources, and environmental protection. The direct and indirect effects of putting business ethics into practice today include at least the following:

#### ■ 2.4.1. Reduction of social transaction costs

A company's "customers" are no longer narrowly defined as simply the people who purchase its goods or services. Particularly for large companies, society as a whole is becoming more and more important in the context of "satisfying customers' needs": as well as providing high-quality products and services, companies are increasingly expected to assume a broader responsibility towards the environment and society, and to contribute significantly to the achievement of social goals. What this responsibility ultimately entails can only partly be defined by the company itself. The entire range of a company's political and social responsibilities is defined collectively by its stakeholders. As social and environmental problems increase, so too does society's sensitivity to the environmental and social acceptability of companies' activities. If a majority of the population sees a need for a change in the quality of corporate activity, companies will be expected to fulfil their obligations. As many companies have discovered to their cost, failure to take these expectations (sufficiently) seriously may cause problems of acceptance, possibly taking the form of critical campaigns, demonstrations, or even calls for boycotts.

Whether it be public demonstrations at factory gates, calls for boycotts from church leaders, aid agency protests, or pressure from adverse media reports - the usual result is that management capacity is tied up in defensive activities rather than being free to shape the future. Companies may assume that only an affluent society can afford the luxury of a post-materialist value shift, and that its demands will be toned down in a time of recessions and job insecurity. Although there may be a trend in this direction, in the long term this assumption is naïve: problems do not disappear if one ignores them. Unless companies play an active role, environmental and social problems will become more severe - companies' room for manoeuvre will be restricted, and only "crisis management" will remain. While crises also represent opportunities - since they stimulate, concentrate the mind, force one to set priorities, and thereby act as a catalyst for the development of new solutions - the acceptance of crises cannot be a rational strategy for a company (or society!).

A stakeholder-oriented approach, with consensus being sought through dialogue, is a permanent political, social, and environmental early-warning system, and the institutionalization of business ethics is an effective way of preventing crises. Both policies will minimize unnecessary friction between companies and society at large. Without high-quality products or services which with shrewd management can be sold at a profit on world markets, business ethics will not produce commercial success; however, without business ethics, commercial success cannot be guaranteed in the long term even with the best of products.

#### ■ ■ 2.4.2. Preservation of entrepreneurial freedom

Some 20 years ago, RALF DAHRENDORF spoke of the end of the "social democratic age"; now, towards the end of the 1990s, the *Neue Zürcher Zeitung* is concerned about a "socialist renaissance in Europe". In many Eastern European countries, what was hailed in 1989 as the end of communist subjugation and the beginning of a free-market economy and a pluralistic social system turned out to be largely a mafia-style perversion of the market economy, with the restoration of either ex-communist or crudely nationalistic forces to positions of authority. Although the underlying causes of these complex developments are varied, recent political trends are certainly related in part to the fact that deregulation was widely perceived as being prone to abuses.

Where deregulation and a free-market system devoid of social obligations have led, in developing and former Eastern-bloc countries, to Manchester liberal-type excesses - extreme demands placed on mobility, conditions of employment not governed by contract, paltry and irregular wages, meagre social contributions, and a complete disregard for the environment - it is not just humanist ideals that are trampled underfoot: nails are also being driven into the coffin of the market economy and the democratic system. Where national economies are damaged and international financial crises are provoked as a result of irresponsible speculation involving derivatives, the entire banking sector forfeits trust.

Many people in positions of responsibility within companies still complain about overregulation, arguing that the strait-jacket of state regulation prevents entrepreneurial potential from being fully realized. A good deal of evidence suggests that such complaints are well-founded, and that "less state" could indeed stimulate entrepreneurial activity. But here too a proviso is needed, since freedom always entails an ethical obligation and can therefore only be claimed together with its correlate, responsibility.

In the interests of credibility, those who wish to avoid further overregulation of the economy and promote the revision of misguided legal developments must show themselves to be capable of ethically responsible conduct. Anyone who acts against the public interest by "cleverly" exploiting legal loopholes for their own short-term gain strengthens the case of the forces in society that demand increased controls, tighter legal restrictions and thus more bureaucracy. In this connection, the current political countermovement to what is perceived as neo-liberalism speaks volumes.

Lastly, illegitimate conduct damages people's confidence in the institutions concerned. But confidence is a precious commodity, which can only be earned through many years' work. The effects of any loss of public confidence are of much greater duration than the satisfactions of short-term gains achieved by illegitimate means.

### ■ ■ 2.4.3. Motivation of employees

Employees, for their part, no longer judge a company merely by the criterion of potential earnings. A number of empirical studies have documented a positive correlation between ethical practices and employees' motivation.<sup>27</sup> A company which strives to comply with ethical maxims, has a credible top management, and supports employees in putting ethical principles into practice achieves higher motivation levels and a greater degree of identification than a company which is frequently the object of public criticism. Clinically detached employee relations do not inspire the extraordinary efforts and long-term commitment that are essential for consistently high performance. People do not merely want to work for a company, they wish to have a sense of purpose. They want to belong to an institution which they can look upon with pride. Employees who sense that their company takes the morality of its actions seriously see their work as more than merely "gainful employment". The objectives of the company become their personal concern. In companies where employees are given a sense of purpose and feel that they can make an individual contribution to something of value, they will not only identify to a greater extent with their work but also be motivated to work more and better. Such companies also report lower staff turnover and fewer absences due to sickness. The increase in employee participation at all levels which is generally associated with the practice of business ethics leads to (sometimes significant) improvements in efficiency and cost-savings.

Naturally enough, the strength of these arguments varies with the economic climate in a given country: if labour market developments - e.g. new competition due to globalization - put job-seekers at a disadvantage, or structural changes caused by global economic factors reduce the number of jobs available, job security will take precedence over qualitative considerations in relation to the company. However, the overall trend is unaffected: a growing number of citizens, either as employees or as consumers, take ethical aspects seriously - more seriously or more explicitly so than even ten or twenty years ago.

Ethically responsible conduct attracts comment and may even become the subject of external publications or academic case studies. Especially in an otherwise undifferentiated competitive environment, this will have cumulative effects, not just on the immediate environment (neighbourhood, district), which will be pleased with and proud of the company, but also on customers and serious investors. Success on these fronts will in turn increase the extent to which employees identify with the company.

### ■ ■ 2.4.4. New spheres of competition and capital market advantages

Essentially, it is the consumers of goods and services who set the standards for the quality of individual companies - commercial success or failure is determined by their buying habits. A company which seeks to be internationally competitive must not only be aware of its customers and their needs in all markets but also be able to satisfy them. Shrewd management is based on closeness to the customer and the development of lasting relationships, with customers being regarded as well-informed citizens who have to be taken seriously rather than as abstract units of economic demand.

There is increasing evidence that a company's reputation may provide the basis for a commercially valuable competitive advantage. This may be a decisive factor in the marketplace, especially where the products and services offered by a company are comparable in quality and utility to those of other companies. In the US, for example, so-called green and also grey consumers represent increasingly important niches in various markets. Companies whose environmental practices are exemplary, going beyond legal requirements, gain a competitive advantage as a result. In 1994, according to a survey conducted by the Walker Research Institute, some 78% of American consumers avoided products from companies of which they had negative perceptions. Forty-eight per cent of these consumers said that their purchasing decisions were influenced by the morality of companies' business practices.<sup>28</sup>

There are also numerous empirical examples of how immoral business conduct may lead in the short term to a considerable social outcry and even to intervention by the authorities. From a social point of view, so-called ethical shopping has become increasingly significant in recent years (e.g. carpets produced without child labour, but also jeans and other textiles). Companies whose conduct

is exemplary have not only received favourable media coverage but also gained a measurable commercial advantage.

Ethical practices may also have favourable effects in capital markets, since the days are gone when investment decisions were made in a moral and social vacuum. The importance of "ethical investment" has increased substantially in recent years.<sup>29</sup> More and more often, church assets, but also monies from ordinary pension funds, are being invested according to moral criteria. These include the structure of business activities, environmental performance, the status of female employees, and the product portfolio (e.g. tobacco, alcohol, armaments, gambling, or nuclear power regarded as "critical" lines), but also product safety and quality. In addition, human rights aspects and controversial issues such as animal welfare are analysed by some ethical investment funds. Finally, the nature of business dealings with and in developing countries also plays an important role, since multinationals are believed to have a highly significant influence on the socioeconomic and environmental conditions in host countries.

The total volume of financial resources invested in American ethical and environmental funds has been increasingly continuously for a number of years and now probably exceeds 500 billion dollars. This success is not attributable to the validity of ethical criteria per se, but to the fact that for several years ethical companies have outperformed the Standard & Poor's Index.

Stock market valuations naturally also reflect many other factors, and structural differences with an effect on profits are presumably concealed by the labels "high-pollution" and "low-pollution". Nonetheless, a comparison of share prices shows that, at least in the long run, taking ethical considerations into account cannot be detrimental to shareholders' interests. This invalidates a key argument raised by those who oppose explicit efforts to apply business ethics, namely that as the return on the funds held is to be maximized, no consideration may be given to other requirements.

### 3. Outlook

Globalization is more than a mere increase in imports and exports - it is the application of the principle of the free market at a global level. For a car manufacturer which sources axles in South Africa, engines in the US, electronics in Japan, and tyres in Italy, it is ultimately immaterial where a new factory for the European market is built. Applying economically rational principles, the manufacturer will seek the most profitable site. In the process, it will compare the productivity and quality of the potential workforces, but also all the other site-related conditions. These include not only wage and incidental costs, the costs of other social benefits, the working week, holidays, and average sickness rates of the future workforce, but also the number and levels of different taxes, the quality of the existing infrastructure, planning regulations, the efficiency of the authorities, the duration of approval procedures, and all the other factors that influence the productivity of the investment.

The most favourable overall package then becomes the benchmark for investment negotiations with the political authorities and with employers and employees at potential locations. If a location is not competitive in terms of costs, and adjustments are prevented by battles to preserve existing standards, it will not be able to attract new investment - at least, not from companies which are internationally flexible. While this situation may be regretted or condemned, this is "sterile excitement" (in the Weberian sense), as it will not change anything.

Structural unemployment resulting from the loss of jobs, e.g. due to changes in demand or the emergence of competitors with substantially lower costs, can at best only be alleviated in the short term by political measures (e.g. overt and covert subsidies, overt or covert protectionism, etc.). It can only be prevented by promoting product and process innovations which create new jobs, and by ensuring that the workforce is well-trained and open to lifelong learning. The invention of new products with high value-added or attractiveness to consumers, or process innovations facilitating massive cost-savings or leaps in productivity will lead to the creation of jobs which do not (yet) have to compete with sites in developing countries - and with the substantially lower wages paid in such locations.

However, globalization also involves the idea of the "global village" in relation to communication, information, networking, and monitoring. "Sins" committed by companies "in the back of beyond" which formerly did not come to light would now be the subject of critical media reports at headquarters within a few hours. It is a matter of enlightened self-interest for companies to behave in a socially and environmentally acceptable way wherever they operate, not just so as to avoid damaging their reputation, but also to enhance the image of their goods and services. The global application of business ethics will thus become increasingly important, providing a new, sound basis for competitiveness beyond the bounds of classical markets. Companies who disregard this

development will experience problems, while for others it represents a chance to gain a competitive advantage and leadership - in a global market.

### Footnotes

<sup>1</sup>See e.g. UNRISD (1995), Martin/Schumann (1996), Beck (1997), Beyfuß (1997), Staute (1997), Institut der deutschen Wirtschaft (1997), Schmidt (1998), Galtung (1998). Most of these publications in turn contain comprehensive bibliographies.

<sup>2</sup>Zukunftskommission (1998), p. 56.

<sup>3</sup>Watzlawik (1978); see also Watzlawik (1991).

<sup>4</sup>Adorno (1989)

<sup>5</sup>United Nations (1998)

<sup>6</sup>United Nations (1994)

<sup>7</sup>OECD (1997)

<sup>8</sup>Schmidt (1998)

<sup>9</sup>Hauchler (1997); Müller (1997)

<sup>10</sup>Gray (1998)

<sup>11</sup>Popper (1995), p. 265 ff.

<sup>12</sup>For a detailed discussion see Leisinger (1997).

<sup>13</sup>World Bank (1996)

<sup>14</sup>UNDP (1995)

<sup>15</sup>Commission on Global Governance (1995)

<sup>16</sup>Misereor/BUND (1996); Umweltbundesamt (1997)

<sup>17</sup>Leisinger/Hösle (1995)

<sup>18</sup>UNDP (1993)

<sup>19</sup>Rich (1990), p. 16.

<sup>20</sup>Leisinger in Kumar/Steinmann (1998), pp. 163-182.

<sup>21</sup>UNRISD (1998)

<sup>22</sup>Leo XIII (1891), Section 34 ff.

<sup>23</sup>ILO (1998)

<sup>24</sup>John Paul II (1981 and 1991)

<sup>25</sup>Küng (1997)

<sup>26</sup>Küng (1990)

<sup>27</sup>Vitell/Davis (1990)

<sup>28</sup>Reich/Lydenberg (1994), p. 9.

<sup>29</sup>Sparkes (1995) and Makower (1994)

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