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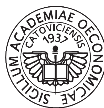

SEARCHING FOR NEW PARADIGMS IN A GLOBALIZED WORLD: BUSINESS ETHICS AS A MANAGEMENT STRATEGY

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Abstract. The process of globalization is an undeniable reality of today's world. Yet, paradoxically, the cornerstone of this phenomenon, economic performance, varies widely across the world whatever indicator (for example, GDP/habitant, competitiveness) we choose to use to compare countries. Increasingly, studies tend to explain this apparently paradoxical situation with reference to the issue of corruption and ethics. In essence, corruption is perceived to be an important impediment to the economic development of a country (or area).

Many studies of corruption are focused at the national level. The aim of this conceptual paper is to explore the role of the firm (as opposed to national states or international institutions) as an influence on national corruption. We call for firms to reconsider their behavior regarding corruption, particularly in relation to their relationships with their stakeholders. We argue that by focusing on issues such as cooperation and stakeholder theory, a firm will change the way it does businesses by reducing private-to-public as well as private-to-private corruption and incorporating business ethics into its management strategies.

Keywords: globalization, corruption, ethics, cooperation, stakeholder theory, strategic management.

1. Introduction: the new global architecture

Globalization is an undeniable reality of today's world and the economic dimension represents the cornerstone of this phenomenon. For better or worse, the influence of globalization impacts upon all aspects and domains of life. In attempting to capture all the dimensions of globalization, the IMF (2000) defines it as "a historical process, the result of human innovation and technological progress". The IMF refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes refers to the movement of people (labour) and knowledge (technology) across international borders. There are also broader cultural, political and environmental dimensions of globalization.

This description of the ongoing process of globalization clearly focuses upon "the objective positive result", which is "increasing economic integration". However, in terms of the value of globalization things are far from being so uniform and clear. Globalization means different things to different people. On the extremes, some see it as a disease with a killing effect (losing control over the evolution of humankind on Earth). On the other extreme, some see it as a universal cure (capable of healing all the global issues of humankind). In terms of its values and merits, there is no unanimously held opinion regarding the nature, emergence, evolution, or impact of the globalization process. Some argue that all the good things globalization brings are shadowed by its side effects; the score is not final yet, and, more than that, the problems seem to be amplified as the globalization process goes further. During its journey, globalization has changed societies from all over the world and the agents within them with a continuous process of cross-determination.

Global markets offer greater opportunity for people to tap into larger markets around the world. It means that they can have access to more capital flows, technology, cheaper imports, and larger export markets but these potential benefits are accompanied by new global concerns and worries such as increased inequality, weak integration, and pollution. The very existence of global markets does not necessarily ensure that the benefits of increased efficiency are shared by all. As a result, some view globalization as a process that is beneficial and

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also inevitable and irreversible because, as winners of the process, they see or like to see only the opportunities that globalization brings with it. Critics regard it with hostility, even fear, believing that it increases inequality within and between nations, threatens employment and living standards and thwarts social progress (in the 20th century, global average per capita income rose strongly, but with considerable variation among countries).

Given the varying impact of globalization, international organizations such as World Bank, International Monetary Fund and Transparency International, as well as academics, have sought to identify factors that may extend the benefits and reduce the negative impact of globalization. Interestingly, in their attempt to analyze and diagnose the world we are living in, the World Bank has identified corruption to be among the greatest obstacles to economic and social development on the grounds that corruption undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends. Many other studies and reports make strong connections between the level and rhythm of a country's development on the one hand, and the corruption perception index of that country, on the other. The apparent paradox that ties the benefits of globalization to corruption is an explainable reality; as the opportunities of doing large scale businesses and profits have amplified, they have been accompanied by new global ways to use or abuse information and privileges to gain illicit advantages by for example, instantly transferring revenues overseas. In a global world, opportunities for corruption have increased at all levels.

2. The nature of corruption

Accoring to the DEX (1998) dictionary, corruption is defined as a deviation from the moral norms, from honour and from duty. In management literature corruption has been defined as "the unfair use of a position of authority in order to obtain personal gains, money or others" (Clarke, Linkey 1996). These definitions immediately raise issues such as what "moral norms", "honour" and "duty" mean, who is able to judge these matters, and how deviations from these norms should be punished. For example, even a preliminary investigation will reveal differences between say, what the laws of country state to be acceptable behaviour and what society accepts to be a proper behaviour. Ultimately, analysis of ethical standards has to be made by taking into consideration all the behavioral and contextual determinants of a particular act because, on one hand, the national culture has a huge impact on individual behaviour and, on the other hand, every society evolves and is characterized by different ethical standards at different times. This is why any study of this kind has to be both, diachronic and synchronic, in order to correctly reflect each reality.

Research has shown that there are different types of corruption (Elliot 1997). At one end of the spectrum we have petty corruption, that is, a local low-level official taking sums of money to expedite routine approvals or transactions. Next we have grand corruption, for example, defence contractors paying billions of dollars to lawmakers for awarding major defence or transportation projects. Elliot (1997) also highlights influence peddling that may sometimes take the form of huge campaign contributions to politicians and government leaders. Corruption can also be discussed specifically in terms of business corruption, for example, bribing officials, introducing accounting irregularities, tax evasion, insider trading, money laundering, embezzlement, and falsifying documents.

Private-to-public corruption has been widely studied and analyzed primarily because of the harm it does to economic efficiency and growth, and because of its social, political and ethical consequences. In contrast, private-to-private corruption has been much less studied and only recently has started to receive special attention. Private-to-private corruption (Argandona 2003; Saee 2005) is the type of corruption that occurs when a manager or employee exercises a certain power or influence over the performance of a function, task or responsibility within a private organization or corporation. As a result of managerial discretion, the manager can choose to act contrary to the duties and responsibilities of his post or job (and thus in a way that directly or indirectly harms the company or organization) for his own benefit or for that of another person, company or organization.

According to Argandona (2003), private-to-private corruption may take a variety of specific *forms*. These include bribery (when it is the person who pays who takes the initiative); extortion or solicitation (when it is the person who receives the payment who takes the initiative, whether explicitly or otherwise); dubious commissions, gifts and favours; facilitation payments (to speed up completion of an order, delivery of goods or payment of an invoice, for example); nepotism and favouritism (in the hiring and promotion of personnel, for example); illegitimate use or trading of information (trade or industrial secrets, for example); use of undue influence to change a valuation or recommendation; and an endless array of other possibilities born of human ingenuity over the centuries.

When considering the nature of corruption, it is evident that corruption has serious consequences for both private and public sector organizations. Continuing to participate in and/or turning a blind eye to corrupt activities can have significant negative consequences for the organizations in terms of competitiveness, the effectiveness of government policies, and the sustainability of development efforts. "Ensuring effective risk management, aligning with customer expectations, complying with laws and regulations, meeting the demands of ethical investment funds, and safe-guarding reputation and brand are some of the factors that contribute to the business case to combat corruption." (El-Sharkawy *et al.* 2006). Yet we highlight that these responses to corruption require interventions at the organizational level. In the next section we consider corruption and ethics and the organizational level

3. Corruption and organizations

Corruption brings benefits only to a few, while it operates against the majority. It delays and alters economic development, operates to negate fundamental rights, raises obstacles in front of natural processes and deviates resources from their proper allocation to the most important sectors and economies. All of these corollaries of corruption call for the intervention of management – which, thanks to its universality, in theory, has the potential to effectively and efficiently put to work the resources of the global system in a regulatory manner.

Most of the studies which have analyzed corruption have used aggregate figures at national level to make comparative observations and interactions. However, globalization is most of all a result of firms conducting business within a framework set up, observed and corrected by governmental authorities. It is our proposition that, to address the issue of corruption, we have to involve the level of organizations. It is our contention that, through this organizational focus, it is possible to capture more wholly the significance of the word corruption. At the level of the organization, corruption becomes more personalized because corruption at the level of the organization, as opposed to the level of the State, is seen to involve individuals.

It is generally accepted that a firm might be defined as a combination of tangible and intangible assets operating together in order to perform a specific activity with a view to covering a real or a potential demand on the market and to obtain a net income from it. But the transition to the knowledge-based society of the globalized economic world generated a big shift regarding the value of the firm. One study made in the USA in 2001 (Nicolescu O., Nicolescu L. 2005) revealed that, if in 1978, the accounting value of the firm represented 95 % of the firm's market value, at the time the study was made (2001) it represented only 25 % of the market value. This does not mean that the tangible assets have little value at all, because no economy and no firm could operate without them. It only means that the structure of the assets of the firm has changed and it is necessary to define in each case the optimum combination of those two kinds of assets in the search for global competitiveness. It is relatively simply to at least evaluate the visible assets of the firm and then to factor them into a competitive strategy. It is however quite difficult to distinguish and then to evaluate the invisible assets of a firm, and even more difficult to factor these assets into a competitive strategy.

Under these circumstances, we have to agree that "in the current context of (a) increasing interconnectedness between economic actors and between countries (including transition countries), (b) consistent critical externalities for all types of enterprises confronted with an increasing competition in the local and/or international market, (c) tremendous impact of the new information and communication technology on each company, in terms of strategic development and of organizational behaviour, strategic management relies increasingly on the intangible assets to achieve corporate and market goals. These intangible assets refer to "company advantages given by the access in real time to accurate information, by the intellectual capital of the firm's human resources, and to the good reputation and image of the firm with clients, shareholders, or suppliers". The intangible assets also refer to the "moral capital of the company, the ethical conduct of the managerial team, the transparency of the financial accounts by voluntary reporting to interested circles, the respect of the employees' rights, the use of environment-friendly technologies, and last but not least, to the corporate social responsibility promoted in contact with the members of the hosting community" (Korka 2005).

Maybe this ethical behavior at the organizational level seems to be a utopia for a firm operating in a corrupt national system and in reality, it is likely to be a long time before this behavioural pattern will be accepted and integrated into strategic and operational firm management. We do however raise the question as to the factors that may promote ethical behaviour at the organizational level. Ultimately, economic performance is underpinned and explained by two basic factors: a) the need to cooperate and b) stakeholder theory as applied to business.

4. Corruption, cooperation and stakeholder theory

Business is not only about competing; it is also about cooperation (Crăciun 2005). Competitiveness is, of course, one of the most visible features of business. Obviously, business means first of all competing and many people see the benefits of competing in a market economy: better goods and services, lower prices, innovation, diversity, development. However, we propose that many business people do not realize the nature of economic competition and its necessary connection with cooperation. Often preoccupied only with the maximization of their profits within the law, such people ignore their moral responsibilities to the others, considering such concerns to be idealistic and humanitarian fantasies which harm the business and reduce profits. The result is the emergence of social dilemmas and the theory of strategic games. The main idea is that if *any* member of a community is looking *only* to accomplish her/his own interests, the whole group will eventually achieve worse results than if they would cooperate with one another. What is good for one is bad for all. If each one is looking for the best for himself, then each one gets the lowest benefits. The analysis of these conflicting choices is concentrated upon the relationships between the goals sought by individuals; it aims to evaluate the nature of their behaviour – competitive or cooperative, as well as the nature of the relationships between them – conflict or harmony. This kind of relationships could be analyzed through the theory of games as portrayed in management development exercises such as the *prisoner's dilemma*, the *farmer's dilemma* and *tit for tat*.

According to this theory, the main idea is that the positive basis of the moral duties of a good business executive is found in the nature of business itself. Despite the general perception of business as a hard and merciless competition, a business is, at its core, a cooperative activity that permits all parties to gain. The competitors have some common interests and duties and the structure of competition itself imposes some mutual duties, which are necessary to resolve the conflicts of interests that could arise during business relationships. Ethics, in the sense of an accepted set of rules, are a prerequisite to any cooperative transactions. This emphasis on relationships is also reflected in the body of work that emphasizes that the firm has numerous stakeholders that should be considered in organization's decision-making processes.

The idea of stakeholders, or stakeholder management, or a stakeholder approach to strategic management (Freeman & McVea, 2001) posits that managers must formulate and implement processes which satisfy all those groups who have a stake in the business. The central task in this process is to manage and integrate the relationships and interests of shareholders, employees, customers, suppliers, communities and other groups in a way that ensures the long-term success of the firm. A stakeholder approach emphasizes active management of the business environment, relationships and the promotion of shared interests. As the strategic management literature reveals, in a world of turbulence and accelerating change, the interests of key stakeholders must be integrated into the very purpose of the firm, and stakeholder relationships must be managed in a coherent and strategic fashion. The stakeholder approach encourages management to develop strategies to identify and invest in all the relationships that will ensure long-term success. This helps to "explain the success and influence of the stakeholder concept within the fields of business ethics and business and society" (Freeman & McVea 2001). Yet stakeholder theory by itself is not enough in order to ensure the long term competitiveness of the firm. It has to be incorporated into a conceptual framework and an operational management strategy.

5. Conclusions

In summary, it is our contention that there is a need to examine carefully, properly define and smoothly refine globalization and corruption, by emphasizing both the visible and invisible and the dependencies and interdependencies between them. This analysis is required in order to deal positively with the ever-increasing contradictory realities and perspectives affected by these two inextricably associated phenomena. In seeking to explore and explain these phenomena, we have argued that the role of strategic management is extremely important at all possible levels involved, that is, the individual manager, the firm (including MNEs), national (including domestic regions), regional (including supra-structures such as EU) and global. As Gini (2005: x) has stated so eloquently: "*what is being asked of the business community is neither extraordinary nor excessive: a decent product at a fair price; honesty in advertisements; fair treatment of employees, customers, suppliers, and competitors; a strong sense of responsibility to the communities it inhabits and serves; and the production of a reasonable profit for the financial risk-taking of its stockholders and owners*". Unfortunately, for many developing countries in particular, the above mentioned scenario remains an ideal as opposed to a practical reality perhaps because corruption seems to be the only realistic manner for doing business. By incorporating cooperation, stakeholder theory and ethical

considerations into management strategy at the level of the organization, we can make further inroads into the task of ensuring that the benefits of globalization become truly universal.

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