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## **International Ethics and Globalization\***

Műhelytanulmány

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## **Abstract**

In the inherently anarchic international system the validity of moral principles is weakening. To overcome anarchy global governance is needed. It means efficient international institutions, but also pressures from the global civil society and the self-regulation of business. Multinational firms have the duty of cooperating in governance systems. They also have the duty of reconciling in their activity the two, equally legitimate claims of universalism and cultural relativism; *i.e.*, applying universal moral principles and respecting local moral norms. Finally, multinationals must be guided by the principle of enhanced responsibility. However, although globalizing efforts are important in overcoming international anarchy and coordinating the protection of global commons, strong arguments support the notion that economic globalization does not promote sustainable development. Some form of localization of the economy is certainly needed. The challenge is to find a way towards more global governance with less economic globalization.

### **keywords:**

globalization, international ethics, universalism, cultural relativism, global governance, localization

## 12.1 The Challenge of Globalization

Ours is the age of economic globalization. Although a glimpse of globalization had already appeared at the end of the nineteenth century, current trends differ considerably from past ones. The “globalization” of the nineteenth century was marked by strong movements of capital, labor and goods within the “world economy” of that time, which included only discreet portions of the globe. However, today’s globalization is characterized by an unprecedented degree of free and fast movement of capital around the whole globe, and by the global institutions of a financial superstructure. Capital has acquired predominance over other factors of production. Economic activities are coordinated by globally integrated financial and capital markets.

In his famous essay, Karl Polanyi (1946) describes the advent of capitalism in nineteenth century Britain as “The Great Transformation..” This was the process through which the logic of the market not only transformed a multitude of economic activities, creating the “market economy,” but also changed the nature of social institutions, thereby shaping a “market society.” Polanyi’s thesis is that a “market economy” necessitates a “market society,” where social interactions and activities like labor, and even human, relations, the cultivation of land, the management of natural resources, and even the evolution of culture, are coordinated by the logic of the market. He argues that the social and environmental consequences of this process are dramatic, because a single logic rules over all others. And there is no one logic which is able to effectively coordinate all the complex and diverse interactions of the social and natural world. We need diversity and a plurality of coordination schemes: market forces must be countervailed by state regulation, the control of civil society and the self-regulation of business.

In a similar vein, we can argue that a “Great Transformation” is currently taking place on a global scale. The dominant development paradigm - preached by the International Monetary Fund, the World Bank, the World Trade Organization and global business organizations - advises countries to liberalize international trade, assist foreign investors, and privatize national assets; and to cut back government expenditures, including assistance to small farmers and spending on health, education and environmental protection. The global economic crisis that started in 2008 first seemed to change the predominance of the market dogma, and provoked some soul searching among eminent figures of neoliberalism – like Alan Greenspan, former president of the FED who admitted that he had too much faith in the market logic. But despite those quick reactions, in fact, paradigmatic change has not occurred in economic policies. The neoliberal arrogance has been tempered to some extent, but economic difficulties and roaring public debts brought back the well known arguments for austerity measures: less government expenditures, more private initiatives.

Thus, despite some drawbacks, the adventure of globalization continues. Economies all around the world are being reshaped under the pressure of global markets: “market economy” is being created on a global scale. And this has fundamental social and environmental consequences as well. There is evidence that national economic policies based on liberalization benefit international business, multinational companies and global financial markets. However, their effects on people, local cultures and the environment are more than dubious.

Where are the countervailing forces to market interests on the global level? Are the already existing institutions (like international treaties and organizations) of global governance strong enough to create and protect the needed balance between variegated values and interests? What kind of regulation and governance do we need? This problematic, as we will see, is a reformulation of a very old one in international ethics.

However, the need for global governance raises a very fundamental ethical question about the basic values of global cooperation. The problematic of universalism versus relativism will be explored in connection with the ethics of multinational companies, because any examination of international business ethics should deal with the problems involving both the systemic and corporate levels. Besides analyzing the conditions and possibilities of global governance, the rules of the global game, we should not forget about the responsibility of individual companies when trying to resolve the ethical dilemmas of the international marketplace.

## **12.2 The Ethics of International Business**

### **12.2.1. The problem of regulation: order and disorder**

The oldest tradition of international ethics is moral scepticism. A well-known formulation of this view is given by the seventeenth century English philosopher Thomas Hobbes. He argues in his *Leviathan* that the international system is inherently anarchic, lacking any central, order-enforcing authority, and this justifies actors (states) in defending their interests by any means they judge appropriate. That is, ethical considerations lose their validity in anarchy. According to Hobbes, the phenomenon of inter-state relations resembles the original state of nature, prior to the creation of society and the state. In the original state of nature, individuals would attack one another simply out of the natural fear that others posed a threat to their safety. They lived in constant fear and insecurity and therefore benefited greatly from contracting with a sovereign power that would enforce rights and duties. However, cooperation between states is much less compelling and fruitful than cooperation between individuals, therefore the formation of a supranational sovereignty never becomes imperative. Anarchy will remain a basic feature of international relations, even if it does not necessarily imply constant hostility between states. But even peacetimes are shaped by power relations and strategic considerations.

However, is the international system really as desperately anarchic as the Hobbesian arguments suggest? Regulatory efforts are a constant presence and international law has evolved considerably in the past centuries. Thousands of international treaties and hundreds of international organizations are designed to secure the terms of international cooperation.

Nevertheless, Castells (1997) still speaks about „global disorder.” He argues that while during the twentieth century states made considerable efforts to reduce anarchy through the creation of global institutions (like the United Nations) and the development of international law, the appearance, and the growing power, of international organizations in the international arena undermine their legitimacy. These international organizations, which include multinational companies, non-governmental organizations (like Amnesty International and Greenpeace), and even government-founded institutions, like the International Monetary Fund, have become a major force in the international arena. Although their performance in attracting resources and managing issues is rather remarkable, their activity puts into question the sovereignty and the intervening capabilities of states. Nowadays many interests and values are represented by many agents in the international arena. Greenpeace tries to influence governments, business and the people in the name of environmental values; multinational companies promote their own interests, and so on. In this situation a state becomes just one kind of actor in a cast of many - and not even the most powerful one, necessarily.

In sum, although talking about anarchy in the context of international relations seems like an overstatement, the fact is that there are no political mechanisms on a global scale to channel and represent the different interests, and the legitimacy of international organizations might be problematic. In this „global disorder,” the pursuit of self-interests and strategic behavior might seem to be the most rational strategy for the actors, be they states, companies or international organizations. For instance, states are reluctant to cooperate on managing the global commons, because these issues require considerable resources with uncertain returns. This is the „tragedy of global commons” (see Box 12.1).

Box 12.1 The „tragedy of global commons.” The case of climate policies.

Climate change has been an increasing concern across the world for more than ten years already. In order to prevent its dramatic consequences, concerted global actions are urgently needed. In 1997, a number of countries, including most OECD countries, agreed on the provisions adopted by the Kyoto Protocol, which sets targets for future emissions of greenhouse gases that drive climate change. But the Kyoto Protocol left many decisions to be made, and while these are being discussed the clock ticks and the date for meeting the targets draws closer. The Kyoto targets in themselves would have done little to avert climate change but were best seen as a first step towards more ambitious world-wide action. However, even these modest potential achievements were undermined, because in 2001 US President George W. Bush announced that his administration is dropping US support for the Kyoto Protocol, although the US alone is responsible for some 25 percent of all global greenhouse gas emissions. Bush's unilateral decision represented the interests of US oil companies, Bush's corporate backers. The decision has sparked outrage around the world. The UK Deputy Prime Minister John Prescott declared that “The US cannot sit in glorious isolation... It must know it cannot pollute the world while free-riding on action by everyone else.” Unfortunately, the US was not the only major international player acting in a rather irresponsible way in terms of climate policies. Several Western European countries have not been able either to reduce, let alone, stabilize their greenhouse gas emissions. If the EU as a whole could meet the modest Kyoto targets, it was only because the new Central and Eastern European member states have lower emissions. This fact deeply undermines the credibility of the official EU position, which is in favor of strict climate policy measures. Moreover, the 2009 negotiations in Copenhagen turned out as a major failure partly because of a leaked European document that sets as political goal that rich countries should not make serious commitments, rather the developing countries should be convinced to reduce their emissions. However, developing countries, including the large ones, like China, India or Brazil, which have become important atmospheric polluters, reject to spend more on climate protection until they see that the rich countries, still the major polluters, take the lead.

For international business, global disorder, or anarchy, means first and foremost an insufficient regulatory framework; and, as a consequence, good opportunities to capitalize on their own self-interest (Scherer *et al.*, 2009). We have to admit that “the usually reliable backdrop of national law, the local legal order which tends to ensure a minimum level of compliance for domestic corporations in domestic markets, is missing in the international scene” (Donaldson, 1989: 31). This fact sheds a different light on corporate responsibility in the global marketplace.

Box 12.2. The case of corruption.

Corruption has been long recognized as being sadly a typical phenomenon of international business. From the early 1970s, the OECD urged its member states to take actions against international corruption, but no binding regulation was adopted. In 1977 the United States passed its Foreign Corrupt Practices Act (in the wake of the Lockheed bribery scandal, in which Lockheed officers bribed the Japanese government for a contract) which prohibited American corporations from offering payments to officials of foreign governments. However, as no other country followed the U.S. in adopting similar regulation, American companies began to suffer from “less ethical” competition abroad. Therefore, some years after its adoption the Foreign Corrupt Practices Act was softened somewhat. Although no one questioned that corruption in international business is a serious problem, it took several decades for the OECD member states to finally sign an international treaty in 1997 on the issue. And this is still just the first step in effectively fighting corruption. Implementation is still weak and corruption has not been significantly reduced in international business.

Domestic law is less effective in regulating the activities of multinational companies for a number of reasons. First, the empirical fact is that in developing countries regulation is less sophisticated and enforcement of the laws is less effective than in developed countries, which in turn, do not rush to impose extraterritorial regulation on their home-chartered multinational corporations (see reference to the US Foreign Corrupt Practices Act in Box 12.2). Second, multinational companies have some latitude in offsetting domestic regulation. For instance, they can easily avoid hard taxation through the strategic use of transfer prices; or they can make use of collisions between the norms of the home and the host country. Third, multinational corporations have enormous power. Some of this power is symbolic: because they are taken to be the dynamic force of capitalism, states compete with each other in attracting foreign direct investment. And if they are unsatisfied, multinationals threaten to leave the host country. But their power is not exclusively symbolic; sometimes it is very real. Comparing the annual GDP of countries and the turnover of companies, we can see that more than fifty out of the hundred biggest economies in the world are not countries, but companies (see Box 12.3). They control a large share of world markets and the overwhelming majority of patents. “Trade is defined in large measure by pricing determined internally by the multinationals, and such prices are not, properly speaking, the result of the free play of the market. The entrance of a new independent producer is complicated, given the economies of reach and scale and the preferential access to finance that the multinationals enjoy” (Ugarteche, 2000: 108). Finally, not only are multinationals extremely powerful, but, on top of this, they are backed and assisted by international financial institutions. And evidence shows that these companies are ready to use their power when searching the world to find the

cheapest human and natural resources, and the most supportive environments for their business.

Box 12.3. Comparing the annual GDP of selected countries and the revenue of some of the biggest companies for year 2010, in current USD billions. (Source: [www.worldbank.org](http://www.worldbank.org) and [www.fortune.com](http://www.fortune.com).)

Poland	468.6
<b>Wal-Mart Stores</b>	408.2
Austria	376.2
Argentina	368.0
Denmark	310.4
Greece	304.8
<b>Royal Dutch/Shell Group</b>	285.1
<b>Exxon Mobil</b>	284.6
<b>BP</b>	246.1
Finland	238.8
Egypt	218.9
<b>Toyota Motor</b>	204.6
<b>AXA</b>	175.2
<b>China National Petroleum</b>	165.5
Romania	161.6
<b>General Electric</b>	156.8
Peru	153.8
Tanzania	23.5

In sum, the regulation of the multinationals based on domestic laws is imperfect. We certainly need international regulatory framework. Although many international institutions and treaties are already in place to regulate business, a number of problems still remain:

- (i) regulation is only slowly evolving even in those areas which are widely recognized as problematic (corruption, money-laundering);
- (ii) regulation tends to neglect some areas, or stakeholders. For instance, in international trade agreements competition is relatively well-secured, and consumer interests are also given some weight. But labor standards and environmental issues are largely disregarded;
- (iii) broader ethical issues are treated almost exclusively in non-binding documents, like codes of conduct. Although their role in regulating business is more and more important and should not be neglected, it is limited in many respects. They provide rather “soft” provisions; non-compliance, by definition, is not penalized; specific codes, focusing on particular problem areas, are elaborated retrospectively; that is, after a scandal or tragedy becomes known (see Box 12.4).



#### Box 12.4 Codes of conduct for multinationals.

One genre of codes manifests itself as specific documents, focusing on a particular problem. These codes typically emerge as a response to a scandal or tragic accident. They include intergovernmental documents (like the European Economic Community's Code of Conduct for Companies with Interest in South Africa, 1977), codes elaborated under the auspices of an international organization (like the World Health Organization's Code on the Marketing of Breast-milk Substitutes, 1981), and guidelines and standards developed by business organizations (like the International Federation of Pharmaceutical Manufacturers Associations' code of pharmaceutical marketing practice, 1981).

Another class of codes is engendered by comprehensive charters which cover several problem areas. Some of these have been elaborated by civil and business organizations (like the Social Accountability 8000 standard, or the charter of the GoodCorporation), and we can delineate here those intergovernmental compacts which aim at defining the basic outlines of the global corporate ethic. Their normative force is based on widely accepted moral values, norms and the provisions of other basic international documents, like the Universal Declaration of Human Rights. The most important such comprehensive compacts are: the OECD Guidelines for Multinational Enterprises (accepted in 1976; last amended in 2011); the International Labor Office (ILO) Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (1977); the United Nations Code of Conduct on Transnational Corporations (Not completed); the Ten Principles of the United Nations' Global Compact (2000 and 2004). Some of the problem areas covered in, and normative guides offered by, these compacts are (see Frederick, 1991): *Employment Practices and Policies* - multinationals should respect the right of employees to join trade unions and bargain collectively. (ILO, OECD, UN Global Compact); multinationals should develop nondiscriminatory employment policies and promote equal job opportunities. (ILO, OECD, UN Global Compact); multinationals should, minimally, pay basic living wages to employees (ILO); *Consumer Protection* - multinationals should safeguard the health and safety of consumers by various disclosures, safe packaging, proper labeling, and accurate advertising (UN Code); *Environmental Protection* - multinationals should disclose environmental information and minimize environmental risks and harms (OECD, UN Code); multinationals should promote the development of international environmental standards (UN Code); *Political Payments and Involvement* - multinationals should not pay bribes nor make improper payments to public officials and should avoid improper or illegal involvement or interference in the internal politics of host nations (OECD, UN).

When talking about the regulation of international business, George Soros stated that "the current state of affairs is unsound and unsustainable" (Soros, 1998: xx). He was, of course, talking about the regulation of financial markets, where the situation is even more dramatic, as proven by the global financial and economic crisis started in 2008. This reality calls for a system of international regulations unthinkable before now.

But even if we leave the world of global finance behind us in order to turn back to the problem of regulating the multinationals, we can argue that Soros' statement still holds. It is widely recognized that more regulation is needed. But this time regulation should move away from the "free-trade paradigm," which means that the focus of the regulation is on securing fair competition, the enforcement of the non-discrimination principle and the limitation of

state intervention in business. The 1997 debate about the Multilateral Agreement on Investment (see Box 12.5) and the developments under the General Agreement on Trade in Services (GATS) under the auspices of the World Trade Organization showed that even now many think that this paradigm is a relevant frame of reference for regulating not only trade, but international business in general. However, debates around the MAI and the GATS also revealed that for many people this paradigm is outdated and no longer acceptable. Not only should international business and investments not be regulated in a trade-like manner, but even trade rules should change in order to encompass broader (*i.e.*, social and environmental) concerns. The free-trade paradigm was perhaps an appropriate one in the 20th century as a reaction to the chaotic state of trade before World War II, brought on by the Great Depression, which took the forms of high tariff barriers, extensive use of nontariff barriers to trade, widespread trade discrimination, and, as a consequence, a severely reduced volume of international trade and investment. But nowadays, under the conditions of economic globalization, the goal of the international regulation of business should move away from focusing solely on the terms of competition. It should be redesigned in order to be able to protect and promote the basic rights and the welfare of people around the world, and to preserve and sustain the natural ecosystems.

Box 12.5. The Multilateral Agreement on Investment (MAI).

The secret negotiations on the MAI began in 1995 under the auspices of the OECD. It was conceived as a “technical agreement,” but it turned out to be more of a “constitution for the global economy.” However, it was a very flawed constitution, because it laid down the rights of international business without outlining its obligations. When in 1997 the text of the MAI became public it caused world-wide indignation. The MAI was deemed unacceptable by NGOs, political organizations and even the European Parliament. Its provisions would have prohibited discrimination of any kind against multinationals, while allowing for preferential treatment. Corporations would have had unprecedented freedom to sue governments, and in case of dispute, they would have had the possibility to “opt out” from the jurisdiction of the state in question and ask the judgment of an international dispute-settlement panel.

However, some MAI-like provisions found their ways into international treaties. The North American Free Trade Agreement (NAFTA) also allows companies to sue states if their profit is being affected by government policies, even social or environmental ones. The GATS agreement has also provoked vivid controversies, mainly on its possible effects on public services. Major European cities, including Paris, Oxford and Florence, joined a “Stop GATS” campaign protesting against the treaty (see [www.gatswatch.org](http://www.gatswatch.org)).

Regulation does not mean solely formalization and institutionalization. In the era of “global turbulence” (Rosenau, 1990) the global civil society is increasingly able and ready to contribute to the effectiveness of global governance. Informal pressures coming from NGOs, or even the media, are now part of the evolution of international regimes (governance systems). These agents voice moral claims which are difficult to neglect. International NGOs (like Amnesty International or Greenpeace) or even those formal institutions which otherwise do not have real power (e.g., the International Labour Organisation), can have influence just by pointing out the problems. Thus, a “discursive multilateralism” is also part of the global regulatory setting (Weisband, 2000).

Let’s suppose that international regulatory efforts of all kinds will intensify in the coming years! (It is actually not a counterfactual hypothesis: in the past 20 years more than 200 international treaties were signed in the field of environmental protection alone; and many of them affect business.) Still, anarchy as a basic feature of the international system will remain at least for a while. What should multinationals do under these conditions? Some argue that under imperfect regulation, when there is no guarantee that others will follow the norms, they have only limited responsibility and should therefore primarily follow their own self-interest. In a similar spirit, „Boddewyn and Brewer (1994) have defended the view that managers should consider the host-country government on a par with other competitive factors. For his own part, Boddewyn (1986) has even argued that when companies seek competitive advantage, bribery, smuggling, and buying absolute market monopolies are not necessarily ruled out” (Donaldson and Dunfee, 1999: 220). These recommendations are perfectly in line with Hobbesian moral scepticism.

However, acknowledging international anarchy must not lead to moral scepticism. Immanuel Kant, in his *Eternal Peace*, argues that moral law obliges us to follow ethical norms in international affairs even if nobody else is following them, and we must promote peace among nations even if it seems hopeless. But in order to secure peace and promote compliance with the norms, he proposes reducing anarchy through international cooperation and institution building. That is, while Hobbes thought that cooperation is difficult under the conditions of anarchy, Kant argues that we need cooperation, *just because of* the existing anarchy. In a similar spirit, if one thinks that it is difficult to put high moral claims on the multinationals under the conditions of imperfect regulation, we should reply that ethics is not conditional: basic duties do not vanish just because some do not follow them. Multinationals cannot justify unethical behavior with a simple reference to the circumstances. Moreover, an additional duty is incumbent upon them: that of *cooperating* somehow in global governance in order to contribute to reducing anarchy.

### 12.2.2 An ethics for the multinationals

Let’s move towards the ethics of the corporation! Although the context and the quality of the regulatory framework of a behavior is very important in influencing its ethicality, we should not forget that agents always have some autonomy, and therefore some responsibility in deciding what to do. That is, as stated above, international anarchy does not discard the responsibility of the multinational to act in an ethical way. On the contrary: the enormous power of the multinational increases its responsibility in dealing with the stakeholders. In this section we will shortly overview the ethics of the multinational company.

Both international ethicists and business ethicists (e.g., Donaldson, 1989, 1993, Walzer, 1994, Donaldson and Dunfee, 1999) argue that the main problem we face when trying to specify the universally binding obligations for multinationals is the difference in moral standards between the cultures. In very practical terms this means that the host-country

standards, norms or values might differ from the multinational's home-country standards, norms and values. What to do in the case of conflicting norms? This simple question has a broader relevance. The empirical fact that many moral cultures coexist in the world might cause problems for international ethics. Although we tend to believe that there are universally valid norms and values, we also do cherish cultural diversity and argue that local communities should be recognized and respected. That is, at one extreme, the position of *universalism* implies that there exists a set of universally binding norms which rules out the possibility of two conflicting ethical views in different cultures being equally valid. At the other extreme, the position of *cultural relativism* implies that "no ethical view held by one culture is better than any other view held by another culture" (Donaldson and Dunfee, 1999: 23). Universalism is sometimes accused of implying moral imperialism and arrogant absolutism. Relativism, taken to the extreme, means that we should accept any cultural norm, no matter how inhumane, or how bizarre it is.

How to find a balance between universalism and relativism? Donaldson and Dunfee argue for *pluralism* defined as follows: "There exists a broad range of ethical view-points that may be chosen by communities and cultures. The possibility exists that conflicting ethical positions in different cultures are equally valid. There are, however, circumstances in which the viewpoint of a particular culture will be invalid due either to a universally binding moral precept or to the priority of the view of another culture or community" (Donaldson and Dunfee, 1999: 23). That is, pluralism is a moderate universalistic position, complemented by the value of tolerance.

In a strict philosophical sense it might be difficult to reconcile the two equally important and legitimate claims of universalism and relativism. But in practice, in the spirit of pluralism, we can and must find practical solutions to overcome the problem.

Donaldson (1989) proposes a practical tool to solve ethical dilemmas related to universalism and relativism. First, he defines the minimal moral duties of multinationals in terms of fundamental human rights following three conditions: 1) the right must protect something of very great importance; 2) the right must be subject to substantial and recurrent threats; and 3) the obligations or burdens imposed by the right must satisfy a fairness-affordability test; that is, all kinds of actors in the international scene should be able to afford the costs of respecting the right in question.

Donaldson's list of fundamental human rights generated from these conditions include: 1) the right to freedom of physical movement; 2) the right to ownership of property; 3) the right to freedom from torture; 4) the right to a fair trial; 5) the right to nondiscriminatory treatment (e.g., freedom from discrimination on the basis of such characteristics as race or sex); 6) the right to physical security; 7) the right to freedom of speech and association; 8) the right to minimal education; 9) the right to political participation; and 10) the right to subsistence (Donaldson, 1989: 81). These rights must be honored by all actors in the international scene.

Second, he elaborates an "ethical algorithm" in order to help the decision-maker (the multinational manager) in those more subtle situations where the conflict of norms cannot be resolved with a simple reference to fundamental rights. Donaldson argues that there are two basic cases: "If the practice is morally and/or legally permitted in the host country, then either: 1) the moral reasons underlying the host country's view that the practice is permissible refer to the host country's relative level of economic development; or 2) the moral reasons underlying the host country's view that the practice is permissible are independent of the host country's relative level of economic development" (Donaldson, 1989: 102). The first case refers to such things as labor standards, environmental regulation, and so on. Donaldson assumes that these standards evolve with economic development. The second case refers to genuine cultural norms, customs and habits.

In the first case, the “ethical algorithm” offers the following formula: “The practice is permissible for the multinational if and only if the members of the home country would, under conditions of economic development similar to those of the host country, regard the practice as permissible” (Donaldson, 1989: 103). The rule allows for some relativism. For instance, the multinational is not obliged to apply the home country’s strict environmental protection standards, unless required by law, in an African country. Not because high standards are not desirable per se, but because the level of development requires a commensurate ordering of priorities. However, the rule certainly does not allow the release of highly toxic pollutants; that is, the rule’s relativism is limited in scope.

In the second case, the decision-maker must ask the following questions: 1) Is it possible to conduct business successfully in the host country without undertaking the practice? and 2) Is the practice a clear violation of a fundamental international right? The practice would be permissible if and only if the answer to both questions is “no” (Donaldson, 1989: 104). That is, the multinational should avoid conforming to questionable local practices, but if it is not possible, and the practice in case is a clear violation of human rights, the company should consider even disinvesting from the country, as some multinationals did in the 1980s from South Africa, because of the Apartheid regime which was institutionalizing racial discrimination.

Donaldson’s “ethical algorithm” is an original attempt to deal with conflicting norms and reconcile universalism and relativism. As a practical tool, it is, of course, simplifying things to a large extent. It is, for instance, legitimate to question whether we can compare the development levels of different countries, as suggested in decision rule 1. Nevertheless, the distinction between welfare norms (dependent on the level of development) and authentic cultural norms is an important one. In the case of welfare norms there is some place for “quantitative adjustments,” and although we want multinationals to apply higher norms if the local ones are too permissive (for instance, in some developing countries it is allowed to pay wages under the subsistence level, and sometimes environmental regulation is highly ineffective), it would be unfair to oblige them to apply the same standards everywhere. Authentic cultural norms are more difficult to adjust: in most of the cases one should either accept or reject them. For instance, gender discrimination seems to be an integral part of the culture of many Muslim countries, and companies are forced to either follow this norm in their operations or leave the country in question.

Donaldson and Dunfee (1999) offer a different approach to deal with universalism and relativism. They abandon Donaldson’s original idea about a well-defined list of rights (as minimal duties) and the “ethical algorithm.” Nevertheless, their Integrated Social Contract Theory (ISCT) is still about the problem of how to put into practice the concept of pluralism. The structure of their model is similar to Donaldson’s (1989), but less prescriptive. They also assume the existence of some universal principles, what they call *hypernorms*. These are key limits on the “moral free space” of the actors, and serve as ultimate points of reference in case of ethical conflicts. However, unlike Donaldson (1989), they avoid defining a limited list of hypernorms. Instead, they hold that hypernorms are constantly evolving, and in order to decide whether a principle constitutes a hypernorm, decision-makers should look for evidences: such as whether there is widespread consensus that the norm is universal, supported by the laws of many different countries, known to be consistent with the precepts of major religions and philosophies, supported by prominent NGOs or international business organizations, and so on. Hypernorms include basic ethical values (like human dignity), norms (like promise keeping), human rights, and welfare norms (like the prohibition of child labor).

However, agents have considerable moral free space as well. “Moral free space is the area bounded by hypernorms in which communities develop ethical norms representing a

collective viewpoint concerning right behavior” (Donaldson and Dunfee, 1999: 83). That is, under the umbrella of the “macrosocial contract” based on hypernorms, communities (which include local communities, professional organizations, business organizations, and so on) may generate ethical norms for their members through “microsocial” contracts.

Now, What if a multinational observes a conflict between, let’s say, local norms and the provisions of the company’s own code of conduct? First, norms must be screened for legitimacy under hypernorm tests. A norm is illegitimate if it clearly contradicts some hypernorms (like basic human rights), or if it is not an authentic community norm (e.g., it was forced on the community). Second, remaining legitimate norms should be screened for dominance. However, Donaldson and Dunfee do not elaborate an “ethical algorithm” to deal with this problem; they just propose some “rules of thumb” which might help. Relevant factors might include priority rules already adopted as norms between communities; potential externalities; and essentialness of the norms to the transaction environment. If a clear dominant norm emerges, ethical judgment should be based on it; if there is no clear dominant norm, ethical judgment can be based on any legitimate norm (Donaldson and Dunfee, 1999: 206).

It is strange that neither Donaldson’s (1989) nor Donaldson and Dunfee’s (1999) procedures include the principle of dialogue and communication (see, e.g., Gilbert and Rasche, 2007). This principle is formulated by *discourse ethics*. According to Karl-Otto Apel (1990), discourse ethics implies that only those norms that meet (or could be reasonably presumed to meet) with the approval of all concerned in a real, rational debate can claim to be valid. The debate should be as close as possible to the “ideal communication situation” which is free of domination and argumentative inequality, and in which participants do not act in a strategic way but perform a real communicative action. Whereas in strategic action one actor seeks to *influence* the behavior of another by means of threatening sanctions or offering carrots, in communicative action one actor seeks to *motivate* another *rationally* by relying on the persuasive power of the arguments (Habermas, 1990: 63). Ideally, the validity of speech lies in its *intelligibility* (valid meaning), *truthfulness* (subjective authenticity), factual *truth* and *correctness* (normative justifiability). The principle implies that the multinational should enter into fair negotiations with the stakeholders if a conflict arises between, for instance, the home-country and the host-country norms. However, if openness to the dialogue is an undeniably important value, it is also true that cultural differences are sometimes difficult to overcome through discussion, and negotiations might become endless.

A concluding problem related to the ethics of multinationals should be mentioned. Their operations in a social, cultural and natural environment, that frequently differs markedly from their own, can lead to unforeseen and sometimes dramatic consequences. The *Nestlé* case sadly illustrates the point: Who would have imagined that a “simple” advertising campaign might lead to human tragedies, the death of babies? Many similar cases prove that multinationals should design their policies and operations with greater prudence. Water pollution has different effects in a rich country than in the rural area of a poor country where people get their drinking water from a river; logging has different consequences in a highly sensitive tropical area than in a temperate zone forest; consumerist marketing campaigns might have brutal cultural effects in a traditionalist society; workers in a developing country might be less aware of the health and environmental risks of modern industrial technologies; and so on. All this entails *the enhanced responsibility* of doing business abroad. Unfortunately, reality often conflicts sharply with this ideal (see the *Bhopal* case).

In summary, the ethics of the multinational companies is built of the following elements:

*Openness to dialogue and cooperation* (in the spirit of Kantian and discourse ethics). This means both cooperating in terms of global governance and being open to the voices of different cultural communities and stakeholders.

*Respecting some basic universal values and norms* (like the norm of „Do no harm!“ or human rights, or the provisions of codes of conducts). Some flexibility, however, might be unavoidable when applying the universal norms. But there are also cases when firms should disinvest from the country, particularly if basic norms are systematically violated and there is no hope that „enlightened“ business can improve the situation.

*Respecting the norms of different communities* - even this might imply some adjustments, because the norms of different relevant communities (typically the home and the host countries) may require different approaches. A useful distinction between the norms concerns their underlying moral context: whether or not the norm in question is related to the relative level of development of the countries. A rule of thumb might be that if the local norm is independent of the level of development (i.e., if it is an authentic cultural norm) then it should be respected; but in case of norms that are dependent on the developmental level of the host country (e.g., labor, environmental, or health standards) firms should be required to apply somewhat higher (either universal, or home country) norms, if the local ones are too permissive.

*An enhanced responsibility of the firm abroad.* In an unknown social, economic, cultural and ecological environment, even those business practices which otherwise might be seen as „innocent“ can have dramatic consequences. Firms must be particularly careful when designing their policies and actions abroad.

### 12.3 Globalization vs. localization

Globalization critics (D.C. Korten, 1995, Hines, 2000) argue that the inherent features of today's globalized economy make sustainable development impossible, both from a human and an ecological point of view.

Globalization leads to increased social inequalities. Empirical studies and historical examples show that in export-oriented economies, *ceteris paribus*, social inequalities are growing (Giraud, 1996, Gowdy, 1995, Rodrik, 1997, Wade, 2004). The revenue of those who are “internationally competitive” will depend on international markets and can have a much higher growth rate than the revenue of those who are producing for the local market. Only effective government policies can prevent growing inequalities. However, the idea of a strong government is against the ruling development paradigm, defended by the IMF and the World Bank. The fact is that social inequalities have sharply increased in the past 20 years all over the world, including the OECD countries.

Globalization means sharp competition and a “race to the bottom” in terms of social and environmental regulation. For instance, in Malaysia's and Indonesia's export processing zones even these countries' own - not too demanding - labor rights are suspended; Brazil has several times relaxed its environmental regulation during the 1990s. The erosion of wages, welfare standards and environmental regulations reinforces the effect of trade on social inequalities, because any reduction of government welfare spending affects first and foremost the poor.

Globalization means cultural homogenization and loss of cultural identities. A “consumer monoculture” (Hines, 2000: 4) is being imposed everywhere, which has

unpleasant economic as well as ecological consequences. The former manifests itself in the growing imports of expensive consumer goods in relatively poor countries, the latter means the spread of unsustainable consumption patterns. And the cultural challenge of globalization leads to emerging identity-based social movements and cultural conflicts (see Castells, 1997). The rising wave of religious fundamentalism in Islamic countries illustrates the point.

Globalization means shifting power from political communities to business. This, together with identity crises and growing inequalities, leads to a fragmentation of political communities, loss of solidarity inside the society, growing apathy, decreased political activity and/or an increase in the power of radical political movements.

Globalization leads to ecological homogenization. Export-oriented agriculture is based on the extensive use of a few cash crop varieties, which means the crowding out of local varieties (Noorgard, 1988). For instance, according to estimations, thousands of rice varieties have already disappeared in India during the last few decades due to agro-business trends (Johnston, 1995). This has dramatic social, cultural and ecological consequences. Shiva *et al.* (1991) argue that with vanishing local production local traditions are disappearing as well; that is, the ongoing homogenization in agriculture represents a double (cultural and ecological) loss.

International trade leads to the overuse of resources. This is called the growth effect of trade (Pearce, 1994). If a local product becomes popular, local production might face the burden of a global demand. The growth effect of trade might have a dramatic effect on ecosystems and environmental resources. For instance, there is no way to satisfy the global demand for leopard fur; the only way to save leopards from excessive hunting is to ban fur trade all together. The global demand for shrimps caused the extension of shrimp production in South East Asia which led to the clearing of precious mangrove forests (Ekins *et al.*, 1994: 8).

And, finally, the structural features of the global economy and the huge organizations involved make impossible the application of the precautionary principle. The psychological phenomenon of discounting in space and time impedes the application of responsibility on a global scale: people are unable to make responsible decisions about remote issues. Therefore, “localizing” the economy is a necessary, though insufficient, condition of sustainable development (Gowdy, 1995, Curtis, 2003).

In sum, globalization implies an unjust world system and an unsound, unsustainable development concept. Some of these shortcomings might be corrected through more efficient global governance. For instance, labor and environmental standards might be regulated on a global scale (Giscard d’Estaing, 1995). However, some structural features of a globalizing economy seem impossible to reform. Therefore, globalization should not only be more regulated, but also restricted; we need some kind of localization instead of more globalization.

Localization has several meanings. It might mean just some “slowing down” of the global economy and a reformulation of the mission of global economic institutions (like the IMF). For instance, some form of a “Tobin tax” would slow down the flow of money in international financial markets, reducing speculative international financial movements, and, by this, the risk of financial crisis. “A 0.5 percent tax should be collected on all spot transactions in foreign exchange, including foreign exchange deliveries pursuant to futures contracts and options” (Korten, 1995: 321). International agreement should not promote the interests of multinationals and international finance, but they should empower local communities to control and manage local resources for local benefits. For instance, preferential treatment of foreign investors would be prohibited; multinationals would be required to stay longer in a given country, to make longer term commitments in their investment decisions. And so on.



But localization in a more radical sense means a clear-cut restructuring of the economy towards local functioning (Doughwait, 1996, J. Robertson, 1998, Hines, 2000, Curtis, 2003). This means localizing the capital and the money through community investment, community banking and local money creation, and localizing food security and sustainable development through local production of organic food. It also means localizing production through taxation and creating competition policies that benefit and protect local markets, shopkeepers and small business. In such a world, the economy would not revolve around the logic of trade and international investments, but just the opposite. Trade of goods and the international movement of money would be seen as mere complements, with stress given to the rebuilding of local economies worldwide.

## **12.4 The Case of the Forest and the Marine Stewardship Councils**

Civil society organizations (CSOs) have gained importance in public life. They increasingly influence politics, regulation of business, and the provision of social services. CSOs are increasingly turning also towards business (Boda, 2010, Boda – O’Higgins – Schedler, 2009, den Hond and Bakker, 2007). This approach is largely explained by the power shift that occurred from governments to companies, as CSOs discover that it might be easier and more fruitful to approach businesses with their criticisms and demands (Newell, 2000). For instance, the traditional way for an advocacy group to change business practices is to lobby the government for a new regulation. However, it may turn out that approaching companies themselves could be a much simpler and more successful strategy (Harrison et al., 2005). The ethical consumerism movement is a powerful representation of this approach; boycotts, media campaigns, and similar means are perceived as a real threat by companies. At the same time, other CSOs aim at developing cooperative relations with companies, partly because they need businesses’ resources (money, knowledge) in order to operate effectively.

Values-driven, company-focused CSOs are also very active in the field of global business regulation. A growing literature about “private authorities” (Hall and Biersteket, 2002, Haufler, 2001), “governance structures and international regimes” (Petschow – Rosenau – Weizsäcker, 2005, Bernstein – Cashore, 2007), “partnerships” (Bendell, 2000), “global business regulation” (Braithwaite – Drahos, 2000) suggests that globalization is not void of multifaceted regulatory efforts which come from different sectors. Besides international organizations, business and CSOs are also active in setting and promoting norms.

An interesting initiative is the Forest Stewardship Council (FSC). Formally, FSC is an independent, non-governmental, not for profit organization established to promote the responsible management of the world’s forests. Originally it was initiated by the World Wide Fund for Nature (WWF), and has been created through a “bottom up” approach, and inclusion: the most important stakeholders, companies and NGOs, have been invited to join the FSC and its activity has been based on the deliberation and cooperation of the parties.

It was established in 1993 by a group of timber users, traders and representatives of environmental and human-rights organizations. This varied group of people had in common that all had identified the need for a system that could credibly identify well-managed forests as source of responsibly produced forest products. Since its inception many different stakeholders around the world have worked with the FSC in its equitable participatory processes in support of responsible forest management. However, also since its early days, FSC was often criticized by conservative industries which did not believe in sharing decision-making with social and environmental stakeholders. Much like conservative industries, some environmental stakeholders believe that confrontational campaigns are a more appropriate

conservation tool than equitable participatory solutions-oriented approaches. FSC believes that it is part of the solution for the conservation of natural forests and that a full set of different complementary conservation strategies are necessary to protect and maintain the world's forests. FSC now provides standard setting, trademark insurance and accreditation services for companies and organizations interested in responsible forestry. Products carrying the FSC label are independently certified to assure consumers that they come from forests that are managed to meet the social, economic and ecological needs of present and future generations. FSC has offices in more than 45 countries. As of August 2011 the total certified forest area attained 140, 502, 262 ha in a total of 79 countries.

FSC is generally recognized as a success story, and part of the success is its inclusive nature: stakeholders were directly involved in determining key principles and organizational concepts for the FSC. An interesting comparison is with the Marine Stewardship Council, another venture of the WWF, seeking to promote sustainable fishing practices (see Fowler and Heap, 2000). Both the FSC and the MSC are joint ventures of companies and NGOs to promote a market-led solution to environmental problems. Both of them involve the development by an independent council of principles and criteria for certification and eco-labeling.

Where the MSC differs from the FSC is in terms of the process of consultation to establish the Council and to determine its governance structure. In the case of the FSC, stakeholders were directly involved in determining key principles and organizational concepts for the FSC. In contrast, although the governance structure of the MSC stresses the importance of inclusivity, the origin of the MSC was the partnership between WWF and Unilever and the structure of the MSC was proposed by the founding partners, after taking advice from the consulting firm Coopers and Lybrand. This was partly in response to the experience of the past process to establish the FSC which was found expensive and time-consuming. There was a perceived trade-off by WWF and Unilever between undertaking lengthy consultations with all stakeholders and making a more substantial and timely impact on the industry. This contrast in the levels and processes of stakeholder participation is not restricted to the consultation process but also applies to the governance structure of the different organizations.

However, it turned out that the development of the MSC has been even slower than that of the FSC. It is probable that the limited participation was at the root of the problem that the MSC was clearly lagging behind the FSC in term of efficacy. But this must not be the only reason. One could argue, for instance, that deforestation has been solidly established as a major environmental problem to which people are generally sensitive, while the problem of overfishing has not got so much attention in public discourse. Therefore companies in the forestry industry are more vigilant of the public opinion and of their image than fishing companies.

Nevertheless, statements from the representatives of the MSC suggest that they were fully aware of the need for a sense of ownership of the initiative by the stakeholders. Over the years the MSC has made considerable effort to increase accountability, and to provide a balanced participation to the stakeholders.

In the past couple of years the development of MSC speeded up. As of November 2010, there are over 1,900 seafood products available with the MSC eco-label, sold in 40 countries around the world. 38 fisheries have been independently certified as meeting the MSC's environmental standard for sustainable fishing and over 80 are currently undergoing assessment. Over 800 companies have met the MSC Chain of Custody standard for seafood traceability.

## 12.5 Conclusions

Many argue that the solution to the global problems of our age - world poverty, inequalities, the destruction of the commons, and so on - is more globalization: more efficient international institutions; a global ethic, including international solidarity; and a more integrated global economy. That is, although it is undeniably part of the problem, globalization might also be part of the solution.

Nevertheless, it is obvious that globalization in its present form is not sustainable. Globalizing tendencies have long been accompanied by political, cultural and religious fragmentation. And the functioning of the globalized economy contradicts the goal of sustainable development, because it leads to ecological homogenization, causes the overuse of resources and renders impossible the application of the precautionary principle.

Therefore localization is an important value. However, critics argue that re-localizing the economy would mean breaking the world again into small communities and we would fall back in an anarchical state of international relations. We must avoid this, because we certainly need some kind of “globalism”; that is, global governance and cooperation in order to preserve the global commons (Passet, 2001). The challenge of the future is to find a way towards more globalism with less economic globalization.

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