**Business Organizations Confront Ethical Challenges in a Global Economy**

Lorraine Taylor

Massey University

Advanced Business Communication 219.703

Dr. Ming Li

10 May 2013

**Business Organizations Confront Ethical Challenges in a Global Economy**

**Introduction**

News headlines today illustrate the unethical behavior of large organizations and the effect that these incidents have on organizations and on society as a whole. Subsequently, interest in corporate social responsibility and business ethics has grown markedly in the past decade (Kaptein, 2004; Reich, 2005). The scandals at Enron, Tyco, and WorldCom have illustrated how the behaviours of managers can have devastating consequences for the entire organization and beyond (Brown & Trevino, 2006; Davis & Rothstein, 2006). Consequently, these non-ethical practices and attitudes at top management level affect all the employees that observe them (Davis & Rothstein, 2006; Sims, 1992). Top management models and sets the standard for attitudes and behaviours for the whole organization. They communicate codes of conduct and enforce policies through their actions, behaviours, and attitudes that either exemplifies an ethical or a non-ethical culture.

It is important to appreciate how ethics in business has changed over time and to understand the specific issues facing our world today. Business ethics has evolved from the Industrial Age to a Technological Age and now a further transformation as businesses adapt to the Information Age. Economies have moved from ones based on production to ones based on service and information (De George, 2003). Technologies continue to develop, stretching connections, and building global networks of information and knowledge exchange. Sims (1992) identified challenges for the turn of the 21st century, yet many of these challenges are still pertinent today. These include ethical challenges facing international competition, managing a diverse work force, and new issues involving new communication technologies. With these changes there are shifts in how corporations operate impacting how ethics will be addressed. Many companies are now ready for guidance in developing corporate ethical cultures that will suit the challenges in today’s international business environment (Selgson & Choi, 2006). It is crucial that ethical values stay forefront in business agendas in the 21st century. These agendas will include creating cultures that address social responsibility and social justice in our world.

Ethics is defined as the principles of right and wrong that guide decision making when faced with conflicting responsibilities (Dwyer, 2013; McShane& Von Glinow, 2010). For the purposes of this literature review, business ethics is defined as the rules, standards, codes or principles that provide guidelines for the morally right behavior and truthfulness in specific situations (Lewis, 1985). It can be thought of simply as that which is morally accepted as “good” and “right” as opposed to “bad” or “wrong” in a particular setting (Sims, 1992). The challenge facing businesses today lies in the ‘grey zone’ where clear-cut right versus absolute wrong answers may not exist.

This literature review will investigate two issues based on corporate ethics in a global arena. The first looks at the development of ethical management and an ethical culture within business organizations. The second investigates how these organizations, once ethically aligned, commit to social responsibility. The selection of literature focuses on an overlying concept that business organizations today are now faced with international challenges due to the ever-increasing access to global networks brought on by the continued development in communication technology and the sharing of information.

**Ethical Management and Culture in Business Organizations**

**Management**

Good management in business involves the development of good quality relationships that are built on strong principles. These principles include trust, respect, integrity, honesty, fairness, equity, justice and compassion (Covey, 1991). Ethical leadership demonstrates these principles through interpersonal communications, reinforcement of ethical behaviour, and moral decision-making (Brown & Trevino, 2006; Brown, Trevino, & Harrison, 2005). Kaptein’s (2004) research study analyzed the codes of conduct of two hundred large multinational firms. Specific analysis in this study reviewed the prevalence of codes of conduct, as well as, the content of codes of conduct. This study provided a benchmark for organizations to compare their codes of conduct against other codes from different organizations. It ensured that ethical behavior is sound business practice and should become part of the culture of an organization (McNeil & Pedigo, 2001 Sethi & Sama, 1998; Thompson, 2010). Managers are able to communicate these sound principles and empower people to participate in an ethical organizational culture.

One way to ensure that certain ethical behaviours are evident is to positively reinforce and support ethical behaviours. It was noted that three strategies that top management can use to reinforce ethical consciousness in an organization. It is proposed that managers should support and care about ethical practices, ensure that formal processes support ethical behavior, and ensure that ethical norms are incorporated into all levels of an organization (Clampitt, 2010; Sims, 1992). Davis and Rothstein’s meta-analysis (2006) found a strong positive correlation between the perceived behavioral integrity of managers and the attitudes of their employees. It should be noted, however, that one of the main limitations of this research was the small number of studies retrieved. Further research and larger based studies would make a valuable contribution to ways that greater alignment and commitment amongst managers will assist in better business practices.

Business managers today are challenged with unavoidable ethical dilemmas as companies begin to operate more in a global business environment. Globalization has seen diverse cultures becoming increasingly entwined and interdependent as business organizations operate in a borderless world (McNeil & Pedigo, 2001; Robbins, 1994). These inevitable ethical dilemmas facing managers in cross-cultural settings include the pressure on individuals to violate host country norms compared to home country norms (De George, 1993; McNeil & Pedigo, 2001). McNeil and Pedigo’s (2001) research confirms that manager’s grapple with complex ethical issues on an international stage. Ethical questions exist and at present these dilemmas are less about if they exist but how to resolve them. The question that needs addressing is whose ethics should be applied in an international setting? It would be a definite challenge to confirm a universal ethical set of norms that businesses would follow.

**Today’s Workforce**

The potential for individuals within organizations to behave unethically is limitless and is compounded by the grey area that exists in defining ethics on a global scale. The challenge for businesses today is to ensure that their employees know how to deal with ethical issues in their everyday work lives (Sims, 1992). The way that lower-level employees act in regards to ethical dilemmas is reinforced by what top managers do and the culture they establish and reinforce (Bazerman & Tenbrunsel, 2011; Brown & Trevino, 2006; Davis & Rothstein, 2006; Selgson & Choi, 2006; Sims, 1992). Bandura’s (1986) social learning theory supports the idea that individuals learn by paying attention to and emulating the attitudes, values, and behaviours of role models. An employee may not always agree with a manager’s values in every given situation. However, Davis and Rothstein (2006) emphasize that the employee can still perceive that the manager’s words and actions are in alignment with an overall set of ethics and values. This alignment of principles between what a manager does and the values the organization holds adds to the credibility of the management and the organization. Managers need to build skills in their employees that allow them to navigate through the grey areas of ethical and non-ethical choices. This can be done by clearly communicating ethical alignment of words and actions within an organization.

Behaviour is often a result of a response to a previous action. Employees do not always willingly commit ethical behaviours or knowingly encourage unethical ones (Bazerman & Tenbrunsel, 2011). For example, a large team of people may be responsible for the creation of a product. Any one member of that team is not solely responsible for the actions of the whole team. There is a grey area that exists where clear definition of individual responsibility and team responsibility merge. Ethical or unethical behavior is not attached or owned by any one person (Bazerman & Tenbrunsel, 2011). Another example is that managers can turn a blind eye on an unethical behavior to ensure productivity. Managers are known to reward results rather than ethical decisions. Jovanovic and Wood’s (2007) research concludes that dialog amongst managers and teams will lead to powerful communication ethics that identifies responsibility. Training is useful for employees, particularly in team situations where responsibility becomes a grey area, to ensure that they are prepared to handle situations that require ethical decisions to be made (Selgson & Choi, 2006). It is suggested that this training should build upon discussions of what ethics is, actual examples of ethical situations and how one handles ethical dilemmas (Jovanovic & Wood, 2007; Shotter, 2000). Individuals can align themselves collectively with ethical decision making by identifying the connection between responses in action in work situations.

**Developing an Ethical Culture**

Corporations today face the challenge of developing a strong ethical culture within their organization. Good behaviour is influenced by ethical values and these ethical values can be embedded in an organization’s culture (McShane & Von Glinow, 2010). The ethical climate of an organization is the shared set of understandings about what is correct behavior and how ethical issues will be handled (Sims, 1992). Sims (1992) goes further to add that if ethical climate is not clear and positive then ethical dilemmas will result in unethical behavior. Therefore, it is important that organizational culture facilitates the development and retention of ethical leaders (Bazerman & Tenbrunse, 2011; Brown & Trevino, 2006). Organizations that keep promises and commitment, and support others in adhering to ethics standards form the basis for building strong ethical cultures (Selgson & Choi, 2006). Business challenges today will be met when ethical cultures are embedded in the attitudes and behaviours of managers and employees within an organization.

Open communication channels will ensure an ethics culture proliferates within an organization. The quality of ethics is refined in communication and communicated within corporate cultures (Jovanovic & Wood, 2006; Shotter, 2000). Sims (1992) conducted research that highlighted the importance of an ethical climate within an organization leading to the establishment of an ethical culture permeating throughout the organization. Sims concluded in 1992 that there was not enough research regarding the integration of corporate culture within business organizations and how communication channels can be the means to disperse ethical values. Although it is twenty years since Sims conducted his research, this same challenge still exists today due to the globalization of business and the increasing variety of technologically enhanced communication channels.

**Corporate Social Responsibility in a Global Economy**

**Business Ethics**

Businesses today are faced with different ethical standards dependent on variances in the cultures that an organization is based. Ethical standards in business are set within the social and cultural environment and it is important to recognize the critical role that culture plays in determining corporate behavior (Scherer, Palazzo, & Matten, 2009; Reich, 2005; Thompson, 2010). Scholten and Dam’s (2007) research study investigated ethical policies of firms and concluded that differences in ethical standards do exist among firms in different countries. It should be noted that this study included 2, 700 firms but was limited to 24 industrialized countries. It would be useful to gather such data from non-industrialized countries as well.

Business ethics has progressed but is but it should be noted that it is viewed as Western-centric and focuses on too few frameworks (Audebrand & Pauchant, 2009). An effort is being made to address the unethical business practices of larger corporations based on Western influences. For example, Fair Trade coffee ensures responsible coffee production and trading based on social responsibility. The Fair Trade movement challenges the way that Western corporations do business (Audebrand & Pauchant, 2009; Davies & Crane, 2003). Organizations need to be aware of the differences in business ethics in different countries and industries. A wider scope of research is needed to include not just industrialized countries but to be sensitive to ethical needs and standards of non-industrialized countries as well. It is common to find companies with headquarters in one country, whilst the operation and distribution of goods occurs in many countries. The world is becoming more and more connected due to advances in communication technology bringing a transformation of global connections in virtual space.

**The New Information Economy**

The opening of virtual communication channels is changing our world. Developments in technology are revolutionizing access and flow of information, ideas, and knowledge (Argandona, 2003). Argandona asserts that the new information technologies that are creating a web of connections globally are creating new ethical challenges. These challenges include accuracy of information, respect for privacy, issues involving security, and the way that relationships are built and sustained. In contrast, the new economy includes certain benefits that include a global environment created that improves situations when it is based in an environment of sharing, trusting and serving others (Argandona, 2003; Thompson, 2010). The new technologies and the spread of information challenges organizations to new levels of decision making based on ethical values.

**Social Responsibility**

The assurance of human rights is viewed as an ethical obligation and therefore a social responsibility. Corporate social responsibility consists of organizational activities intended to benefit society and the environment beyond an organization’s immediate financial interests or legal operations (Held, 2002; McShane & Von Glinow, 2010). Research asserts that corporations have the responsibility to respect human rights whether or not laws are enforced (Cragg, 2012; Scherer et al., 2009). For example, the United Nations argues that a fundamental challenge is to persuade businesses to build respect for human rights into the strategic management of their operations (Cragg, 2012). This challenge is viewed as a social responsibility of organizations to ensure that basic human rights are sustained.

Today the understanding of social responsibility is complicated as we are in the midst of an information revolution brought on by the advances in computer and networked technologies. De George’s (2003) research confirms that the ethical issues regarding information technology that are faced have not been consciously or deliberately ignored in many cases but that the changes have been so rapid that businesses and societies have not had time to digest the ethical implications. Ethics in business organizations today can both benefit and harm individuals (De George, 2003). Continued research is needed to understand the effects of the global information revolution and the effects it has on ethical business practices.

Social responsibility includes global justice and the distribution of global resources. It is argued that corporations are agents of global justice yet global justice theorists have not given adequate attention to this issue (Arnold, 2012; O’Neill, 2001). Reich’s (2005) research study comparing codes of conduct by corporations is limited to individual companies. Arnold (2012) has found that political philosophers often research global justice literature; yet, these issues need to be addressed by international corporations. Singer (2002) argues that organizations and nations need to act together as one environment, one economy and one law as this is the social responsibility that everyone holds. There is a need to investigate social responsibility in cross-national arenas in order to investigate the possibility of an international code of conduct based on global trends.

**Conclusion**

Globalization offers opportunities that did not exist before. At the same time, it brings moral challenges to the forefront (Hartmen, 2000; Thompson, 2010; Velasquez, 2000; Werhane, 2000). There is a need for more research on the ethical challenges and dilemmas facing global organizations today and the social responsibility that needs to be taken. Some literature within this review drew from small studies or ones that were narrow in scope. It is suggested that a larger field of research be incorporated into future studies and in future meta-analysis on ethical issues facing organizations today. Limited research is available in the area of cross-cultural ethics in relation to international businesses today (Brown & Trevino, 2006; McNeil & Pedigo, 2001). Cross-cultural ethics needs to be clearly defined in a global economy. The potential impact that organizational culture can have on ethical behavior has been studied and this research will need to continue as organizations become more global and inter-connected (Hellreigel, Slocum, and Woodman, 1989). The ethical challenges and dilemmas that organizations face will continue to transform as the global climate continues to evolve and change requiring further study in these areas.

Ethical problems in organization concern individuals, organizations and society. This review drew upon literature regarding ethical leadership and cases of unethical leadership. DeGeorge (2003) has found that many of the themes addressed in current research today are still in their infancy as our world adjusts to the onset of a technological and information revolution. It is necessary then to view current research covered in the literature review as a beginning of a discussion rather than a conclusion to topics addressed.

Word Count: 2761

**References**

Argandona, A. (2003). The new economy: Ethical issues. *Journal of Business Ethics, 44*, 3-22.

Arnold, D. G. (2013). Global justice and international business. *Business Ethics Quarterly, 23*(1), 125-143.

Audebrand, L. K., & Pauchant, T. C. (2009). Can the fair trade movement enrich traditional business ethics? An historical study of its founders in Mexico. *Journal of Business Ethics, 87*, 343-353. Bandura, A. (1986). *Social foundations of thought and action*. Englewood Cliffs, NJ: Prentice-Hall.

Bandura, A. (1986). *Social foundations of thought and action*. Englewood Cliffs, NJ: Prentice-Hall.

Bazerman, M. H., & Tenbrunsel, A. E. (2011). Ethical breakdowns: Good people often let bad things happen. Why? *Harvard Business Review*, 58-65.

Brown, M. E., & Trevino, L. K. (2006). Ethical leadership: A review and future directions. *The Leadership Quarterly, 17*, 595-616.

Brown, M. E., Trevino, L. K., & Harrison, D. (2005). Ethical leadership: A social learning perspective for construct development and testing. *Organizational Behaviour and Human Decision Processes, 97*, 117-134.

Clampitt, P. G. (2010). *Communicating for managerial effectiveness: Problems, strategies, solutions* (4th ed.). USA: SAGE Publications, Inc.

Covey, S. R. (1991). *Principle-centered leadership*. New York, NY: Summit Books.

Cragg, W. (2012). Ethics, enlightened self-interest, and the corporate responsibility to respect human rights: A critical look at the justificatory foundations of the UN framework. *Business Ethics Quarterly, 22*(1), 9-36.

Davies, I., & Crane, A. (2003). Ethical decision making in fair trade companies. *Journal of Business Ethics, 45*, 79-82.

Davis, A. L., & Rothstein, H. R. (2006). The effects of the perceived behavioral integrity of managers on employee attitudes: A meta-analysis. *Journal of Business Ethics 67*(407), 407-419.

De George, R. T. (1993). *Business ethics*. New York: Oxford University Press.

De George, R. T. (2003). *The ethics of information technology and business*. Malden, MA: Blackwell Publishing.

Dwyer, J. (2013). *Communication for Business and the Professions: Strategies and Skills*. NSW, Australia: Pearson Australia.

Hartman, E. M. (2000). Socratic ethics and the challenge of globalization. *Business Ethics Quarterly, 10*(1), 211-220.

Held, D. (2002). Globalization, corporate practice and cosmopolitan social standards. *Contemporary Political Theory, 1*, 59-78.

Hellreigel, D., Slocum, J. W., & Woodman, R. W. (1989). *Organizational behavior*. St. Paul, MN: West Publishing.

Jovanovic, S., & Wood, R. V. (2007). Communication ethics and ethical culture: A study of the ethics initiative in Denver city government. *Journal of Applied Communication Research, 34*(4), 386-405.

Kaptein, M. (2004). Business codes of multinational firms: What do they say? *Journal of Business Ethics, 50*, 13-31.

Lewis, P. V. (1985). Defining business ethics: Like nailing jello to a wall. *Journal of Business Ethics, 4*(5), 377-383.

McNeil, M., & Pedigo, K. (2001). Western Australian managers tell their stories: Ethical challenges in international business operations. *Journal of Business Ethics, 30*, 305-317.

McShane, S. L., & Von Glinow, M. A. (2010). *Organizational Behaviour*. New York: McGraw-Hill Companies Inc.

O'Neill, O. (1996). *Towards justice and virtue: A constructive account of practical reasoning*. Cambridge: Cambridge University Press.

Reich, S. (2005). *When firms behave 'responsibly", are the roots national or global?* Malden, MA: Blackwell Publishing Ltd.

Robbins, D. P. (1994). *Management*. Englewood Cliffs, NJ: Prentice Hall.

Scherer, A. G., Palazzo, G., & Matten, D. (2009). Introduction to the Special Issue: Globalization as a challenge for business responsibilities. *Business Ethics Quarterly, 19*(3), 327-347.

Scholtens, B., & Dam, L. (2007). Cultural values and international differences in business ethics. *Journal of Business Ethics, 75*, 273-284.

Selgson, A. L., & Choi, L. (2006). *In collaboration with working values*. Washington, D.C.: Ethics Resource Centre.

Sethi, S. P., & Sama, L. M. (1998). Ethical behaviour as a strategic choice by large corporations: The interactive effect of marketplace competition, industry structure and firm resources. *Business Ethics Quarterly, 8*, 85-104.

Shotter, J. (2000). Inside dialogic realities: From an abstract-systematic to a participatory-holistic understanding of communication. *Southern Communication Journal, 65*, 119-132.

Sims, R. R. (1992). The challenge of ethical behavior in organizations. *Journal of Business Ethics, 11*, 505-513.

Singer, P. (2002). *One world: The ethics of globalization*. New Haven, CN: Yale University Press.

Thompson, A. (2010). The global moral compass for business leaders. *Journal of Business Ethics, 93*, 15-32.

Velasquez, M. (2000). Globalization and the failure of ethics. *Business Ethics Quarterly, 10*(1), 343-352.

Werhane, P. H. (2000). Exporting mental models: Global Capitalism in the 21st century. *Business Ethics Quarterly, 10*(1), 353-362.