

Unit 2: Ethical Regimes in the Private Sector

Learning objectives

How do ethics in the private sector impact parliament and the public?

After studying this unit, you should be able to:

- Explain why company reputation is an important asset in the global economy;
- List some of the more pressing ethical concerns of customers;
- Discuss how companies have responded to customers' ethical concerns;
- Illustrate in your own words the internal and the external function of the ethics reforms.

Introduction

How has globalization impacted the private sector and what role has outsourcing had in private sector ethics and the world economy? The movement by companies, to reduce labor costs has created concern among consumers that businesses are moving production to weak states with poorly enforced labor regulations and standards, and therefore operating under the feeble regulations of the host country, rather than the companies' official ethics standards. In light of consumer concerns, corporations are beginning to understand the importance of preserving their reputation. The trend towards corporate social responsibility (CSR) and the adoption and enforcement of ethics regulations is intended to protect companies' reputation and their competitiveness. This unit considers why private sector ethics violations concern the consumer, the corporate response to ethics concerns, and the internal and external function of ethics reforms.

Why Ethics belongs in the Private Sector?

Ethics regimes, ethics reforms, codes of conduct, codes of ethics, and ethics rules were not originally developed with the private sector in mind. As the economy has become increasingly "global," many states have lost some level of control over their compliance with ethics standards, and, often, the ability to assess and even sanction violations of labor codes and environmental standards. Globalization, nevertheless, has created new opportunities for companies, which now can shift their production to parts of the world where the cost of labor is cheaper, thereby increasing profit. Opportunities notwithstanding, companies are also facing new restrictions. As people have become better informed, customer concern has become increasingly focused on the ethical, environmental, and labor standards of companies that become global by writing and calling companies to complain about human rights violations, demonstrating against the companies, supporting company anti-sweatshop organizations, filing shareholder resolutions, and in some cases, boycotting products and companies that are allegedly not respecting basic ethical. These ethical violations involve but are not limited to issues concerning child labor, employee harassment and abuse, and solutions consisting of nondiscrimination laws, freedom of association, collective bargaining agreements, health and safety standards, and adequate wages and hours of work.

Customers' rising ethical concerns have rapidly and radically reshaped the environment in which companies operate. Reputation has now become a precious asset-which not only dictates the economic success of a company, but its survival. Not surprisingly, companies in the past fifteen years have made conscious efforts to protect their reputation and reassure their customers of their adherence to a certain level of ethical principles.

Private sector ethics standards are created to respond to that consumer-based need. To do this, the private sector develops a list of obligations to adhere to human rights standards, and the beginning of what would become the Corporate Responsibility (CR) or Corporate Social Responsibility (CSR) movement. Corporate social responsibility is the commitment of businesses to behave ethically and to contribute to sustainable economic development by working with all relevant stakeholders to

improve their lives in ways that are good for business, the sustainable development agenda, and society at large.

Determining CSR agendas requires examining the role of business and the evolution of business thinking to reflect the new responsibilities globally, the market-based, regulatory/legal and societal pressures on business to protect and or promote human rights, and determining how companies decide what issues are relevant. Over the past decade, corporate social responsibility (CSR) has risen in global prominence and importance. Corporate governance scandals such as those at WorldCom, Enron, Parmalat, Daewoo, and Tyco profoundly affected major capital markets worldwide, and placed issues such as ethics, accountability, and transparency firmly on the business, regulation and policy agendas. Additionally, issues such as peace, sustainable development, security, poverty alleviation, environmental quality and human rights are becoming increasingly interlinked, and are having a profound effect on businesses and the business environment. Although not traditionally responsible for finding solutions to these challenges, it is in the private sector's best interest to be part of the solution rather than part of the problem.

Unfortunately, few companies, particularly in the developing world, have the skills or competencies to work in this new operating environment. Strategic capacity building is imperative in educating these businesses about CSR, so they may access new markets and improve their competitiveness on a national, regional and global scale.

To protect the company reputation companies are beginning to reassure their customers by adopting codes of ethics and codes of conduct, by establishing internal monitoring mechanisms (SUCH AS?), and by allowing independent auditors to investigate and report whether these companies manage to meet the ethical standards that they set for themselves. O'Rourke posits, "Codes and monitoring systems are viewed as a strategy to reduce reputation risks in the marketplace. One poorly supplied can significantly damage a firm's reputation and, in turn, its sales and stock value. Informed stakeholders view firms with suppliers in countries with weak enforcement systems or poor tracking records on child labor with suspicion. These firms in turn, need independent means of establishing their "good" performance. Firms may also be advancing these programs as a strategy to preempt stricter state regulation and to undermine the legitimacy of the state in regulating

labor issues. Codes of conduct and monitoring systems also offer several advantages over traditional regulatory regimes in the eyes of firms. These systems build on some of the central organizational principles of contemporary globalization – outsourcing production, monitoring, and continuous improvement – and so can advance a form of regulation that multinational firms find compatible with business strategies” (O’Rourke, 2003:4).

Codes of conduct and monitoring systems are intended to perform both an internal and an external function. Ethics reforms are enacted to improve the ethical standards of firms (internal function), but these reforms are enacted to address the ethical concerns of the market (external function). As we will see in the following Units, ethics reforms in the public sector are similarly enacted for internal as well as external reasons.

Unit 2 Questions

Please answer each of the following questions. If you are taking this course in a group you may then meet to discuss your answers.

1. _____ Where were ethics reforms originally introduced? |
2. _____ Why were ethics regimes created? |
3. _____ What are the internal and external functions performed by ethics regimes? |
4. _____ Why have companies stepped in? |
5. _____ What are the developing and international and domestic human rights obligations of companies? |
6. _____ Where do responsibilities of corporations begin? How should the sphere of influence be designed? |
7. _____ What is the role of states, inter-governmental organizations, non-governmental organizations? |
8. _____ What are some of the limitations to the application or enforcement of human rights standards by corporations? To corporations? |

Relevant Internet Resources

Business and Human Rights Resource Center
<http://www.business-humanrights.org/Home>

Business for Social Responsibility
www.bsr.org

International Labor Organization
<http://www.ilo.org/>

The World Bank Institute's Business Competitiveness and Development Program
www.csrwbi.org

Select Bibliography

Ann Fiorini, "Business and Global Governance: The Growing Role of Corporate Codes of Conduct", *Brookings Review*, vol. 2, 2003, pp. 4-8.

Dara O' Rourke, "Outsourcing Regulations: Analyzing Nongovernmental Systems of Labor Standards and Monitoring", *The Policy Studies Journal*, vol. 31, n. 1, 2003, pp. 1-29.

Gay W. Seidman, "Monitoring Multinationals: Lessons from the Anti-Apartheid Era", *Politics and Society*, vol. 31, n. 3, 2003, pp. 381-406.