

# **THE IMPACTS OF GLOBALIZATION AND NEW CORPORATE AGENDA: GLOBAL INTEGRITY ISSUE<sup>1</sup>**

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## **ABSTRACT**

Nowadays discussions regarding corporates social responsibility and related principals just like human rights, health and environmental restrictions, ethical business conducts, labour policies (including child labour abuses), anti bribery and corruption, the rule of law, transparency, free markets etc. has been speeded up towards. The main question is whether there is ‘an implied contract’ or just ‘a deal’ between society and corporates. Whether corporates revealed that they are the ones that could not continue to exploit society’s intellectual capital and natural resources in order to produce good and services for their owners and shareholders’ profit unless they satisfy society’s needs for better standarts of life.

No doubt that variety of further elaborations has been realized and will be realized by the public intensely throughout the sad events including environmental pollution of petrolium companies, child labour abuses of variety of western companies or allegation of corruption among governmental officers for the sake of their own good which have been on media over and over.

As far as corporates point of view analysed, it has been acknowledged that certain steps were being taken in order to satisfy the needs list of society which is getting longer and longer everyday. In order to keep up with that needs lists, corporates are

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striving to change the strategy and forcing society to higher the principals and standards of life for better society. Bettering the standards of society necessitate enhancing of conditions within the corporates first. Corporates are striving to reach the new mission of changing culture which is affecting their intellectual capital and work force within the corporates who are constituting the society, towards complying to new principals: human rights, health and environmental restrictions, ethical business conducts, labour policies (including child labour abuses), anti-bribery and corruption, the rule of law, transparency, free markets. That would suppose to have certain impacts towards society's standarts to be enhanced.

Of course, some experts are still arguing about that this will be the manouver of corporates will have silencing affect on the nationalistic powers within the emerging societies, who are claiming that multinational companies are forcing their national governments for exploiting their national resources for the profit maximisation in exchange of nothing for their citizens benefit. Even in Turkey, a country which has preferred financial liberilazition since 1989 and got rid of all kinds of barriers in front of foreign direct and portfolio investments, that discussion has been erupted drastically.

The scope of the article is to define and introduce main principals related with corporates global integrity agenda and develop some approaches regarding those discussions.

**Key Words:** Financial Liberalization, Corporate Social Responsibility, Ethics

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## **THE IMPACTS OF GLOBALIZATION AND NEW CORPORATE AGENDA: GLOBAL INTEGRITY ISSUE**

Today globalization has turned to be official global ideology of capitalistic life style due to current condition of no other alternative. After ‘cold war’ ended, socialism and capitalism began to get close each other. ‘Prestroika’ and ‘glassnost’ of Gorbacov, speeded up that process. And finally capitalism began to wave its flag over the ruins of ex-soviet territory.

Nowadays discussions regarding corporates’ social responsibility and related other principals just like human rights, health and environmental restrictions, ethical business conducts, labour policies (including child labour abuses), anti bribery and corruption, the rule of law, transparency etc. have been on the agenda. That could be called ‘the fine tuning vehicles of capitalism’ more or less.

No doubt that variety of further elaborations have been made and will be discussed by the public intensely throughout events flashing, including environmental pollution of petrolium companies, child labour abuses of variety of western companies or allegation of corruption among governmental officers for the sake of their own good on media over and over.

As a result it couldn’t be an overestimation to say that the acknoweledgable impact of globalization and expanding role of corporates.

### **1) THEORETICAL APPROACHES REGARDING RELATION BETWEEN SOCIETY AND CORPORATES**

Nowadays, the amount of money within the budgets of corporates left to philanthropy, charity and donations for the betterment of societies basic needs, one could easily think that there should be more sophisticated explanations behind the curtain.

Today the corporate giving has been gone beyond those ordinary charity motives including notion of a social responsibility! There should be more to the transfer of resources from the corporate haves and have-nots than alleviating suffering among poor.

The main question is whether there is 'an implied contract' or just 'a deal' between society and corporates. Whether corporates revealed that they are the ones that could not continue to exploit society's intellectual capital and natural resources in order to produce good and services for their owners and shareholders' profit unless they satisfy society's needs for reaching better standards of life.

Of course, the history of many corporation is full of examples of abuse, exploitations and greed. That history could be traced by non governmental organizations and some international organizations. But corporate giving activities like foundations, trusts, social service programs and other charity work are shadowing the publicity of NGOs regarding some hot issues of corporate doings.

As far as corporates point of view analysed, it has been acknowledged that certain steps were being taken in order to satisfy the needs list of society which is getting longer and longer everyday. In order to keep up with that needs lists, corporates are striving to change the strategy and forcing society to 'so called' higher principals and standards of life for better society. In order to face down the accusations within the national border, transnational corporates are upholding the new corporate agenda and applying or - at least claiming that their applying - the new standards to their stakeholder and especially their workers and related business parties.

So we could say that corporates are developing a new agenda in support of so called 'deal' between society and themselves. Depending on whom you communicate, the stated motives may vary. But if you look at those motives, you can feel the complexity of the legitimization of philanthropy, corporate giving and social responsibility.

## **2) NEW FACES OF ECONOMIC DISASTERS IN GLOBALIZED FINANCIAL WORLD: SYSTEMIC FINANCIAL CRISES AND CONTAGION EFFECT**

Recent financial scandals i.e., Enron, Worldcom and Parmalat has got tragic results in the short run in terms of lost earnings and jobs, but the long consequences will be better financial oversight and more attention to the ethics of boards, auditors and others whom society trust with, for controlling of resources (Navran: 2003;p.8)

No doubt that earliest financial crises like Barings (1995) and Sumitomo (1998) and others had contagion effect more direct and limited for other geographies comparing to current financial crises. With the help of globalization, the domino effect of sytemic crises geared up unexpectedly.

Of course people who lost their jobs and future earnings from pension funds after the fall of equities of those financially collapsed firms, began to black out for their future and hear the the chrono-capitalism claims which are are rising again!

The stakeholders of the capitalistic game began to feel the fear for their vital interest and lost their trust for the professionals to whom the left their financial stability. As a common base of individualistic capitalist model, auditing which had been the key factor for the financial transparency and public disclosure for stakeholders' financial interest malfunctioned. One of the big five audit firms, Arthur Andersen proved that profit maximization is the only instinct behind professionalism by providing both audit and consulting services to a single company at the same time while keeping false records and giving oath to the responsible goverment agencies that everything working well for the promised wealth of the commen shareholders and stakeholders.

Unfortunately it has been proved that auditing and all controlling mechanisms of modern financial sytem could be legitimization of usurbing the stakeholder's interest and the promise of the capitalistic system regarding increase in the wealth of commoners and protecting interests of stakeholders. That was the end of the capitalistic dream!

So it is obvious that polishing and fine tuning approaches for the financial system should be announced from both the regulatory authorities and the transnational corporates in order to calm down the common voters and the society. There should be sudden remedies and cures in order to stop the domino effect and chrono-capitalism claims!

### **3) NEW CORPORATE AGENDA ARISING**

Bettering the standards of society necessitate enhancing of conditions within the corporates first. Corporates are striving to reach the new mission of changing culture which is affecting their intellectual capital and work force within the corporates who are constituting the society, towards complying to new principals: human rights, health and environmental restrictions, ethical business conducts, labour policies (including child labour abuses), anti-bribery and corruption, the rule of law, transparency, free markets. That would suppose to have certain impacts towards society's standarts.

Nowadays, "the deal" between corporates and society necessitate new sets of principals which corporates should fulfill their commitments complying with, toward society which let them to consume their resources in order to produce for the sake of profit maxsimization of owners. In order to need global expectations "ethics" must be greatly expanded and that list could be accepted as 'global integrity agenda' and would be expanded according to new needs of global society. (ERC : 2000) That principals list is below mentioned :

- **Global Legal Compliance** – The organization's commitment to and effectiveness in adhering to all of the myriad laws and regulations imposed on it by the national and international bodies governing its actions which are commonly understood to define legal business conduct.  
As a summary, society makes the rule and corporations are obligated to follow but their spirit, the core objectives of rule maker. They will not being tolerated in the case of hiding the letters of law.

- **Ethical Business Conduct** – The organizations commitment to and effectiveness in adhering to the policies, procedures, principles and values which are commonly understood to define “ethical business conduct”. This typically includes issues such as honesty, integrity, trustworthiness, excellence, responsibility, fairness, justness, respect and service.
- **Transparency, Anti-Bribery and Anti-Corruption-** The organization’s commitment to and effectiveness in adhering to laws and regulations imposed on it by national and international bodies to ensure that the organization, its subsidiaries and/or agents refrain from of solicitation or payment of bribes or other behaviors which would contribute to corrupting, or sustaining the corruption of, any legitimate and functioning government with which it does business or under whose protection it conducts business. It means that corporations are being told that they must contribute to ensuring the governments function for society’s benefit because of governments inherited imperfections. They must actively work against the corruption that undermine governments image towards public.
- **Good Governance** - The organizations commitment to and effectiveness in adhering to those standards of self-regulation and management which are commonly understood to define organizational governance structures, boards, rules, policies and monitoring, oversight and accountability systems. It means society is insisting that those system of governance work to the benefit of the organization and society. Governance has to guarantee that the corporation recognize and fulfill the requirements of ‘the deal’.
- **Health, Safety and Environmental Standards** – The organization’s commitment to and effectiveness in adhering to all of the myriad laws and regulations imposed on it by national and international bodies governing its actions which are commonly understood to define health, safety and environmental standards. It means that corporations can not exploit their employees, the public, the environment by disregarding reasonable standarts of health, safety and environmental protection.

- **Respect for National Cultures** – The organization’s commitment to and effectiveness in adhering to a standard of conduct which epitomizes the highest degree of respect for the national cultures of those nations and societies within which it operates.

As organizations expanded across national and cultural boundaries, society has recognized economic imperialism unacceptable.
- **Human Rights Standards** – The organization’s commitment to and effectiveness in ensuring that the fundamental (and some would argue inalienable) rights of all persons are respected and honored in every aspect of the way the organization conducts itself and its business.

Corporations impacts more human being than those they employ. Doing your business as a corporate but caring about not to be the reason of any harm to the rights of those with whom you have contact is the society’s obvious wish.
- **Acceptance by Local Communities** - The organization’s commitment to and effectiveness in operating in such ways as to earn acceptance by those communities within which it does business. This is often captured in the sentiment of “good corporate citizenship”
- **Corporate Social Responsibility** – The organization’s commitment to and effectiveness in meeting the general demands of society that the organization continue to earn society’s permission (often referred to as the “right” ) to utilize societal resources, including human resources, for the profits of its owners.

Social responsibility is good for corporations because it is good for society. Within that framework, reasonability and balance should be given utmost care.
- **Labor Standards** – Including Child Labor Concerns – The organization’s commitment to and effectiveness in adhering to all of the laws and regulations imposed on it by the national and international bodies governing the standards for the treatment of employees, with an emphasis on emphasis on employed children.

- **Rule of Law** – The organization’s overall commitment to and effectiveness in supporting sustaining those governmental bodies with legitimate jurisdiction over the organization’s actions and over civil society in general, such that the rule of law is effective and civil society is strengthened in those regions.
- **Sustainable Development** – The organization’s commitment to and effectiveness at functioning in such a way as to ensure that by its very existence it does not contribute to the diminishment and eventual elimination of scarce and/or finite resources (often characterized as an element of Corporate Social Responsibility) or that it, at least actively works to minimize that effect.
- **Emerging Free Market Systems and Structures** – with the Implication of the Democratization of Social and Political Systems – The organization’s commitment to and effectiveness in adhering to operating in such a fashion as to foster and encourage the strengthening of a free market system and the democratization of the social and political systems of the countries, states and regions within which it operates.

#### **4) NEW METHODS OF REWARDING SOCIALLY RESPONSIBLE CORPORATES: SOCIALLY RESPONSIBLE INVESTING - CORPORATE GOVERNANCE INDICES – EXECUTIVE BOARD INSURANCES**

The overall increase of the consciosness within the society regarding protecting the natural resources and not polluting the environment, giving equal working changes for women workers, providing fair salary system, designing special programs for minorities and disabled citizens within the firm let the new market to be borne: the ethic-ecologic investment market! That market has shown striking growth in US, UK and Netherland recently. That market covers 2 billion US \$ and acceded %13 of overall investment. In year 2001, 11.3 of total 19.2 billion US \$ investable assets (means 2.16 billion US \$) has been invested in that market. So there has been %245 increase in that kind of investment of professionally managed investment funds and

mutual investment companies. Also in Europe, %2.1 of total pension funds asset includes SRI funds.

Security Exchanges begin to structure and calculate corporate governance indexes and rewarding listed companies who have been rated according their consistency with corporate governance rules. For example, Istanbul Stock Exchange (ISE) announced her first corporate governance index rules and begin to accept qualified corporates of which shares are being traded on ISE's equities and bonds market. On the other hand, Capital Market Board (CMB) initiated evaluation and licencing process of designated rating firms for corporate governance practises of registered firms under Capital Market rule.

After recent legal amendments regarding the executives role and their supervision responsibility on auditing process for financial statements of the corporates, all possible loss emerged from governance responsibility of board members will be compensated by themselves also. It seems that the hardship of mentioned rule's application has been inspired some insurance companies for producing policies covering that kind of risks also. (i.e directors and officers liability policy of AON, one of the biggest American insurance firm, covers cost out of the court decion after a shareholder's opening a file against an executives or the company itself.)

## **5) STRIKING CRITICS ABOUT CORPORATE AGENDA AND CORPORATE SOCIAL RESPONSIBILITY**

- Of course, some experts are still arguing that those agenda items are the manouver of corporates in order to have silencing affect on the nationalistic powers within the emerging societies, who are claiming that multinational companies are forcing their national governments for exploiting their national resources for profit maximisation in exchange of nothing for their citizens' benefit.

Even in Turkey, a country which has preferred financial liberalisation since 1989 and got rid of all kinds of barriers in front of foreign direct and portfolio investments, that discussion has been geared up drastically.

- Whether we do like or dislike, the globalization is the natural product of free markets and brings the global standards (regarding pollution, health, workers' right etc.) without imposing a global government to our daily agenda. But that is the critical part of the process of convergence between local and multinational culture. National and multi-national or international cultures and set of rules should be harmonized without harmful struggles within the society.
- Within that convergence process, allegations are varying and getting brutalized day by day depending on national players decisiveness and eagerness. If you are claiming that there is one imperialistic power behind the globalization, this means you are denying that globalization means, multi-nationalism and multiculturalism. But on the other hand, some players within the national economy will be looking for the higher standards for their people and their companies in terms of corruption, rule of law, legal compliance etc. And also neo-capitalism still rules in emerging countries generally. In order to diminish the barriers structured by so-called national capitalistic powers within the local economy for distribution of commercial wealth within strictly limited players, the global agenda should be taken care step by step. Then it will be so obvious that there will be a struggle between two sides.
- In that dilemma, the key is to seek a balance so that both national and multinational culture supporters agree to act according to a common set of business values (i.e., honesty, fairness, integrity etc.) without imposing a standardized set of behaviours based on multinational corporation's home culture. Otherwise that is called "ethical imperialism". (Navran:2003, p.9)
- According to a study done in US, executive managers of the 25 companies of shares' prices plunged in more than 75%, earned 23 billion US\$ between January 1999 – May 2002; even though firms are suffering from managerial and reporting problems. (İBİŞ, 2005) Before the Sarbanes – Oxley Rule (2002) enacted in order to handle legal problems after Enron and alike, that is the good

sign of professional managers greed, usurp of stakeholders natural interest and waiving managerial responsibility.

- According to a research done in United Kingdom, auditors fees for top 100 companies increased 238 million £ as of 2002 to 275 million as of 2004, that is an overall increase in terms of %44. But on the other hand, other fees covering advising expenses, shows a drastic decrease about %56, 641 million £ to 357 milion £ respectively. That is a good indication of recent rule changes for segregation of audit and advising services.
- Naturally, that comparison prove us companies were paying advising fees more than auditing fees before the drasting rule change in the UK's legal system. That means they were bribing their controllers and observers which were suppose to hold controlling financial statements and accounting standarts on behalf of the society and public interest. (like Arthur Andersen case)

But worse is that the state and responsible authorities seems to be satisfied with that malfunctioning system.

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