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# CHALLENGES OF GLOBALIZATION

## ETHICAL CHALLENGES OF THE GLOBALIZATION PROCESS

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**JEL Classifications:** A13, F23, M14

**Key words:** Globalization, ethics, strategy of business ethic, corporate responsibility, behavior.

**Abstract:** Whereas roots of globalization are far reaching, it is primarily a modern age phenomenon. Modern business operation and the world economy are characterized by domination of multinational corporations, strong presence of the government in economy and the long-term tendency towards globalization in manufacturing, trading and consumption in the world. Containing both risks and opportunities, globalization is a problem of manifold nature. For some it means regression and falling into "neocolonialism", the others glorify it. It is logical to ask the following questions: What are the consequences of globalization for governments, nations, companies and individuals? What are the business, social and ethical issues it causes? In one word, is it possible to be ethical, to avoid and correct "bad" and keep "good" consequences of total phenomena as the globalization, and whether it is rewarding in the increasing market competition?

ISSN: 1804-0527 (online) 1804-0519 (print)

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## Introduction

Modern business operation and the world economy are characterized by domination of multinational corporations, strong presence of the government in economy and the long-term tendency towards globalization in manufacturing, trading and consumption in the world. This is the result of modern development of productive forces, primarily of high technology, novel methods of organization of business operation and management, and their application in production, transportation, services and communications. Today, it is not possible to think of any social process without reflecting the story on global level. The term that the world is becoming a "global village" is increasingly significant. It is impossible to speak of growth and development without including all parts of the world.

Containing both risks and opportunities, globalization is a problem of manifold nature. For some it means regression and falling into "Manchester capitalism", the others glorify it. According to a document of the "The Institute for Economic Policy" in Cologne, globalization causes no problems. Globalization just defines the problems in a curative way - all the problems we have created earlier for ourselves. Globalization is a challenge - both economical, cultural, business, ethical and political, and both for companies and the others.

## Problems arising from the globalization process

The major dilemma with regard to globalization is how to evaluate the whole globalization system and which are the emerging ethical challenges? (Balj, 2002). On one hand, advocates of the globalization process argue that its

"satanization" doesn't make any sense since globalization as a whole is a positive game for the economy where all participants may benefit (Vuletic, 2003). On the other hand, globalization in practice is proven to earn short-term profits for some rather than long-term benefits for all (Tomic, 2006). Nowadays, this is the major problem facing the world economy, since in the environment of free trade, tax relieves and boundless amassment of money, large corporations are becoming monopolists. Between parties participating on the market there is no equality. Instead, the first gaining better wealth takes the position of monopoly. If a small company on the market happens to collide with a multinational company, it simply cannot compete with it. Thereby, multinational companies become privileged on the market, which is entirely contrary to the law on free market and ethical business operation, since free market requires that nobody should be privileged (Tomic, 2006). Such privileged position enabled multinational companies additionally to misuse the already corrupted market relationships, mainly at disadvantage of national companies. These are mainly ethical issues regarding to tax relieves, corruption, conditional investments, threatening and exploiting the work force.

## Strategies of business ethics and the globalization

The solution of socio-economic and ethical issues of globalization requires the governments, companies, and even individuals a two-step systematic approach. First, among the market participants it is necessary to develop awareness of specific problems and their consequences for national economies. When solving a specific problem, firstly it is necessary to clarify the facts and to identify those of relevance. When problems are defined, in order to eliminate

them and to avoid their emergence in the future, two major socio-economic strategies need to be observed. These are: (1) the “normative-political” strategy, and (2) the strategy of competition (Schramm, 2002).

**Normative-political strategy.** The normative-political strategy means that normative-political rules, both national and international, are conceived in such a manner that misuses and financial malversation are no longer profitable and possible, doing a lot more harm than benefit, contrary to the present situation. The following two specific examples describe this:

Example 1: Tax policy and investments. As regard to the tax policy and conditional investments, multinational companies are the winners which are well-subsided in the globalization process. As “global players” they are not only allowed to use market opportunities abroad, but also to avoid costs and taxes in their parent countries and to determine the more advantageous conditions for their business operations by themselves, etc. On the other hand, these advantages of the globalization process are beyond the reach of small and medium sized companies. This is too far from the ethical goals of tax equality (Balj, 2002). On average, large companies pay smaller income tax, which leads fiscal authorities that want to secure tax to raise tax rates and to take more from small and medium sized companies. This is way too far from business equality and free market. The given problem which is made worse by the globalization process may be resolved only by a “normative-political” strategy. There are two ways for doing this (Schramm, 2002). First, a tax reform is necessary to establish tax equality in corporative business operation, and to disburden small and medium sized companies with regard to taxability (e.g., income tax, etc.). Also, it is necessary to introduce specific principles in the law regarding the identification and punishment of conditioning investments upon business advantages for operation of multinational companies on the territory of domestic economy. Second, it is necessary to reach agreement on EU and OECD levels on tax harmonization and establishment of minimum tax level, as well as on equalization and alignment of national legislatures.

Example 2: War on corruption. One of the major problems facing modern corporations is the phenomenon of corruption. According to many authors, it is a synonym for “social failure of economy”. Approximately 29% of managers confirm the wide prevalence of corruption in their business area (Anderson et al., 1998). Problems regarding corruption are: a) a mere call to expose and eliminate corruption will not bring the desired results since this purpose of entrepreneurs as individuals may be exploited by those bribing, b) application of criminal law regarding only individuals, as in case of Germany, is not proven empirically. In this case, only individual perpetrators were punished, so the company's management is not motivated to expose corruption in its own “backyard”. Instead, they will rather invest into cover-up of corruption then into its suppression (Antonic, 2001).

One of the most efficient ways of fighting corruption is the example of “normative-political” strategy of the USA. In 1991 the US Congress passed the “Guidelines of the Federal Criminal Law” which prescribes financial responsibility for

companies for unlawful practices of their members for a series of trespasses as: bribing, deceiving, endangering the environment, etc. Fines may reach even a couple of millions of dollars. For example, for a serious trespass, fines may reach from USD 5000 to 72 million, for a smaller trespass it is up to USD 50 000. In fact, companies which expose a case of corruption by themselves may reduce fines for up to 95%. By such normative companies are encouraged to invest into suppression of corruption (Schramm, 2002).

The fact is that the globalization process itself is additionally complicated by the problem of corruption. Frequent is the case of bribing members of governments of foreign countries (usually those of developing countries) by multinational companies with the goal of free trading in that country, using their natural resources, avoiding taxes, etc. By 1977, the USA was the only country which passed the “Foreign Corrupt Practices Act - FCPA” that prohibits the bribing of foreign government's officials (DeGeorge, 2004). While the USA was hoping to be an example for other countries to pass similar laws, none of them did it for almost ten years. However, at the time the public reaction with regard to bribing in other country has been changed country by country. Government corruption, including taking boodle, costed jail sentence for two former South Korean presidents, led to resign of presidents of Brazil and Venezuela, to crisis in Japan and to accusation of government officials in many countries where bribing was allegedly acceptable.

Finally, in 1996. members of the OECD have agreed not to allow their corporations legitimately to subtract the bribing money from the tax base. 29 countries of the OECD in 1997 have signed the Agreement on illegalization of bribing foreign governments' officials.

Hence, the most important items of business ethics in regard to fighting corruption are: (1) corruption is ethically unacceptable since it imperils competition, since by bribing jobs are not going to the best, and (2) if all the others are bribing and participate in corruption, it cannot be expected that individual entrepreneurs will not do the same, i.e. it is a normative-ethical problem (Balj, 2002).

**Strategy of competition.** Strategy of competition means to clarify the extent to which the companies' business operation can be measured besides the courses imposed by globalization, i.e. whether is such business operation (e.g. respecting human rights, joint appearance on the market with domestic companies, etc.) truly competitive in present-day market conditions? Is it advantageous for the company to be independent from global courses, in the same time being productive on the global market? As well as in the previous case, for strategy of competition there are also two examples:

Example 1: Capital - reputation. Typical objection made to multinational companies is that of, say, investing into an underdeveloped country with minimum protection of human rights. Are they sustaining internally the regime that violates basic human rights? The moral dilemma is: from economic standpoint, does it pay-off for the company to strengthen human rights? Indeed, this may be the case. For example: “Levi Strauss & Co.” has withdrawn its business from China in order not to risk the brand's image because of violating human rights and child labor. Namely, for “Levi Strauss &

Co.” it is of vital interest to protect the hundreds of millions of dollars annually invested into advertisement (Schramm, 2002). Today, only one TV report on working conditions is enough to ruin long-term efforts to create loyalty to the brand. Companies with strong reputation have larger turnover and achieve higher profits. Since public reputation has also economical consequences as well, such business decision may benefit “per saldo” (through the balance). This is the point where additional pressure may be exerted on the government that doesn't respect basic human rights. It should be mentioned here that the USA have contributed to elimination of apartheid by elimination of racial segregation in American companies.

Example 2: Internal business culture. Companies ask themselves: How to activate the employee's working potential? How to avoid passive accomplishment of duties for the sake of prescriptions?, etc. to survive in fierce and unmerciful battle on the global market. The key to such questions is in the integrated culture of business operation.

Since it is impossible to regulate everything entirely within a job contract, e.g. internal motivation of the employee, his identification with the company, etc., the preparedness of the worker also depends on: (1) working atmosphere - a pleasant environment is more desirable than a somber, dirty, unpleasant one, adequate space with air condition (where needed) instead of crowded space, etc., (2) style of mutual behavior - in the IBM, technicians wear ties like numerous members of management; in a factory of the GM senior officials wear suits as well as the workers on the assembly line, (3) real expectations regarding the performance, (4) creativity and inventiveness at work (DeGeorge, 2004).

The employees' team work cannot be replaced even by the wisest job contract. Between the parties simply there should exist something like an “invisible punch with hand”. In the US, this “invisible hand” is called “Alliance” (Schramm, 2002). This is in order to avoid the possible costs arising because the employees' insufficient motivation. Only strong internal culture contributes and motivates the achievement of better results and reflects the corporation's significant internal strength. Top managers have the responsibility to establish appropriate business culture that will satisfy the employees, in the same time motivating them for new achievements and victories. Such a moral and socially responsible business operation of a company in the increasingly fierce competition and increasing globalization of the world economy may be proven to be the determinative competitive advantage.

### Conclusions

Within the framework of the companies' business decision between the economical and ethical-economical model, companies increasingly choose to operate according to the model of ethical-economical responsibility. The above presented research shows that application of the “normative-political” strategy and the strategy of competition are processes necessary to realize the purpose and goals of companies, consumers, public, government and society in the modern world of globalization.

As a conclusion on the kind of standpoint to be taken toward globalization, and the consequences and problems it brings, it is important to underline the following facts:

First, it shouldn't be generally attacked since globalization as an unstoppable process is the reality of the world economy. What is unworthy of fair relation towards man should be criticized and problems concerning privileges in business operation that multinational companies have and misuse, problems of corruption and bribe, imperilment of national identity and sovereignty, respecting national legislative, etc. should be expelled.

Second, globalization has to unfold according to the national regulative policy and in context of national legislative, as well as according to voluntarily adopted standards, if they exist. Also, it is necessary to harmonize the national legislative with global laws in order so as the same rules of operation may exist for all market participants, i.e., it is necessary to apply “normative-political” strategy.

Third, since the global extension of business operations to the markets of non-developed countries, the problem of exploitation of the cheap workforce and disrespect towards the human rights emerges. It is important to impose obligatory legal principles and norms of behavior on markets of domicile countries for companies to develop business culture that will respect the employees, renew the influence of trade unions and establish equal treatment for every worker. All this with the goal to create a healthy business environment through fair relationship towards the employees, without lack of the appropriate market results. This requires application of the strategy of competition.

Fourth, globalization needs to be understood as a completely artificial creation. It is necessary to understand that it can and must be changed and redirected toward the right goal. One of the ways of doing this is application of socio-ethical strategies, i.e. of “normative-political” strategy and the strategy of competition. Companies need to build-in social responsibility into the main courses of their business operation. Instead of being merely an extension to the existing program, social responsibility for many market participants will become significant management function of the future and key factor of the market survival.

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