

## EVOLUTION OF CORPORATE GOVERNANCE



TYBIM

- Cassia Lopes

Cadbury Report

The Cadbury Report, titled *Financial Aspects of Corporate Governance*, is a report issued by "The Committee on the Financial Aspects of Corporate Governance" chaired by Sir [Adrian Cadbury](#), chairman of [Cadbury](#), that sets out recommendations on the arrangement of company boards and accounting systems to mitigate [corporate governance](#) risks and failures. In 1991 the [London Stock Exchange](#) set up the Cadbury committee and the report was published in draft version in May 1992. Its revised and final version was issued in December of the same year.<sup>[1]</sup> The report's recommendations have been used to varying degrees to establish other codes such as those of the [OECD](#), the [European Union](#), the [United States](#), the [World Bank](#) etc.

### **What are the Cadbury Rules?**

Cadbury Rules are guidelines or recommendations on corporate governance that were specified by the UK's Cadbury Committee. These rules were submitted in 1992 with the aim of raising the standards of corporate governance as well as financial reporting and auditing in organizations. There are standards expected from management bodies in charge of corporation governance and professionals that perform financial reporting and auditing roles. Cadbury rules are recommendations designed to raise the confidence of what is expected from those involved in these duties. Despite that these recommendations are not compulsory, all publicly traded corporations in the UK are expected to adopt them.

### **When do the Cadbury Rules Apply?**

Cadbury rules were submitted as 'Code of Best Practices' in 1992, it represents the UK Corporate Governance code popularly called the Code. Corporations in the UK are expected to oblige by these set of principles established to raise the level of

confidence in financial reporting and auditing, and corporate governance. The Financial Reporting Council oversees this corporate governance code and ensure that publicly listed companies on the London Stock Exchange follow them. According to the Financial Services and Markets Act of 2000, public listed companies are required to report how they comply with the code and in cases on non-compliance, they should also state reasons why this is so. Different reports and opinions on good corporate governance were synthesized, integrated and refined to birth the Cadbury rules known as the code. The publication of the 'Code of Best Practices' by Cadbury Report in 1992 was the first attempt to enact the code as an attempt to raise the level of confidence in financial reporting and auditing. This objective is clearly stated by setting out what is perceived to be the respective responsibilities of those involved in corporate governance, financial reporting and auditing. The report of the UKs Cadbury on Corporate governance bordered on three major recommendations, these are;

- The chairman of a company should be separate from the CEO.
- A minimum number of three non-executive directors should be part of the company's board, two of them should have no ties whatsoever with any executive.
- An audit committee of the board should composed of non-executive directors.

When the Cadbury committee gave these three recommendation, it arose some controversies such that the code did not reflect around contemporary best practices and that the code is only practised by limited companies. There were further recommendations that the practices should be extended across listed companies but the Cadbury committee emphasized that the code was not meant to serve the purpose "one size fits all". Although, it was stipulated that companies are not mandated to comply with the code or principles, a company that fails to comply is

required to explain the reason for non-compliance. These principles on corporate governance were added to the Listing Rules of the London Stock Exchange in 1994. In 1995, further recommendations were added as changes to the existing principles in the Cadbury Code. They were given in the Greenbury Report by a study group or committee set up by Richard Greenbury. These further changes are that;

- Long-term performance-related pay should be given to directors and this should reflect in the company's financial statements.
- each board should have a remuneration committee.

These recommendations and changes are to be reviewed in an interval of three years according to Greenbury. In 1998, Ronald Hampel, who chaired a review committee gave a Hampel Report suggesting that Cadbury principles and Greenbury principles should be integrated to form a combined code. Contained in the Hampel report are the following;

- All remunerations including pensions paid to directors and executives should be disclosed in the company's financial statements.
- The chairman of the board should be the "leader" of the non-executive directors.
- Institutional investors should consider voting the shares they held at meetings, though rejected compulsory voting.

Following the Hampel report in 1998, a mini-report was produced by the Turnbull Committee in the following year. The Turnbull report recommended that directors should be responsible for internal financial reporting and auditing controls in an organization. Aside from the report by the Turnbull Committee, there were other reports that rolled out what non-executive directors are expected to do, these reports include the Higgs review and Derek Higgs report. After the 2008 financial

crisis, a report was also produced by the Walker Review. This report focused on recommendations for all companies but most especially, the banking industry. The Financial Reporting Council issued a new Stewardship Code in 2010. It also issued a new version of the UK Corporate Governance Code.

## CORPORATE GOVERNANCE IN GLOBALIZED ECONOMY.

Globalization is a premier concept which has commenced the main element in business life overall the last few years. This wonderment affects the economy, business, life, community and environment in diverse ways, and almost generally corporations have been contacted by these changes. We can visually perceive these transmutations mostly cognate with incrementing competition and the swift transmuting of technology and information conveyance. This express makes corporations more prosperity oriented than a long term and sustainable society. However, corporations are a noteworthy component of a community which needs to be organized properly. Therefore, we crave several social norms, regulations and rules in society and business life; this is the practice of governance.

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## Globalisation

Globalisation can be marked as the impromptu movement of goods, services and capital. This commentary does not mask all the prospects of globalization or global changing. Globalization further should be a form which integrates world economies, culture, engineering science and government. This is because globalization further involves the relinquish of information, skilled member of the

working class mobility, the alteration of technology, economic funds flow and geographic arbitrage between developed countries and developing countries.

Moreover, globalization has religious, environmental and communal dimensions. In parliamentary law to make this broad impact area globalization covers all dimensions of the world economy, environment and society. Moreover, it is apparent all over all the world and the continuation is changing dramatically. Every legislature has an undertaking to protect all of their savings and domestic market from this brisk changing.

The enquiry is how a society will conform to this changing. Root of all companies must know diverse effects of globalisation. Globalization has some opportunities and menaces. A company might have learned how to retrieve it from some negative effects and how to earn opportunities from this state of personal business.

*Globalization affects the economy, business, life, society and the environment in different ways:*

- Increasing competition,
- Technological development,
- Knowledge/Information transfer,
- Portfolio investment (fund transfer between developed countries and emerging markets),
- Regulation/deregulation, International standards,
- Market integration,

- Intellectual capital mobility,
- Financial crisis-contagion effect-global crisis.

Globalization advance increased competition and subsequently multiplied competition vent of globalization. This competition can be familiar with the product and service cost and value, target market, technological evolution, swift response and agile production by companies, in addition to such things as quality and client satisfaction. When a company brings forward by all of less cost and sells cheaper, it will be proficient to grow its market share.

Customers have further much choice in the grocery store and they prefer to materialize goods and services abruptly and in a more reasonable way. And besides, they are expecting valuable situation and a cheap value which they are contented to pay. All these expectations require a response from the fellowship, otherwise, the sales of the company will shrink and they will lose profit and market share. A company must be always quick for price competitions for product and service and for changes in client preferences because all of these are broad market needs.

One of the most commanding manifestations of globalisation is the regard of trendy technologies by entrepreneurial and internationally oriented firms to exploit incipient business opportunities. Internet and e-commerce procedures aid particular intensity for SMEs seeking to go around their participation in new international markets (Wright & Etemad, 2001). Engineering science is further one of the most prevalent tools of competition and for enhancing the quality of goods and service. On the other hand it necessitates fully a part of the cost for the company. The company has to handle the latest technology for increasing their gross receipts and merchandise quality. Globalisation has increased the age of technology grant and technical progress. Client expectations are directing markets. Most companies in capital intensive markets are at risk and that is why they need brisk adapting toward the customer and market expectations. These companies must have feasible technology administration and sensible R&D management.

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Information is a most dear and valuable production component in the present-day environment. Information can be obviously transferred and exchanged from one country to another. If a company has a chance to consider knowledge and information formerly it means that it can habituate to this global changing. This effect is similar to the technology transfer issue in global marketplaces. The swiftly changing of the market requires also brisk transfer of knowledge and efficient using of that knowledge and information.

Globalization encourages increased international portfolio investment. Additionally, economic markets have become increasingly open to international capital flows. For this intent, portfolio investment is one of the major problems of developing economic systems. It is almost the deserted path to gain liquidity of the markets and economies of emerging countries through attracting foreign cash in hand. Significantly, this short term investment can dramatically impact on the financial markets. When the emerging economies have some problem in their country or investors reckon enough profit from their investment, then these investors might depart the market. This would exemplify that market liquidity diminished and financial market indicators descend immediately.

Globalisation calls for heavier regulation of the markets and the economic organization. There are multiple new and sophisticated economic instruments and methods in the mart and such instruments absolutely transfer and trade in distinctive countries because of the globalization issue. Every new system, instrument or tool requires classy rules and regulations to prove its strength area. These principles are further necessary to protect countries against sweeping risks and crises. When the dilemma comes erring of one nation, then it influences

diverse countries with trade channels and blood transfers, which we call the contagion effect.

On the contrasting hand, during globalization the shares of notable companies are trading in international stock markets and these companies have stockholders and stakeholders in many divergent countries. International conventions and regulations offer precaution, particularly to small investors against the noteworthy scandals and other problems with companies, examples of which we have seen overall the late economic crisis.

International standards also regulate markets and economic systems by means of international regulations and conventions such as international accounting standards, international auditing standards. These tips to figure corporate reporting standardized and comparable. And then that is why the globalized world has greater rules and more regulations and international standards than earlier.

In fact, globalization has the conversion of many markets and savings into one market and economy. The readiness of international standards and principles is further to deregulate all these markets. The economy needs economic structures effective of handling the higher grade of risk in the new economic organisation. For these reason economic markets intend to be liberal, deep, and liquid and at present exclusively the U.S. money markets are lavish enough to allow this monetary structure in the world marketplace. Worldwide stock market projection and Pan-European stock market projection are precedent of this changing. Thither are many similar examples of the contemporary situation for market integration, which are as well demonstrated by increasing competition in the economic system. Integration examples are suitable in company mergers and acquisitions as well.

Another issue of globalization is human capital mobility through knowledge and information transfers. One of the causes is that international/multinational companies have subsidiaries, partners and agencies in diverse states. They prefer skilled and efficient international employees and rotation from country to country to provide effective international business practice. This changing further requires

preferably skilled, well-trained and efficient employees who can adapt abruptly to different market conditions.

Financial crises are routinely determined through globalization and as a test of the globalization impact. In fact, this is fully a true account. The financial world has witnessed a number of crises in late years. Broadly speaking, financial crises arrive out from international funds/capital flows (portfolio investments), lack of significant rules and measures, complex financial instruments, quick development of fiscal markets, asymmetric reference and data transfers.

One country dilemma can cruise into a global deadlock with systemic risk issue. Systemic risk refers to a spreading financial crisis from one country to another nation. In various events, crises spread even mid countries which do not modernize to have any common economic fundamentals/problems. Previous global crises have further indicated that one of the causes for the deadlock is unregulated markets.

### Concept of global organization

Whole arrangements of organisation are concerned mainly with managing the governing of companies and argue with political ascendancy, institutions, and, ultimately, control. Establishment in this particular sense denotes formal political institutions that propose to coordinate and control interdependent gregarious conditions and that possess the competency to implement decisions. More and more, all the same, in a globalized world, the concept of governance is being employed to describe the regulation of interdependent links in the absence of overarching political ascendancy, such as in the international organization.

This global organisation can be eventually as the office of global processes in the absence of whatever kind of global government. In that respect are several international bodies which remain to read these publications and prominent among these are the United Nations and the World Trade Organization. Each of these has seen with mixed growth in establishing some kind of governance in international relations nonetheless is part of the validation of the problem and an endeavour to

address worldwide problems that go exclusive of the capability of individual countries to solve (Rosenau 1999).

To view the term global governance is undoubtedly not to mean that such a system substantially exists, let alone to approach the competence of its operations. It is merely to recognize that in this regular globalized world, there is craving for some construct of governance to deal with multinational and global issues. The term global governance subsequently is a descriptive term, recognizing the issue and regarding concrete cooperative problem-working systems.

These may be crisp, using up the prejudice of laws or formally constituted institutions to perform collective affairs by a change of players – including states, intergovernmental organisations, non-governmental organisations (NGOs), various civil society workers, private sector organisations, pressure groups and individuals. The organisation also includes of course informal (as in the plight of practices or guidelines) or temporary units (as in the situation of coalitions). This global organisation can be proposed to be the most perplexing of reserved and informal institutions, mechanisms, relationships, and processes between and among nations, markets, citizens and organizations, both inter- and non-governmental, in which collective interests on the global plane are given voice, rights and obligations are carved in, and differences are mediated.

Global governance isn't on the path the same component as world government: indeed it may be argued that the sort of system could not honestly be essential if there was this kind of element as an international government. Currently but the diverse kingdom governments have a legitimate monopoly on the use of force – on the strength of enforcement. Global governance consequently refers back to the political interaction that is required to resolve problems that have an effect on a multiple nation or place whilst there is no strength of enforcing compliance. Improved worldwide hassle-fixing want no longer of course require the placing up of more powerful formal international institutions, nevertheless it might require the institution of a consensus on norms and practices to be stocked away. Steps are of route underway to put up those norms and one instance that are presently being instituted is the creation and improvement of world responsibility mechanisms.

In this respect, as an example, the United Nations Global Compact – described as the world's largest voluntary company responsibility initiative – brings together organizations, countrywide and worldwide corporations, trade unions and different labour establishments and diverse organs of civil society a good way to guide accepted environmental protection, human rights and social concepts. Participation is completely voluntary, and there's no enforcement of the ideas by way of an out of doors regulatory body. Societies adhere to those practices each due to the fact they make economic experience, and because their stakeholders, consisting of their shareholders (most individuals and institutional investors) are affected with these problems and this offers a mechanism wherein they can display the compliance of agencies effortlessly. Mechanisms such as the Global Compact can enhance the capacity of people and local groups to keep companies accountable.

### How Globalization Affects Governance

The inquiry might be how globalization affects governance. But the response to this question is not only blood relation to the final quarter of the 20th century but additionally cognate to antecedent centuries. John Maynard Keynes calculated that the standard of living had incremented 100 percent over four thousand years. Adam Smith held a seminal conception about the wealth of communities and in 1776 he reported the conditions which would lead to incrementing income and prosperity. Likewise, in that respect is much evidence from economic history to show the benefit of moral comportment; for example, Robert Owen in Incipient Lanark, and Jedediah Strutt in Derbyshire – both in the UK – showed the economic benefits of caring for stakeholders. More recently, Friedman has fixated on the moral shock of the economic magnification and the evolution of company.

It is pellucid that there is nothing incipient about economic magnification, development and globalization. Economic magnification generally brings out some outcomes for the community. This is a world phenomenon in its true essence. Single of the most consequential reasons is that we are not bringing into account the moral, ethical and convivial aspects of this operation. Some theorists betokened the effect of this rapid transmuted more than a hundred years ago. Economic

magnification and economic development might not be without convivial and moral consequences and implicative insinuations.

Another question is who's answerable for this ongoing process and for ensuring the well-being of people and safeguarding their prosperity. Is this the responsibility of governments, the enterprise international, purchasers, shareholders, or of all people? Government is a part of the machine and the regulator of markets and lawmakers. Managers, businessmen and the business global take moves regarding the marketplace shape, patron behaviour or commercial sites. Moreover, they're responsible to the shareholders for making more earnings to maintain their hobby long term inside the establishment. Therefore, they're taking risks for his or her gain/earnings. This chance isn't opposed to the social or moral/moral ideas which they ought to practice within the agency. There are many motives for ethical and socially responsible behaviour of the enterprise. However, there are numerous cases of misbehaviour and any illegal operations of a few organizations. Increasing opposition makes business harder than earlier than in the globalized world.

The proper news and expectancies are that the competition will not have to any extent further horrific influence on business enterprise behaviour. According to worldwide norms, (exercise) and expectancies, companies should bear in mind social, moral and environmental issues greater than over the past few decades. One of the reasons is greater competition and now not always more income; another motive is the consumer expectation isn't simplest related to the price of products, but also associated with fine, proper production procedure and environmental sensitivity.

Moreover shareholders are more inquisitive about the long term benefit and take advantage of the corporation. The key phrase of this concept is lengthy termism which represents additionally a sustainable business enterprise. Stockholders need to bring long time gain with a sustainable system in preference to handiest short term gain. This is not best associated with the corporate income, but additionally related to the social and environmental overall performance of the authority. Therefore, managers should make strategic plans for the business enterprise regarding all stakeholder expectations which can be sustainable and provide a long

term advantage for the offices with their investments. However, Sustainability can be visible as including the requirement that something justice is almost – honest distribution of goods, fair methods, appreciate for rights and social justice – and is capable of being confirmed into the lot indefinitely.

This sustainability requires that the values of justice are capable of being continued into the future: if current practices for example, were just from the present point of view, but would prevent the same patterns from happening in the future, that would be spurned from the point of view of sustainability (Dower, 2004). So investor or shareholder expectations and all other stakeholders' approaches are fortifying a convivially responsible and ethical company more than other societies. Globalisation has caused a very sharp impression on company behaviour and yet we can catch many problems particularly in growing nations. This is a well-known of the realities of the globalisation process. Nonetheless, we are hoping to visit some different approaches and improvements to this procedure with some of them naturally related to some international principles, rules and norms. But most of them are connected to the conclusion of this flawed system and the problems of capitalist economy.

The challenge of governance in a globalizing world is to engross in a process of political deliberation which aims at laying out and resetting the standards of global business conduct. While stakeholder management deals with the idea of internalizing the demands, values and interests of those constituents that touch on or are regarded by corporate decision-making, we indicate that political CSR can be realized as a crusade of the corporation into environmental and social challenges such as human rights, global warming, or deforestation (Scherer & Palazzo, 2008).

### Globalisation, Corporate Failures and Corporate Governance

Enron, WorldCom, Parmalat, and various different screw ups of global corporate deliver out some organization issues and have improved attention to the purpose of business ethics. Directors and CEOs of these corporations must be brought into consideration responsible for all of those failures and these are examples of

“corporate irresponsibility”. Many masses hold the impression that if organizations had been to play responsibly, maximum likely company scandals would stop.

Corporate governance protects firms in opposition to some long term deprivation. When groups have social responsibilities, they calculate their risk and the price of failure. Firstly, a company has to have a duty to shareholders and additionally all stakeholders which means that it has an obligation to all society. Corporate bankruptcies have a critical impact on all society to boot. Unique, big scandals along with Enron have sharply affected the market and the financial system. Various stakeholders (e.g. Worker, purchaser, client, providers and so on.) In addition to shareholders and regulators of the firm have a duty to make sure proper performance? Thus, corporate governance isn't always only related to companies, but also connected with all society. Hence the shifting view of company obligation shifts the focal point from the actual hassle that society likes to speak.

Ace of the motifs for this close result is increasing competition among the agency and the mart. Managers tend to turn a lot more formidable than before in their behaviour and suffering in the globalized global. Therefore we ought to recognize on corporate and managerial behaviour. The query is a way to act as a socially responsible supervisor and a room to make up this crucial problem in enterprise life and in companionship. In the business international there are constantly some regulations, standards and norms in addition to policies and some felony requirements.

Nevertheless, to be socially accountable one should be greater than truly being a law abiding individual who has to be capable of coming out and being held answerable for decisions and natural processes. The problem is the implication for all of those instructions for business enterprise and managerial behaviour. Along the polar hand, one angle is that an employer is a “legal character” and has the rights and obligations that belong with that status—which include social duty. In the case of Enron, managers had been privy to all ordinances, yet though they have got regarded all irresponsible and unethical troubles in the employer control; they did now not change their method and conduct.

The conclusion is that it isn't always usually viable to govern behaviour and company activity with regulations, principles and norms. And then another question arises in this case, that if the great unwashed do not see their responsibility and socially accountable activities and if they do now not behave socially responsibly then, who will control this problem in commercial enterprise lifestyles and within the marketplace. The theme is that the social responsibility implication of the business enterprise cannot be managed through criminal manner. This is the simplest social contract among managers and society and stakeholders of the authority and for responsible and accountable behaviour.

Firms will consciously need to cognizance on creating cost now not simplest in monetary phrases, but additionally in ecological and social terms. The task confronting the commercial enterprise area is the way to set about assembly those expectations. Firms will want to change now not simplest in them; yet, likewise within the manner they interact with their environment (Cramer, 2002).

## Conclusion

Equally we can see, globalization has an enormous effect on society and business spirit which can be apparent in a numeral of different ways. So business life requires more regulation and proper and socially responsible behaviour than in front. In this chapter we have demonstrated the relationship between corporate governance and globalisation. We pointed out that the relationship between business failure and scandals, increased after globalization, and good governance is needed to come up to this problem.

## Ethical Challenges of MNCs in Modern Business - Walmart Case

### Introduction:

The concept of ethics to business decisions encompasses all aspects of **business management** and operations in a business organisation. There is always the question of what the ultimate structure of an organisation would be, this is vital as

it would help aid the smooth running in the production of goods and services. There is always a tendency for ethical issues to arise in a global market and multinational organisations are no exceptions. On the contrary, the positive ethical practices of an organisation are highly important (Etzioni, 1988 Kotter and Heskett, 1992) this would normally boost the image of such an organisation as they tend to have an edge over others in a very competitive market.

In regards to the challenges of multinational organisations, does it matter if employees are motivated to contribute to an organisation in a society? Are they demonstrating a sense of social responsibility? Or is it strictly businesses that would benefit the organisation alone? What is the duty of the multinational organisations in the countries businesses are located or situated? How can Multinationals perform in an ethical and socially responsible way?

The Multinational organisation that would be discussed in the course of this essay would be Wal-Mart. Multinational organisations undergo a dynamic and complex global market, where right and wrong could be interpreted as widely different (Donaldson 1985, 1989).

Laws governing certain businesses within an organisation in an individual country could have its variances and inconsistencies, nevertheless when other counties are internationally concerned, the intensity of inconsistency is even more diverse.

Organisations that have made a cautious effort to be truly ethical must evaluate and measure the rules and regulations governing the countries in which businesses are carried out. These organisations must be aware of and must conform to the host country's domestic laws. Not neglecting trade organisations such as United Nations as well as international agreement between companies.

The United States has made it unlawful to bribe high level foreign officials to acquire or retain businesses in overseas. By 1995 October, approximately 45 billion dollars of international business was eliminated according to congress (Greenberger, 1995). It is therefore important to come up with solutions to Multinational ethical dilemmas.

[What is Ethics?](#)

Ethics is one of those terms when mentioned, a lot of things come to mind so as a result, Ethics could be defined in various ways. It is said to be a system that rules and governs the body, a science with rules governing its principles whether good or bad, rules in practice of human actions. For example, Social ethics, political ethics. (www.brainyquote.com) Authors from different parts of the world have also defined ethics in a lot of different ways. (Holtzapple and Recce 2003) they defined ethics as “The general and abstract concepts of right and wrong behaviour were derived from philosophy, theology, and professional societies.” In the same way, (Martin and Sherry, 2000) in their terms say ethics means moral principles through ethical, cultural and religious irrespective of the situation or circumstance. They claim that ethics should be based on character or behaviour. Trust could be embraced when these values are maintained.

Ethics is said to be “that branch of philosophy dealing with values relating to human conduct, with respect to the rightness and wrongness of certain actions and to the goodness and badness of the motives and ends of such actions”. (dictionary.com).

### Multinational organisations and their Relationships:

Multinational organisations have the ability to move about a massive amount of resources globally. Moving things from one location to the other would be the least of its problems. A lot of things that could limit profit could be worked around if things like environmental standards, production costs, taxes, safety at the work place, production costs (Desjardins and McCall, 1990). The size of a multinational organisation and power could play a huge impact on the policy issues in a nation, such issues would be felt more by relationships with developing nations as opposed to developed nations.

Multinational organisations must realize that, the culture of an organisation could have an effect on the behaviour of an employee within an organisation. an organisational culture could affect the behaviour of employees in an organisation.

Getz (1990) came up with a list of Multinational organisations, how they were interrelated and their rights as well as their duties. Getz (1990) classified Multinational organisations into three categories:

1. MNC with host governments
2. MNC with the general public.
3. MNC with individual people.

Multinationals must think about its responsibilities in relation to a number of other things such as political engagements, regulations and laws, developmental and economic policies. The requirements in these areas consist of (but are not restricted to) providing local, raw materials, equity participation, preferential treatment to local sources. The MNC is not above the regulations, laws and jurisdiction of the host and should use suitable international disagreement resolution mechanisms when necessary. MNCS should avoid interfering with improper political activities, intergovernmental issues nor pay bribes to public servants. Getz suggests that control of the host is the basic right that must be recognized and respected by the MNC.

If the country is a developing country, it could be helpful if some research is carried out by the host country and it would save a lot of costs as well if local personnel are and local resources to every reasonable extent.

MNCs should also give licenses, in terms of realistic terms and conditions, for using properties and rights. In the area of environmental protection, MNCs should collaborate with the host country in producing and increasing national and international environmental security standards, as well as notifying the host of any possible environmental impact of the goods manufactured, services executed, and/or processes made use of.

Finally, the relationship between MNCs and people rotates around consumer guidance, human rights issues and employment practices. MNCs should value consumer laws of protection and preserve the safety and health of consumers through accurate advertising and appropriate labelling.

MNC should also endorse a non-discriminatory employment policy, provide sufficient training for local employees, value workers' rights to organize for collective bargaining, discuss with with workers' representatives on labour matters, and have an objective of stable employment. Human rights responsibilities require that MNCs not discriminate on the basis of religion, gender or race and that these

organisations respect the cultural and social objectives, traditions and values of the countries in which they function (Getz, 1990)

The relationship between MNCs and the public has two major categories: technology transfer and environmental protection issues (Getz, 1990).

Culture, according to Hofstede is a combination of mental programming that differentiates various groups from others that is seen in the beliefs and values of a society (Hofstede, 1980).

Grosse and Kojawa (1992) define culture as the result or outcome in a given situation accepted by people in terms of observing and the responses accordingly. Vines and Napier (1992) define culture as “. . . that complex whole which includes knowledge, belief, art, morals, law, custom and any other capabilities and habits acquired by man as a member of society.

The massive differences in culture generate a lot of managerial issues and ethical problems, are no exceptions. Recognising the relationship between the economic, cultural and political aspects facing multinationals is, however a firm ground from which to identify the necessity for international codes for organisations carrying out international business.

### Characteristics of Wal-Mart Facing Unethical practices:

Wal-Mart, a gigantic company retain a lot of customers, both home and away are widely known for their enormous variety of goods and services at low prices. It was founded by Sam Walton, a very creative and innovative entrepreneur.

Wal-Mart has done very well for itself as it has beaten a lot of other organisations in terms of its discounting retailing. It is believed to be largest company in the United States of America. According to PBS, “Wal-Mart employs more people than any other company in the United States outside of the Federal government, yet the majority of its employees with children live below the poverty line.”(www.pbs.org)

They have also added that the company claims to sell goods manufactured in the U.S only but their products are goods and serviced produced abroad or in overseas

and at debated workshops. In addition, Wal-Mart likes to portray itself as a seller of U.S. manufactured goods but in reality the company has products on its shelves made in foreign countries and at questionable workshops. As Wal-Mart faces unethical business practices, they have also been said to have encouraged goods produced outside the U.S. ([www.pbs.org](http://www.pbs.org))

### Code of Ethics:

Lot of organizations implement the code of ethics in their company polices, which they implement during induction and regular training. A Code of Ethics is generally a more blanket statement of values and beliefs that defines the organization.

It is for?

- Company's assets, funds and records
- Conflict of interest
- Management and employee practices
- Information on competition

### Ethical Business Practices

Businesses should practice building an honest reputation to endeavourer that there is the constant smooth running in an organization. In a business organisation, investors should always get their moneys on time. As this help the safeguard of money movements and interests accrued over time are expected on time. There should be a vast opening for fair employee opportunities in training and promotion, timely payment of salaries and a decent working environment. Information personal to customers should be kept sacred and not be used for personal gain. Industries that exhibit a huge pollution should comply with the governments' rules and regulations regarding water, air and noise pollution.

Government Rules and regulations in regards to duties, taxes restrictive and monopolistic trade practices and unlawful activities like bribing and corruption should be adhered to.

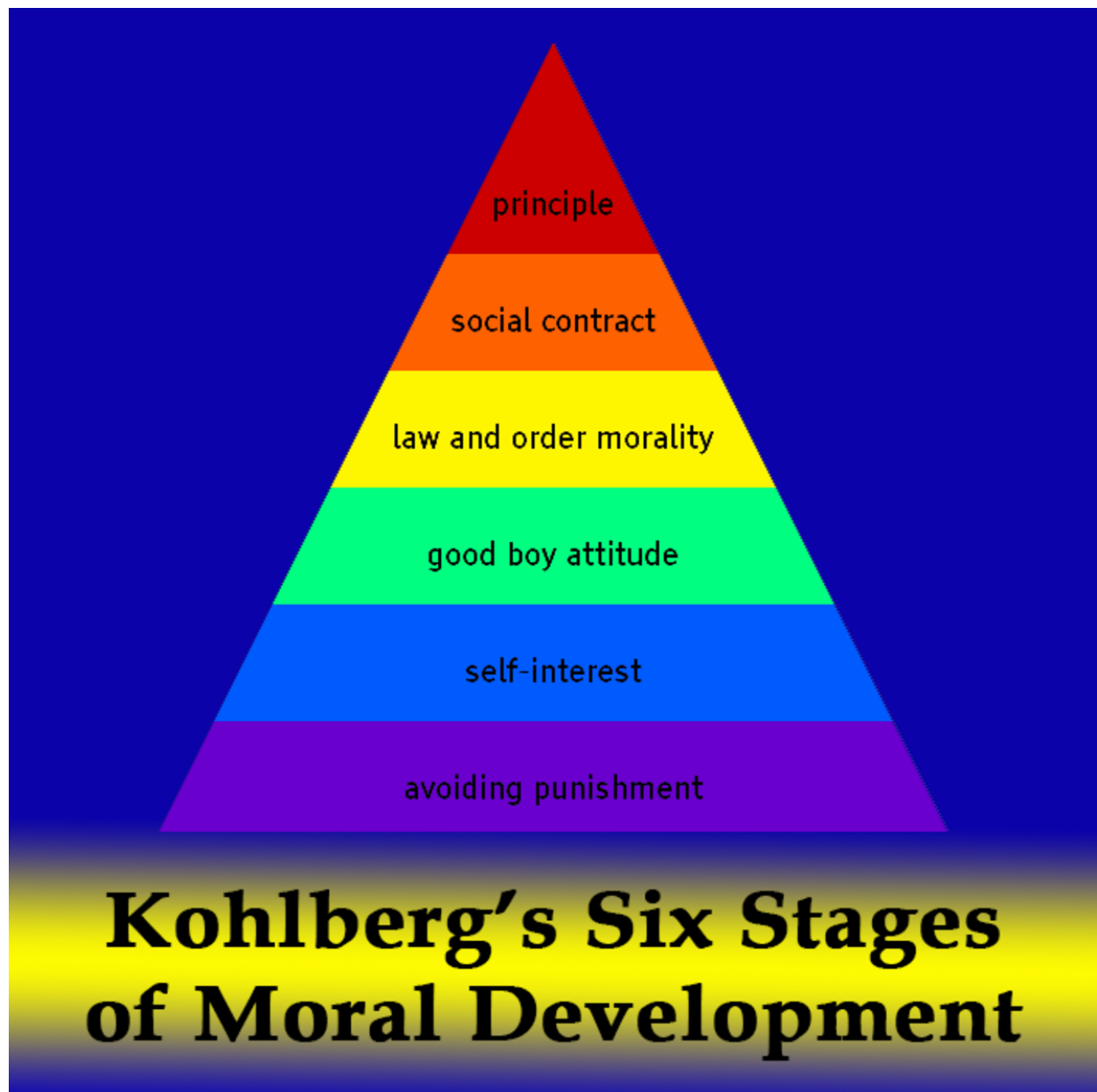
### Unethical Business Practices:

Many companies do excellently well even when they practice unethical conducts. These are just some things that happen or come under unethical practices.

A firm's ability to be:

- Tricky, dishonest and deceptive.
- Ability to mislead and confuse a sister firm or company or even the general public.
- Emotionally manipulating and exploiting vulnerable people.
- Greedy
- Falsifying documents to indicate or prove increased profit.
- Escaping punishment of unlawful acts
- Resistance to investigation as well as lack of transparency
- Increase in pollution as law is broken or government's prescription of pollution.
- Discriminating between gender, disabilities age and sex.
- Testing for drugs
- Financial analysis that are misleading
- Price discrimination, price skimming, and price fixation.
- Using animals as testing objects. Etc

KOHLBERG'S SIX STAGES OF MORAL DEVELOPMENT



### Lawrence Kohlberg's stages of moral development

Lawrence Kohlberg's stages of moral development, a [comprehensive](#) stage theory of [moral](#) development based on [Jean Piaget](#)'s theory of moral judgment for children (1932) and developed by [Lawrence Kohlberg](#) in 1958. [Cognitive](#) in nature, Kohlberg's theory focuses on the thinking process that occurs when one decides

whether a behaviour is right or wrong. Thus, the theoretical emphasis is on how one decides to respond to a moral dilemma, not what one decides or what one actually does.

Kohlberg's theory, though extremely influential, was based on research that used only boys as subjects. In the 1980s the theory was criticized by the American psychologist [Carol Gilligan](#) for universalizing patterns of moral development exhibited by boys and ignoring the distinct patterns characteristic of girls.

### **Theoretical framework**

The framework of Kohlberg's theory consists of six stages arranged sequentially in successive tiers of complexity. He organized his six stages into three general levels of moral development.

#### **Level 1: Preconventional level**

At the preconventional level, [morality](#) is externally controlled. Rules imposed by authority figures are conformed to in order to avoid punishment or receive rewards. This perspective involves the idea that what is right is what one can get away with or what is personally satisfying. Level 1 has two stages.

#### **Stage 1: Punishment/obedience orientation**

Behaviour is determined by consequences. The individual will obey in order to avoid punishment.

#### **Stage 2: Instrumental purpose orientation**

Behaviour is determined again by consequences. The individual focuses on receiving rewards or satisfying personal needs.

### **Level 2: Conventional level**

At the conventional level, conformity to social rules remains important to the individual. However, the [emphasis](#) shifts from self-interest to relationships with other people and social systems. The individual strives to support rules that are set forth by others such as parents, peers, and the government in order to win their approval or to maintain social order.

### **Stage 3: Good Boy/Nice Girl orientation**

Behaviour is determined by social approval. The individual wants to maintain or win the affection and approval of others by being a “good person.”

### **Stage 4: Law and order orientation**

Social rules and laws determine behaviour. The individual now takes into consideration a larger perspective, that of societal laws. Moral [decision making](#) becomes more than consideration of close ties to others. The individual believes that rules and laws maintain social order that is worth preserving.

### **Level 3: Postconventional or principled level**

At the postconventional level, the individual moves beyond the perspective of his or her own society. Morality is defined in terms of abstract principles and values that apply to all situations and societies. The individual attempts to take the perspective of all individuals.

### **Stage 5: Social contract orientation**

Individual rights determine behaviour. The individual views laws and rules as flexible tools for improving human purposes. That is, given the right situation, there are exceptions to rules. When laws are not consistent with individual rights and the interests of the majority, they do not bring about good for people and [alternatives](#) should be considered.

### **Stage 6: Universal ethical principle orientation**

According to Kohlberg, this is the highest stage of functioning. However, he claimed that some individuals will never reach this level. At this stage, the appropriate action is determined by one's self-chosen [ethical](#) principles of [conscience](#). These principles are abstract and universal in application. This type of [reasoning](#) involves taking the perspective of every person or group that could potentially be affected by the decision.

### **Basic tenets of Kohlberg's theory**

The numerous studies investigating moral reasoning based on Kohlberg's theory have confirmed basic tenets regarding the topic area. Cross-sectional data have shown that older individuals tend to use higher stages of moral reasoning when compared with younger individuals, while longitudinal studies report "upward" progression, in accordance with Kohlberg's theoretical order of stages. In addition, studies have revealed that comprehension of the stages is [cumulative](#) (e.g., if a person understands stage 3, he or she understands the lower stages but not necessarily the higher stages), and comprehension of higher stages is increasingly difficult. Moreover, age trends in moral development have received cross-cultural

support. Lastly, data support the claim that every individual progresses through the same sequence of development; however, the rates of development will vary.

## ETHICS AND IT

Information technology ethics is the study of the ethical issues arising out of the use and development of electronic technologies. Its goal is to identify and formulate answers to questions about the moral basis of individual responsibilities and actions, as well as the moral underpinnings of public policy.

Information technology ethics raises new and unique moral problems because information technology itself has brought about dramatic social, political, and conceptual change. Because information technology affects not only how we do things but how we think about them, it challenges some of the basic organizing concepts of moral and political philosophy such as property, privacy, the distribution of power, basic liberties and moral responsibility.

## ETHICAL ISSUES IN INFORMATION TECHNOLOGY

### **Ethical Issues in Information Technology (IT)**

- Difficulty Level : [Basic](#)
- Last Updated : 27 Jan, 2020

Read

Discuss

**Information Technology** specifies to the components that are used to store, fetch and manipulate the information at the minimum level with the server having an operating system. Information Technology have a wide area of applications in education, business, health, industries, banking sector and scientific research at a large level. With the leading advancement in information technology, it is necessary to have the knowledge of security issues, privacy issues and main negative impacts of IT. To deal with these issues in IT society it is important to find out the ethical issues.

Some of the major ethical issues faced by Information Technology (IT) are:

1. Personal Privacy
2. Access Right
3. Harmful Actions
4. Patents
5. Copyright
6. Trade Secrets
7. Liability
8. Piracy

These are explained with their affects as following below:

**1. Personal Privacy:**

It is an important aspect of ethical issues in information technology. IT facilitates the users having their own hardware, operating system and software tools to access the servers that are connected to each other and to the users by a network. Due to the distribution of the network on a large scale, data or information transfer in a big amount takes place which leads to the hidden chances of disclosing information and violating the privacy of any individuals or a group. It is a major challenge for IT society and organizations to maintain the privacy and integrity of data. Accidental disclosure to inappropriate individuals and provisions to protect the accuracy of data also comes in the privacy issue.

2.

**Access Right:**

The second aspect of ethical issues in information technology is access right. Access right becomes a high priority issue for the IT and cyberspace with the great advancement in technology. E-commerce and Electronic payment systems evolution on the internet heightened this issue for various corporate organizations and government agencies. Network on the internet cannot be made secure from unauthorized access. Generally, the intrusion detection system are used to determine whether the user is an intruder or an appropriate user.

3.

**Harmful Actions:**

Harmful actions in the computer ethics refers to the damage or negative consequences to the IT such as loss of important information, loss of property, loss of ownership, destruction of property and undesirable substantial impacts. This principle of ethical conduct restricts any outsiders from the use of information technology in manner which leads to any loss to any of the users, employees, employers and the general public. Typically, these actions comprises of the intentional destruction or alteration of files and program which drives a serious loss of resources. To recover from the harmful actions extra time and efforts are required to remove the viruses from the computer systems.

4.

**Patents:**

It is more difficult to deal with these types of ethical issues. A patent can preserve the unique and secret aspect of an idea. Obtaining a patent is very difficult as compared with obtaining a copyright. A thorough disclosure is required with the software. The patent holder has to reveal the full details of a program to a proficient programmer for building a program.

5.

**Copyright:**

The information security specialists are to be familiar with necessary concept of the copyright law. Copyright law works as a very powerful legal tool in protecting computer software, both before a security breach and surely after a security breach. This type of breach could be the mishandling and misuse of data, computer programs, documentation and

similar material. In many countries, copyright legislation is amended or revised to provide explicit laws to protect computer programs.

6.

**Trade Secrets:**

Trade secrets is also a significant ethical issue in information technology. A trade secret secures something of value and usefulness. This law protects the private aspects of ideas which is known only to the discoverer or his confidants. Once disclosed, trade secret is lost as such and is only protected by the law for trade secrets. The application of trade secret law is very broad in the computer range, where even a slight head start in the advancement of software or hardware can provide a significant competitive influence.

7.

**Liability:**

One should be aware of the liability issue in making ethical decisions. Software developer makes promises and assertions to the user about the nature and quality of the product that can be restricted as an express warranty. Programmers or retailers possess the legitimate to determine the express warranties. Thus they have to be practical when they define any claims and predictions about the capacities, quality and nature of their software or hardware. Every word they say about their product may be as legally valid as stated in written. All agreements should be in writing to protect against liability. A disclaimer of express warranties can free a supplier from being held responsible of informal, speculative statements or forecasting made during the agreement stages.

8.

**Piracy:**

Piracy is an activity in which the creation of illegal copy of the software is made. It is entirely up to the owner of the software as to whether or not users can make backup copies of their software. As laws made for copyright protection are evolving, also legislation that would stop unauthorized duplication of software is in consideration. The software industry is prepared to do encounter against software piracy. The courts are dealing with an increasing number of actions concerning the protection of software.