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Developing a Code of Ethics for the Globalization of Companies

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Abstract

With regard to the economic globalization, there are no obligatory rules at the global level. Thus it is a problem for a company to determine which norms and values it should follow i.e. should the company comply with the norms of the country of origin or with the norms of the host country?

In this paper, we develop and justify norms. In order to do so, international regulations such as the human rights or the labor standards of the International Labor Organization (ILO) are consulted. The norms for global corporate ethics are derived from these codes. The method of expert interviews is used to verify or falsify the established norms. The interview partners include experts in the fields of religion and culture and also people from non-governmental organizations and business.

Keywords: globalization, business ethics, code of ethics, hypernorm, international standards, multinational corporations.

Introduction

Business ethics has become a focus of corporate management’s attention in recent years. This is caused on the one hand by public pressure and on the other hand by a change of the strategy of the companies to respond to this pressure (Usrey 2007). Both were activated by a public notice of scandals, such as corruption or a violation of working or environmental standards (Zelizer 2007; Boatright 2007). In light of such incidents, companies are compelled to deal with ethical questions just in the same way they do with their well-known business strategic questions (Déniz-Déniz and Garcia-Falcón 2002). In times of economic and entrepreneurial globalization, companies do not act nationally but
internationally or globally. Thus, an adjustment of the corporate ethics to an international or global framework is necessary.

The globalization of companies is a challenge for corporate ethics. There are no compulsory laws at the global level because of an asymmetric development of the political and economical processes of globalization (Wallacher 2006; Stiglitz 2006). The companies cannot align their behavior to a global valid framework of norms and laws (Chan 2007). There are no obligatory rules on global level to which a company could comply. Only some rudiments like the OECD guidelines for multinational corporations exist.

On the other side, national legislation is losing its influence on companies. If a company is acting on global level it is possible for the company to choose the system of laws which are best for the company. The managers of these firms have to decide to which norms and values they want to conform in their daily work (Aßländer and Brink 2008). This decision meets the areas of external legitimization of the behavior of the companies and the internal coordination of the employee’s behavior. Figure 1 shows that the deficient international law and the loss of influence of national law lead to the necessity of a voluntary self-commitment.

**Figure I: Necessity for Voluntary Self-Commitment**
Developing norms for a corporate code of ethics is the central goal of this research. These norms should take the challenges of entrepreneurial globalization into account. They should be applicable at the global level for companies. Do such norms exist? This is one of the central questions of this research.

In theory, such norms are called hypernorms. To find such hypernorms for business is necessary to develop a global code of ethics for companies. Linked to this are the questions: what are hypernorms and how can they be identified? Based upon the theory of hypernorms by Thomas Donaldson and Thomas Dunfee (1999) this article presents a process for developing such norms. In the following step the process is used to point out hypernorms. In a further step this article shows a code of ethics consisting of the norms which are derived from the process. This code of ethics can be a base for international or global companies to develop their own code.

**Method**

According to Donaldson and Dunfee (1999), hypernorms can be identified by a conformance of a norm with two criteria of a catalog, listed by these two researchers.

**Figure II:**

**Sources for hypernorms**

<table>
<thead>
<tr>
<th>Governmental and supranational regulations</th>
<th>Intermediate forms of regulations</th>
<th>Initiative from the civil society</th>
</tr>
</thead>
<tbody>
<tr>
<td>UN human rights declaration</td>
<td>Global Compact</td>
<td>Social Accountability 8000</td>
</tr>
<tr>
<td>ILO fundamental principles and rights at work</td>
<td>ISO 14000</td>
<td>Principles for business of the Caux Round Table</td>
</tr>
<tr>
<td>OECD guidelines for multinational corporations</td>
<td></td>
<td>Interfaith declaration</td>
</tr>
</tbody>
</table>
With regard to this theory, the method for the article was developed. In a first step, norms are derived from existing guidelines for companies at the international level. Examples for such guidelines are the `guidelines for multinational corporations` of the organization for economic cooperation and development (OECD) or the Social Accountability 8000 standard (SA 8000), a standard developed and audited by a civil society organization. Figure 2 shows a compilation of all guidelines used. In the figure the guidelines are divided in those from governmental organizations like the UN or the OECD and in those of non-governmental organizations (NGOs).

In a second step, the evolved provisional catalog of norms is verified by interviews. For this purpose, the method of structured interviews is adopted. The interviews were conducted with a questionnaire and administrated via phone.

The sample of interview partners is selected based on the theory of Donaldson and Dunfee. The interview partners are from the fields of religion, business and civil society. Overall, 13 persons were interviewed.

The interview partners were informed about each norm and asked about their accordance to the norm. They could evaluate the norms on a scale from one to ten. One in this case means ‘full rejection’ and ten means ‘full acceptance’.

The results of the interviews were analyzed with Microsoft Excel. The answers are recorded in an Excel-Sheet. A norm was excluded by three categories. First, a norm cannot be a hypernorm if the arithmetic mean is less than eight. Second, a norm cannot be a hypernorm if two of the interview partners point their degree of acceptance with a five or lower or third, if one interview partner points his or her degree of acceptance with three or lower. This acts on the assumption that a low evaluation does not fit with a universal acceptance of a norm.

**Globalization and Ethical Norms**

**Possible strategies**

In the process of entrepreneurial globalization a company has to make a decision to which ethical norms it would comply (Rothlin 2006). There is an intercultural challenge because of a discrepancy in the system of ethical norms in different societies, caused by different cultural and religious traditions (Gurbaxani and Frühbauer 2001).

For determining ethical norms in an international or intercultural context three possible strategies can be distinguished as ethnocentrism, relativism and universalism. In an ethnocentric view the ethical norms and values of one’s own
culture or society are superior to those of another culture or society (Messick and Bazerman 1996). Accordingly, one’s own moral conception could be transferred to the other culture without any problems (Schmid 1996). The ethical norms of one’s own culture have an absolute validity in every other culture (Schäfers 2004). The consequence for a company is that it had to follow the ethical norms of its country of origin. This can cause problems in the host country because the employees of the host country are in conflict with their local ethical norms.

The theory of relativism states that there is no preference for different systems of ethical norms. Two contradictory norms are on the same level and neither of them can be judged as ethically right or wrong (Hofstede 2006). Because there are no criteria for judging a norm, a company has to follow the norms which are valid in the country the company operates (Beauchamp and Bowie 2001; Kreikebaum et al. 2001). If local and home country norms conflict, the company should follow the local norms. For a company this can cause problems because of different expectations of the global stakeholders.

In the theory of universalism a system of ethical norms for all humans exists, independent from cultural or religious traditions. Respectively, universalistic norms are autonomous from time and space (Nill, 1994). The validity is not limited by national or cultural borders.

**Hypernorms**

The term hypernorm was coined by Donaldson and Dunfee (1994 and 1994). A hypernorm can be defined as a fundamental moral rule for all humans. Hypernorms are reflected in the religious, philosophical and cultural beliefs (Donaldson and Dunfee 1994). They are those norms which are concrete in the respective social and cultural context and become manifested in the community (De George 2006). The common validity of hypernorms is assumed (Donaldson and Dunfee 1995) and “hypernorms take precedence over the local norms.” (Spicer et al. 2004)

Because this research is based on the concept of hypernorms by Donaldson and Dunfee, their theory is discussed in this section. Hypernorms play an important role in the ‘Integrated Social Contracts Theory’ (ISCT). The concept of hypernorms limits relativism. At the same time, hypernorms are not exclusive because they take into account that there can be a difference in the cultural specification. Not every ethical norm can be traced back to a hypernorm and not all existing differences in the system of ethical norms are caused by a different cultural, religious or philosophical imprint (Dunfee 2006). Therefore, hypernorms are a concept between the conflict of relativism and universalism.
“ISCT avoids the extremes of either position by recognizing the dynamic relationships among the authentic ethical norms of diverse communities, bounded in turn by universal principles.” (Donaldson and Dunfee 1999: 49) Those universal principles are called hypernorms which are key limits on moral free space.

In ISCT they distinguish hypernorms in three categories, procedural, structural and substantive hypernorms. Procedural hypernorms are defined as “conditions essential to support consent in microsocial contracts” (Donaldson and Dunfee 1999: 53). Second, structural hypernorms are necessary for political and social organization. They are principles that establish essential background institutions in society. The final category is substantive hypernorms. This substantive hypernorms are fundamental concepts of the right and the good. The substantive hypernorms are those hypernorms that apply to economic activity. (Donaldson and Dunfee 1999). For this reason, the hypernorms mentioned and developed in this article are substantive hypernorms. Every time when the term hypernorm is used it refers to the definition of substantive hypernorms by Donaldson and Dunfee.

In their book “Ties that bind” Donaldson and Dunfee provide some norms that they have identified as hypernorms. The give examples for international bribery, gender discrimination, market research and workplace safety. The only claim that there are substantive hypernorms concerning those points but they don’t provide a formulation of such a hypernorm.

**Corporate Codes of Ethics**

*Definition*

Codes are the most popular measure to institutionalize ethical principals in business (Talaulicar 2006). A code is a catalog of norms, which are binding standards for human behavior (Kunze 2008). There are different names for codes of ethics in practice, such as corporate guidelines, business principles or codes of conduct. In this article the term code of ethics is used to summarize all its variable denotations.

The content of a code of ethics are the written business principles, ethical norms and values and rules of conduct of a company. It describes the responsibility for the internal and external stakeholders (Kunze 2008). This content provides information about which behavior is thought of as ethically right or wrong in a company (Remisova 2007; Schwartz 2004). In every case a code of ethics is a voluntary self-commitment (Kunze 2008).
Besides corporate codes of ethics there are other codes of ethics in business, such as codes of branches or codes of profession. A code of branch is a self-commitment of a whole branch to follow specific ethical principles. Similarly, a code of profession describes the ethical guidelines of a profession like accountants (Ulrich et al. 1998).

The impact of codes

A code of ethics is addressed to different stakeholders. It regulates the relationship of a company to its employees, customers or suppliers. Other aspects such as environmental protection can be part of a corporate code of ethics as well (Kaptein and Schwarz 2008). If a code of ethics describes the desired behavior of the employees it can considered as a guideline for behavior, which shows the employees what is thought of as ethically right or wrong. This guideline has an impact on the behavior of the employees if they accept the codified norms (Kunze 2008).

A code of ethics coordinates the individual activities in a company. As a result, the behavior of the employees is harmonized by a code of ethics (Talaulicar 2006). Therefore it is a part of the corporate culture, which also can be a source of information for new employees and help them to integrate into this corporate culture (Kunze 2008). A company can specify its moral responsibility and define the range of the responsibility the company wants to take with a code of ethics (Kaptein 2004). It is possible to name the ethical areas which seem to be important for the company (Talaulicar 2006).

In a global context, a code of ethics can help to complete the imperfect framework of regulations. In this context a company can strengthen its credibility and legitimize its activities and generate trust from its stakeholders (Kreikebaum 1996). The need to legitimize a company’s activities is created by the ways the company is integrated in social communities and institutions and their dependence upon them (Logsdon and Wood 2002). For this reason, companies strive to maintain their social acceptance. Codes and linked ethical programs show the cognition of expectations of the society. Respectively, codes can legitimize the company’s activities in a global environment (Weaver et al. 1999).

Challenges for a Global Corporate Code of Ethics

A corporate code of ethics is a part of the corporate culture. If a company wants to act internationally or globally with settlements in foreign countries, a company’s own corporate culture will come into contact with the culture of the host country. The challenge at the global level for a code is the possible conflict
between the codified norms and the ethical norms of the host country in which
the code is transferred (Weaver 2001). If the code is based on an ethnocentric
view the code can cause problems with the employees of the host country. There
is a potential conflict of values if these values are not congruent with the
employees family values. The codified norms should not be contradictory to the
ethical norms in the host country.

A harmonization of the ethical corporate culture of the head office and the
corporate culture of the branches is possible only to a certain degree. A
differentiation with respect to the host country’s culture, grounded on a common
base of ethical norms, can help to avoid a conflict. On the other hand a desired
harmonization effect is achievable by the common base, if the base is big
enough (Jöstingmeier 1994). Hypernorms can be a possible opportunity for a
common base (Jackson 1997). In an empirical study Spicer et al. (2004)
show that a hypernorm can be an orientation for managers when they are confronted
with ethical decisions.

**Developing Hypernorms for a Code of Ethics**

Donaldson and Dunfee state that there are examples for norms to be hypernorms.
If two or more of the indicators are fulfilled- a hypernorm status is supported.
For this purpose they proposed the following list with eleven indicators for a
hypernorm (Donaldson and Dunfee 1999, 60).

1. Widespread consensus that the principle is universal.
2. Component of well-known global industry standards.
3. Supported by prominent nongovernmental organizations such as the
   International Labour Organization or Transparency International.
4. Supported by regional government organizations such as the European
   Community, The OECD, or the Organization of American States.
5. Consistently referred to as a global ethical standard by international media.
6. Known to be consistent with precepts of major religions.
7. Supported by global business organizations such as the International
   Chamber of Commerce or the Caux Round Table.
8. Known to be consistent with precepts of major philosophies.
9. Generally supported by a relevant international community of professionals,
   e.g., accountants or environmental engineers.
10. Known to be consistent with findings concerning universal human values.
11. Supported by the laws of many different countries.

The empirical part of this paper is aligned with these indicators and a minimum
of two criteria have to be fulfilled for each norm for this study.
For this purpose, the norms are derived from well-known industry standards (2), e.g., the “SA 8000”, standards supported by regional government organizations (4), e.g., the OECD “guidelines for multinational corporations” and standards supported by global business organizations (7), e.g., the Caux Round Tables’ “principles for business”. Further the UN declaration of human rights is also used because it can be considered as universal (1 and 10). (Note: the numbers in parentheses represent the numbers of the indicators for hypernorm listed previously.)

To review the norms, representatives from different religions, e.g., Buddhism, Christianity, Hinduism, Islam, Judaism and Confucianism were interviewed (6). Further, the representatives from non-governmental organizations (NGO), e.g., Transparency International or Amnesty International (3) and representatives from companies (9) were also interviewed. With the design of the study the requirement to meet two of the criteria can be guaranteed. Figure 3 shows the process of developing a norm with regard to this requirement.

Figure 3: Process of Developing a Hypernorm
In a first step a catalogue of norms is derived out of the mentioned sources. This catalogue is proved by interviews with experts in the fields of religion and also with representatives from companies and NGOs. This approach is discussed more deeply in the method-section of this article.

**Results**

By deriving norms from the named standards it was possible to develop a preliminary catalogue of norms. This catalogue consisted of 35 norms. The norms described the responsibilities for the stakeholders of a company. In the first step the norms are separated in the following areas:

1. Responsibility for the employees
2. Responsibility for the costumers
3. Responsibility for the suppliers
4. Responsibility for the environment
5. Responsibility for the society

The review of the norms with interviews leads to an exclusion of some norms. These excluded norms are identified as inconsistent with the principles of religions, standards supported by NGOs or as not practicable for companies. In the end 16 norms could be identified as hypernorms as defined in this paper. Some of the areas of responsibility are combined because in these areas only one or two norms are left. Following are the norms shown by the areas of responsibility.

**Responsibility for the employees**

In the first interviews six norms could be developed as hypernorms for business.

1. A company must not put physical or psychological pressure on its employees. This means every type of physical punishment and physical or mental coercion.
2. A company has to provide conditions of work, which are not a danger for the health and security of its employees.
3. A company has to provide a remuneration, which makes it possible for its employees and their families to cover their basic need of food, clothing, accommodation and health care.
4. A company must not discriminate against its employees on the basis of race, color, gender or religious denomination
5. A company must not benefit from compulsory labor. Compulsory labor should be defined according to the ILO convention 39.
6. A company has to build a framework which makes it possible for its employees to act ethically, e.g., a code of conduct.

Responsibility for customers and suppliers

The areas of responsibility for customers and suppliers are combined because of the elimination of norms by interviews in these two areas. For this combined area a set of the following norms could be identified.

1. A company must provide its customers the quality and service it has promised to provide
2. A company must provide all relevant information to its customers for the correct use of its products.
3. A company must commit itself not to conduct fraud or deception regarding the characteristics of its products.
4. A company must pay its suppliers according to the terms of price and date agreed.

Responsibility for environment and society

The two areas environment and society are combined to one area. In this combined area the following six norms are included.

1. A company has to commit itself to use as few natural resources as possible for its production. It has to recycle as many resources as possible.
2. A company has to review its business strategic decisions regarding possible environmental risks of its production process, products or services.
3. A company has to review its business strategic decisions regarding its effects on the society where the company operates, e.g. plant closure.
4. A company must not be involved in corruption or support corruption by its employees.
5. A company has to make contributions to the public budget by paying taxes in the country it operates. For this reason it is necessary to know and to comply with the tax laws of the different countries.
6. A company has to respect the intellectual property of other companies or persons.
Conclusion

The introduced hypernorms can be a basis for internationally active companies in developing their own code of ethics. These hypernorms provide a common basis for the discussion in designing a code of ethics in an internationally active company. Such a code could be the first step for a company to indicate its corporate social responsibility. Companies need to incorporate culturally specific ethical norms in every country because of the ethical norms that may exist beyond the hypernorms.

Hypernorms can give rise to conflicts which are thought to be illegitimate in every country. In situations where an action is thought to be right in one country and wrong in another, hypernorms are not in use. They are just adaptive for cultural conflicts.

The goal of this research was to develop and to justify hypernorms. It contradicts theory by Hartmann et al. (2003) or Soule (2002), who have said that the concept of hypernorms presented by Donaldson and Dunfee is too imprecise. With the limitation of small samples, we can conclude that it is possible to develop hypernorms with the aforementioned process. Because of the small sample there can be no final conclusions as to whether the presented norms are universally valid. This research should encourage future research in the area of norms for international or globally active companies.

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