Understanding Global Governance Business Ethics

and

Changing Geo-Political Equations

Today, changing in geo-political equations push many national governments to reverse the traditional thinking that strict security measures and state control, for ensuring their socioeconomic sustainability. Instead, they must realize that socioeconomic sustainability and a sense of social inclusion is paramount to improve the security of the region. At times, oil-dependent governments have announced economic reforms when the commodity price has been depressed, but when prices recover; implementation is deprioritized or halted, keeping meaningful socioeconomic development an illusion. But reform is more needed than ever before.

The largest obstacle to achieving the above is the lack of good and transparent governance, legal certainty and physical security in the region. Multinationals have the luxury of managing operations at a portfolio level and choose to invest in regions where it is easier to work. While regional businesses can navigate regional complexities better, the stark lack of stability and transparency in most of the region are still huge obstacles to them, too.

Coherent energy policies are critical for the economies of much of the region, given the sector's revenue windfall, but de-politicization of these policies is even more crucial to advance stability in the region. To do this, the role of government and the private sector must be reconfigured. Governments still control most of the energy sector as a means to manage their economies, but tend to do so in rather inefficient and opaque ways. Governments would be well advised to limit their roles to clear and fair regulation, to allow the private sector to maximize the energy industry's performance. This in turn will provide governments more wealth to invest in essential public service entities and projects.

As highlighted in the shifts described above, the global ramifications of developments in the Middle Eastern energy landscape are significant, and what happens globally will impact the future of the Middle East. The politicization of oil prices in general and the current drop in value could hurt the shale oil boom in the US and Canada. Chinese energy demand is likely to further offset the decrease in demand created by the US shale gas revolution, so although economic diversification is a necessity for socioeconomic development in the Middle East and North Africa region, the bulk of the wealth of much of the region will continue to derive from petroleum.

Half of China's energy consumption is industry-related. Hence, when China's consumer demand increases, which appears inevitable given its exponentially increasing middle class, its demand for energy will grow as well. And although China is boosting R&D spending on alternative energy sources, the progressive alternative energy policies of Europe still demonstrates that fossil fuel dependency does not disappear overnight. Furthermore, Japan's energy demand is going in reverse as energy security, following Fukushima, has gained more relevance. It seems fair to expect that as the US dependence on the region recedes, Asian powers will find themselves obliged to take a stronger role vis-à-vis the Middle Eastern political and security challenges.

Thus, given the reality that the energy sector will continue to dominate the Middle East region for some time, it is important that the sector develop a transparent model for public-private partnerships. In a tumultuous geopolitical landscape, those in the Middle Eastern energy sector have an opportunity to play a positive role in both ensuring greater economic security through diversification and socioeconomic development. In short, as the energy sector transforms, energy politics in the region must change from being divisive for being an enabler of sustainable and inclusive economic growth, which is critical to security in the region and beyond.

Due to the fundamental transformation in conventional geopolitical equation, globalization and cultural imperialism, many new practical issues arose out of the international context of business. And so, commerce has become more complicated and dynamic while organizations realized they needed more guidance to ensure their dealings supported the common good and did not harm others.

Companies are looking to their core business, as well as philanthropy, advocacy and partnerships, to support society in ways that also contribute to pro・tability. The range and quantity of business ethical issues reflects the degree to which business is perceived to be at odds with non-economic social values. For example, today most major corporate websites lay emphasis on commitment to promoting non-economic social values under a variety of headings (e.g. ethics codes, social responsibility charters). In some cases, corporations have redefined their core values in the light of business ethical considerations (e.g BP's "beyond petroleum" environmental tilt).

Ethical issues can arise when companies must comply with multiple and sometimes conflicting legal or cultural standards, as in the case of multinational companies that operate in countries with varying practices. The question arises, for example, ought a company to obey the laws of its home country, or should it follow the less stringent laws of the developing country in which it does business? To illustrate, United States law forbids companies from paying bribes either domestically or overseas; however, in other parts of the world, bribery is a customary, accepted way of doing business. Similar problems can occur with regard to child labor, employee safety, work hours, wages, discrimination, and environmental protection. As a result of such kind of complexities, the concept of international business ethics has emerged in 1990's. Although the most principled companies have still challenges to thrive in communities marked by instability, the use of codes of ethics without considering the legal or cultural differences among countries is the best solution for the common good.

Today's globalized, interconnected world and a commitment to ethical behavior in business strategy, operations and culture has caused a fundamental change in business management. Traditional management model was superseded by the new generation managerial approach. "Corporate Governance" includes honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. It also includes the relationships among the many players involved (the stakeholders) and the corporate goals. Besides the principal players include the shareholders, management, and the board of directors, there are many other stakeholders include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large.

On the other hand, the link between sustainable development and corporate governance may not look obvious but it exists. Companies can not talk of good corporate governance if they do not act responsibly by balancing social, economic and environmental challenges, which form the core of sustainable development. In the developed countries, a company that does not meet sustainable development standards is perceived negatively by investors, customers or other stakeholders. Additionally they have a risk of losing business licence.

Corporate governance consists of the set of processes, customs, policies, laws and institutions affecting the way people direct administer or control a corporation. Of importance is how directors and management develop a model of governance that aligns the values of the corporate participants and then evaluate this model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest, and disclosure in financial reports.

Commonly accepted principles of corporate governance include:

- **Rights and equitable treatment of shareholders:** Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meeting.
- **Interest of other stakeholders:** Organizations should recognize that they have legal and other obligations to all legitimate stakeholders.
- **Role and responsibilities of the board:** The board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance. It needs to be of sufficient size and have an appropriate level of commitment to fulfill its responsibilities and duties. There are issues about the appropriate mix of executive and non-executive directors.
- **Integrity and Ethical behaviour:** Ethical and responsible decision making is not only important for public relations, but it is also a necessary element in risk management and avoiding lawsuits. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making. It is important to understand, though, that reliance by a company on the integrity and ethics of individuals is bound to eventual failure. Because of this, many organizations establish Compliance and Ethics Programs to minimize the risk that the firm steps outside of ethical and legal boundaries.
- **Disclosure and transparency:** Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability. They should also implement procedures to provide shareholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

Corporate Social Responsibility has been used frequently as an umbrella term after the World Economic Forum on January 31, 1999 where the UN Global Compact was announced by then UN Secretary-General Kofi Annan. And it was officially launched at UN Headquarters in New York on July 26, 2000. During a Global Compact Counter-Summit in June 2004, proCompact attendees stated that the Compact has started a process of establishing international standards and laws that can govern multinational enterprises. It has helped increase awareness of human rights, fair labor practices, and environmental violations of corporations, especially those of multinational enterprises, and has expanded international awareness of important CSR principles.

Today, the UN Global Compact is the world's largest corporate sustainability initiative with 13000 corporate participants and other stakeholders over 170 countries with two objectives: "Mainstream the ten principles in business activities around the world" and "Catalyse actions in support of broader UN goals, such as the Millennium Development Goals (MDGs) and Sustainable Development Goals (SDGs)". Moving forward, The UN Global Compact and its signatories are deeply invested and enthusiastic about supporting work towards the SDGs.

Phrases such as corporate social responsibility (CSR) are increasingly superseded by the broader term “Corporate Sustainability”. The phrase is derived from two keys sources. The Brundtland Commission's Report, Our Common Future, described sustainable development as, "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". This desire to grow without damaging future generations' prospects is becoming more and more central to business philosophies. Within more academic management circles, Elkington (1997) developed the concept of the Triple Bottom Line which proposed that business goals were inseparable from the societies and environments within which they operate. Whilst short-term economic gain could be chased, a failure to account for social and environmental impacts would make those business practices unsustainable.

By implementing the principles of corporate sustainability especially in business operations and supply chain management, it would be possible to provide a common ground for partners, a moral code for employees, an accountability measure for critics. Business leaders should also recognize that working with all relavant stakeholders is the key strategy to shatter barriers and increase the odds of success. Companies and stakeholders are coming together to provide a collective voice and share risks in tackling major challenges that no single player can overcome, such as corruption, climate change and discrimination.

The major challenge for many businesses in this new field is to quantify the positive impacts of sustainability. Companies have adapted by implementing new creative ideas to improve recycling and waste redirecting rather than throwing away old materials, can ultimately reduce costs and increase profits. For example, Wal-Mart has redirected more than 64 percent of the waste generated by stores and Sam's Club facilities. In 2009 alone, they recycled more than 1.3 million pounds of aluminum, 120 million pounds of plastics, 11.6 million pounds of mixed paper and 4.6 billion pounds of cardboard. Annually, they expect to save around $20 million and prevent 38 million pounds of waste being sent to landfills.

Consequently, we should embrace that it might not be easy to provide sustainabilty in business practices. Because sustainability requires a long-term vision and commitment to ongoing efforts, both to ensure progress and keep pace with a rapidly changing world. But sustainability can also increase revenue, reduce energy expenses, reduce waste expenses, reduce materials and water expenses, increase employee productivity, reduce hiring and attrition expenses, and reduce strategic and operational risks. Furthermore, sustainable business practices may attract talent and generate tax breaks. Above all, it is the only way to access **the future we want.**