

A GLOBAL ECONOMIC ETHIC

An  
Oxymoron,  
or an  
Obligation?

ISG

In the era of globalization, and in the shadow of the global financial crisis (GFC), it is timely to reflect on ethical outsourcing.

Largely pursued for bottom-line financial reasons, outsourcing in recent times is now assuming a triple bottom-line responsibility that also encompasses the environment and community. “Green computing” is increasingly a prerequisite for service providers and recognizes the value of sustainable energy practices to the future (as well as to the profit line). Community outcomes are less clear but are also an increasingly important responsibility of outsourcing (and of offshoring, especially).



**How do we understand the ethics of moving work to others across organizational and national boundaries?**

As the global competitive playing field is being leveled and creating a world that is flat (according to Thomas L. Friedman)<sup>1</sup>, how do we understand the ethics of moving work to others across organizational and national boundaries? In our outsourcing choices, how do we serve the profit motive without exploiting communities and individuals? In light of the GFC, how do we structure outsourcing arrangements that support the triumph of integrity over greed<sup>2</sup>?

On October 6, 2009 at the United Nations headquarters in New York, the manifesto “A Global Economic Ethic: Consequences for Global Businesses” was released<sup>3</sup>.

It seeks to promulgate “globally accepted norms for economic actions and decisions that reflect “a common fundamental vision of what is legitimate, just and fair.” This manifesto is in accord with other United Nations human rights guidelines and advocates that:

“Differences between cultural traditions should not be an obstacle to engaging in active cooperation for esteem, defense, and fulfilment of human rights. Every human being – without distinction for age, sex, race, skin color, physical or mental ability, language, religion, political view, or national or social origin – possesses an inalienable and untouchable dignity. Everyone, the individual as well as the state, is therefore obliged to honour this dignity and protect it. Humans must always be the subjects of rights, must be ends and never mere means, and must never be the objects of commercialization and industrialization in economics, politics, the media, in research institutes, or in industrial corporations.”

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<sup>1</sup>Thomas L. Friedman, *The World Is Flat: The Globalized World in the 21st Century*, Penguin Books, (2006), p. 8.

<sup>2</sup>At the G20 Summit in September 2008, Australian Prime Minister Kevin Rudd called for an end to — extreme capitalism || that had produced — the triumph of greed over integrity || as executive pay reached — obscene || levels.

<sup>3</sup>Manifesto, —Global Economic Ethic: Consequences for Global Businesses, [www.globaleconomicethic.org](http://www.globaleconomicethic.org).

Each of us – individuals as well as state and international organizations – bears “a common and essential responsibility to recognize and apply this kind of global economic ethic.” To help navigate ethical outsourcing strategies post-GFC, consider these tips:



Recognizing that there is a mutuality of objectives between client and service provider can also help bring clarity to the outsourcing operating model.

**1. Be clear about the outsourcing objective and the operating model.**

Outsourcing is a legitimate business strategy undertaken for a variety of reasons. While typically undertaken between organizations and between international locations for reasons of comparative advantage<sup>4</sup> and the relative opportunity costs of producing the same commodities, it reflects the fundamental tenets of a market economy (competition and self-interest). Self-interest in itself is not inconsistent with the global economic ethic, which notes that “self-interest and competition serve the development of the productive capacity and the welfare of everyone involved in economic activity.” This is consistent with the views of Adam Smith, the professor of moral philosophy and so-called father of economics, in *The Wealth of Nations* (1776) and its predecessor *The Theory of Moral Sentiments* (1759). However, self-interest is inconsistent and unethical if economic and political power is misused “in a ruthless struggle for domination.” The outsourcing objective is primarily to support specialization of labor and assets where there is a mutual interest. In *The Wealth of Nations*, Smith wrote, “He will be more likely to prevail if he can interest their self-love in his favor and show them that it is for their own advantage to do for him what he requires of them<sup>5</sup>.”

It is important to understand the service provider’s objectives as well as the client’s objectives in identifying where there is alignment and where there may be conflict. Recognizing that there is a mutuality of objectives between client and service provider can also help bring clarity to the outsourcing operating model. For a positive example, look at where multisourcing accountabilities can be aligned to specific skills and for mutual advantage; and on the negative side, consider where out-tasking and micromanagement can restrict the benefits of specialization.

**2. Develop a holistic and sustainable business case.** Identifying the triple bottom-line in business cases is increasingly important, not only to the sustainability of the outsourcing arrangement but also to meet the social responsibility obligations of the corporation (both the client and service provider). In his book, *Lessons from the Global Financial Crisis*, Richard Morgan links self-interest to the concept of “present bias” in behavioral economics — that is, a high regard for now, rather than for the future — saying that “it leads to behavior which people subsequently regret<sup>6</sup>.”

<sup>4</sup>David Ricardo, *On the Principles of Political Economy and Taxation*, (1817).

<sup>5</sup>Smith, *Wealth of Nations*, chap. 2, 1.2.2.

<sup>6</sup>Richard Morgan, —*Lessons from the GFC: The Relevance of Adam Smith on Morality & Free Markets*, ConnorCourt (2009), p. 32.



It is important to undertake mutual value discovery early to identify where value can be created and what values are shared.

Some GFC examples of unfettered self-interest, short-term performance targets, various “bubbles” and the ignorance of risk all point to these behaviors and regrets. Lessons for outsourcing business cases include allowing for creative self-interest that adds value for both parties (with sensitivity analysis), a balance of short-term and long-term performance measures, adjusting for business bubbles and technology hype and quantifying what is prudent risk taking.

**3. Establish effective working relationships and governance from day one.**

Recognizing that outsourcing is a relationship of two (or more) parties with a mutual interest in success, it is important to undertake mutual value discovery early to identify where value can be created and what values are shared. The global economic ethic calls us to reinforce human dignity and potential (Article 1 of the manifesto), create a culture of respect for the individual (Article 2), promote good and avoid evil (Article 3) and apply the Golden Rule of Reciprocity or “Do unto others as you would want them to do to you” (Article 4). It goes on to highlight the principles that underpin values-based commercial exchange and cooperation, including truth, honesty and reliability (Article 10), diversity (Article 11), mutual esteem and effort (Article 12), and partnership and participation (Article 13).

Outsourcing, as with the vision for the global economic ethic, is not a zero-sum game where one must lose for another to win. Rather, it is a long-term relationship for mutual and sustainable advantage. Effective governance supports this mutual respect and tracks performance against short- and long-term targets.

**4. Be wary of abstraction, and focus on the detail.** Just as the GFC revealed the dangers of abstractions such as disintermediation and securitization and derivatives, outsourcing is an abstraction<sup>7</sup> or generalization that introduces distance and can reduce individual responsibility for ethical decisions. The challenge of all outsourcing arrangements is to make services as concrete and detailed as possible to reduce ambiguity. This applies equally to data, assets and people (be they on the client or the service provider side), so the business case, human resources exhibits and transition plans all must seek to define precisely how the outsourcing will tap into the full potential of the people (Articles 1 – 4) and treat the people as “ends and never mere means” or commodities to be freely traded between organizations or nations. The law of comparative advantage provides a strong argument in favor of free trade and specialization among organizations and countries, however there can be an opportunity cost in economic and ethical terms of limiting full human potential — not only of the people to whom the commodity work has flowed, but also to those people free up for higher value work.

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<sup>7</sup>Wikipedia: Abstraction is the process or result of generalization by reducing the information content of a concept or an observable phenomenon, typically to retain only information that is relevant for a particular purpose.



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Outsourced services must also be specific in terms of law-abiding integrity (Article 7), corruption and waste (Article 8), sustainable treatment of the environment (Article 6), and nonviolence and occupational health and safety (Article 5).

- 5. Manage the transition with integrity and imagination.** The final tip is to remember Articles 12 and 9 of the manifesto, which speak to mutual esteem and effort, as well as the importance of encouraging self-determination (through equal opportunity, distributive justice and solidarity). Mutual esteem and partnership are seen to rest on “respect, fairness, and sincerity towards one’s partners, be they the executives of a firm or their employees, their customers, or other stakeholders. Esteem and partnership form the indispensable basis for recognizing situations in which unintentional negative consequences of economic actions pose a dilemma for all concerned — a dilemma that can and must be resolved by mutual effort.”

How we understand the ethics of moving work to others across organizational and national boundaries is based on sourcing objectives, business case, detailed service descriptions, and roles and responsibilities. However, it is also based on respect for the individual. In the case of outsourcing, the dilemma of transitioning work and people is best resolved by mutual effort. It is also an opportunity for imagination. As Friedman observes in *The World Is Flat*, “the dismantling of the Berlin Wall on November 9, 1989 was brought about by people who dared to imagine a different, more open world — one where every human being would be free to realize his or her full potential — and who summoned the courage to act on that imagination.”

So, too, in outsourcing we have a responsibility to act with imagination, courage and humanity.

Outsourcing is best seen as a dynamic journey rather than a static destination. Conducting ourselves ethically through this journey is important both to our corporate success and to our individual integrity.

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