

## Ethics

ETHICS is about morality and doing 'what is right' and not 'what is wrong'. All businesses have to make many ethical decisions. Some are affected by the law. For example, it is illegal for businesses to dump waste by the roadside or send their drivers out on the road in unroadworthy vehicles. However, many ethical decisions have to be made without the help of the law. For example, should an employer allow a worker to take a day off work to look after a sick child and still be paid? Should a company stop buying goods from a factory in the Far East where it knows that work conditions are poor and wages are very low?

Making ethical decisions can be complicated because of differences of opinion. Some argue that it is wrong for businesses to manufacture toy guns to sell to children. Others suggest that they do no real harm. Muslim restaurant owners might face a dilemma about whether to sell alcoholic drink because the Koran forbids the drinking of alcohol. Other restaurant owners might not face such an ethical dilemma. Despite these differences, in many situations most people often take the same ethical stance. For example, most would agree that a company should not use employees' money in a pension fund to bail it out if it is making a loss.

## Ethical issues

All businesses have to make ethical decisions. Should a self-employed plumber charge a senior citizen extra when a job takes longer than estimated? Should a finance manager delay payments if the business has cash flow difficulties?

Over the past 20 years, a number of issues have arisen for large firms which require decisions based on ethics.

**The environment** In countries like the UK or the USA, the law prevents businesses from polluting or destroying the environment. However, businesses must decide whether to adopt even more stringent measures to protect the environment. For example, should a business recycle materials, especially if this will lower profits? Multinational businesses often face lower environmental standards in Third World countries. Should they lower their own environmental standards in the Third World to take advantage of this?

**Animal rights** Some companies, such as pharmaceutical companies or cosmetics manufacturers, might use animals to test products. Animal rights groups argue this is unethical. Other companies, particularly food manufacturers or oil groups, can destroy habitats and endanger animals. Wildlife conservation groups argue against farming which destroys forests or oil installations, which can pollute the environment leading to the destruction of animal life.

## Question 1.

Huntingdon Life Sciences (HLS) is a company which carries out scientific experiments on animals for commercial clients. Since the 1990s, it has been embroiled in a long running dispute with animal rights activists, led by SHAC (Stop Huntingdon Animal Cruelty) which want to close the company down. The long-term aim of the animal rights activists is for all animal experimentation to be banned. Once Huntingdon Life Sciences has been closed, they will turn their attention to other companies engaged in animal experimentation in pursuit of that aim.

What has been unusual about the dispute is its length and ferocity. The company's main laboratory in Huntingdon is picketed every week. Workers and managers have been subject to threatening telephone calls. The managing director has been attacked with baseball bats at his home. Failing to close down the company, the protesters turned to shareholders and financial companies dealing with Huntingdon. Shareholders were picketed outside their homes. Stockbrokers and bankers were subject to a campaign of abuse. The result was that most shareholders sold their shares in the company, and the banks and stockbrokers in the UK refused to deal any more with Huntingdon. Today, the company's banking facilities are provided by the Bank of England. The campaign has spread to the USA where customers and financial institutions dealing with the company have been targeted. SHAC continues to organise demonstrations against any company which supplies HLS both in the UK and the USA as well as continental countries such as Sweden and France. The purpose of these demonstrations is to 'shame' the company into ceasing to have any commercial contact with HLS.

- Discuss whether Huntingdon Life Sciences can ever be an 'ethical' company.
- Evaluate whether customers, such as pharmaceutical companies developing new drugs, should continue to use Huntingdon Life Sciences.

**Workers in the Third World** A number of companies have been criticised for exploiting workers in Third World countries. Companies manufacture in the Third World because it reduces their costs. However, there is an ethical question about the extent to which low costs should be at the expense of low paid workers.

**Corruption** In some industries, such as defence, bribes might be used to persuade customers to sign contracts. It has been suggested that this takes place in the Third World, where civil servants or government ministers want money from any deal to buy arms. The ethical question is whether it is right to use bribes even if a business knows that its competitors do.

**New technologies** Some industries are at the cutting edge of science and technology. Most new products developed, such as DVD players or a new chocolate bar, do not cause problems. But since the 1950s, nuclear power generation has been an issue. In the

1990s, GM crops hit the headlines. In the future, many biological processes, such as cloning, could arouse strong ethical reactions.

**Product availability** If a poor family cannot afford an expensive car, most would not see this as an ethical issue. But if an Aids sufferer in South Africa cannot afford drugs for treatment because pharmaceutical businesses charge such a high price, many would argue that it is an ethical issue. The direction of research is also important. Companies might research new drugs for complaints suffered by only a few in the industrialised world. Or they might research illnesses such as malaria which kill millions each year in the Third World. The choice that businesses make is an ethical issue.

**Trading issues** Some countries have been condemned internationally for the policies pursued by their governments. They may even have had sanctions or trade embargoes placed upon them. Companies must decide whether to trade with or invest in these countries.

### Codes of practice

In recent years, some large businesses have adopted ETHICAL CODES OF PRACTICE. These lay down how employees in the

### Question 2.

Tate & Lyle is to adopt the Fairtrade label for all its retail sugar (packets of sugar sold to consumers) in the UK. It said the change would expand the UK Fairtrade sugar sector, currently only a few million pounds a year, by £80 million by the end of 2009. This will add another household name to the rapidly growing UK market for Fairtrade-branded products following announcements in recent years from companies such as Marks and Spencer.

Harriet Lamb, executive director of the Fairtrade Foundation, said: 'In terms of size and scale, this is the biggest ever Fairtrade switch by a UK company and it's tremendous this iconic brand is backing Fairtrade.'

Fairtrade certification is given when a product meets agreed environmental, labour and developmental standards. Usually, Fairtrade agreements for commodities like bananas or coffee guarantee farmers in developing countries a minimum price above market levels. However, in this case, the deal will involve Tate & Lyle paying sugar-growers a 'social premium' that can be used for community projects such as schools and health clinics. The premium is initially likely to be about £2 million a year, paid to Tate & Lyle's suppliers in Belize in central America. It will affect Belize Sugar Industries, the country's sole sugar processor, and about 6,000 small-holder sugar can growers.

The impact on Tate & Lyle is difficult to quantify. The agreement does not cover the company's much larger operation selling industrial sugar to other companies. Nor has Tate & Lyle said what proportion of total cost for retail sugar is accounted for by the cost of the sugar imported from Belize.

- (a) Assess the possible advantages and disadvantages to Tate & Lyle of adopting Fairtrade.

business should respond in situations where ethical issues arise. Ethical codes will differ from one business and one industry to another. However, they may contain statements about:

- environmental responsibility;
- dealing with customers and suppliers in a fair and honest manner;
- competing fairly and not engaging in practices such as collusion or destroyer pricing;
- the workforce and responding fairly to their needs.

### Ethical objectives

Ethical codes of practice may develop from **ethical objectives** of businesses. Ethical objectives may be **explicit**. For example, a large business may have as its stated objectives that:

- it will not test its products on animals;
- it will deal with suppliers fairly;
- it will not accept bribes from customers.

Explicit objectives will have been carefully thought out. Partly this is because the business could get bad publicity if it went against its stated ethical objectives.

However, most businesses have **implicit** ethical objectives. Most businesses aim to deal fairly with customers for example. However, implicit ethical objectives are not written down. Instead, they form part of the **corporate culture** of the organisation. They are part of the unwritten rules about how the business deals with its stakeholders, such as customers, suppliers and workers.

### Ethics and profitability

As with social responsibility, there might be a conflict between ethical objectives and profitability. Acting ethically when not required to do so by the law can have a negative impact on profit in two ways.

- It can raise costs. For example, paying higher wages than is necessary to Third World workers increases costs. Having to find other ways than animal experiments to test a new drug might add to costs. Adopting an ethical code of practice can raise costs. Staff have to be made aware of it and trained to implement it. It takes management time to prepare a code of practice.
- It can reduce revenues. A business might lose a contract if it refuses to give a bribe. Selling medicines to the Third World at low prices might increase sales, but total revenue is likely to be lower. Refusing to develop GM crops might mean a competitor getting into the market first and becoming the market leader. Acting ethically might even mean the destruction of the company. For example, a cigarette manufacturer which took full account of the costs it causes to customers would probably decide to cease trading.

However, adopting an ethical stance can produce benefits.

- Some companies have used their ethical stance for marketing purposes. In the UK, for example, the Co-operative Bank and The Body Shop have both increased sales by having a strong ethical stance and

drawing in customers which are attracted by this. But adopting an ethical stance is no guarantee of success. Since the mid-1990s, The Body Shop has had disappointing sales growth. An ethical stance which may catch the mood of today's customers may not interest them ten years later.

- For most companies which have taken ethics seriously, it is the equivalent of an insurance policy. They don't want to be caught out behaving unethically and face serious penalties for breaking the law or see sales fall as customers protest against this behaviour. In 2002, two major companies paid the price for unethical behaviour. Enron, a large US energy trading company, collapsed. It was found to have manipulated its accounts to inflate its profits. Senior management had acted unethically by hiding this from shareholders and government. This also led to the collapse of one of the world's top five accounting firms, Arthur Anderson. It had audited Enron's accounts and was accused of hiding the irregularities. As a result, it began to lose its major customers and decided to close down.

Ethics has become a serious issue for large companies.

Customers and society have become less tolerant of businesses which behave in a way they see as unethical. However, most companies tend to follow trends and adopt ethical policies which will prevent them from coming to harm in the marketplace or by law. A few have adopted an aggressive ethical stance which sometimes has led to them gaining more customers. Often, small to medium sized businesses do not have management time or resources to draw up an ethical code of practice. Their ethical stance and behaviour is influenced by the society in which they operate.

### Should businesses be expected to act ethically?

There is considerable debate about how businesses should actually behave.

Some argue that businesses have a responsibility to act ethically. Those who hold this view stress the fact that firms do not operate in isolation. They are a part of society and have an impact upon the lives of those communities in which they operate. As such they should act in a responsible manner and consider the possible effects of any decisions they make. This means that profit making should not be the only criterion used when making decisions. Other factors which firms might consider include the effect of their decisions upon the environment, jobs, the local community, consumers, competitors, suppliers and employees.

Others argue that businesses should not be expected to act ethically. There are two main views in support of this argument. The first is from supporters of free market economics. They argue that the primary responsibility of businesses is to produce goods and services in the most efficient way, and make profit for

shareholders. Firms should attempt to do this in any way they can, providing it is legal. Only by doing this will the general good of everyone be served. If firms are expected to act 'ethically', then consumers may suffer because the ethical behaviour could lead to inefficiency, higher costs and higher prices.

A second argument is that in most cases it is naive to expect businesses to act ethically. Whenever there is a conflict between acting ethically and making greater profits, the vast majority of firms will choose the latter. Those firms which do act in an ethical manner only do so because it is profitable. This view is often held by those who favour government intervention to regulate business. They argue that it is necessary for the government to force firms to behave responsibly through a variety of laws which it must enforce.

### Are businesses becoming more ethical?

It could be argued that businesses are increasingly taking a more 'caring' attitude. The growth of companies producing health care products which are not animal tested, the use of recyclable carrier bags and the sale of organically grown vegetables by many retailers could all be an indication of this. Some pension funds and a number of investment schemes are now termed 'green'. They will only invest savers' money in companies which promote the environment.

Others argue that ethical attitudes have failed to penetrate the boardrooms of the UK and that firms continue to act unethically in a variety of ways. An extensive survey undertaken by the University of Westminster found that junior executives and women took the moral 'high ground', with more concern about green issues, staff relations and trade with countries that had records of abusing human rights. This was in contrast to the greed driven motives of company directors, the majority of whom were old and male. One respondent summed up the climate. 'In general, business ethics does not come very high in the scale of human behaviour. Professional standards and levels of caring sometimes leave a lot to be desired.'

One explanation for the findings of the survey is that business culture continues to be driven by short-term profit. This suggests that the stakeholders such as shareholders and directors hold most influence in setting the objectives of the business. These groups tend to be most interested in the profit of the business.

## KNOWLEDGE

1. Give two examples of ethical decisions an oil production company might have to make.
2. Explain which types of companies might be particularly affected by ethical issues relating to:
  - (a) the environment; (b) animal rights issues; (c) Third World labour; (d) bribery; (e) new technologies; (f) access to products; (g) trading with politically unacceptable countries.
3. What might be contained in an ethical code of practice?
4. To what extent can businesses increase profits by becoming more ethical?
5. 'Businesses should not be expected to act ethically.' Explain the two sides to this argument.

## KEY TERMS

**Ethics** - ideas about what is morally correct or not.

**Ethical code of practice** - a statement about how employees in a business should behave in particular circumstances where ethical issues arise.

## Case Study: Nike

Nike is the world's number one trainer brand. It doesn't manufacture anything though. It designs shoes and markets them. Production is subcontracted to hundreds of factories around the world. In 2008, around 800,000 workers, 80 per cent of them women aged between 18 and 24 and living in Third World countries, made Nike footwear and apparel.

So how did such a successful company come to face a protracted negative ethical campaign? It started in 1992 when Jeff Ballinger, a US based activist working in Indonesia, published a damning report about conditions in the country's factories, detailing labour abuses, unsanitary conditions and forced overtime. Nike, as a high profile US company, became a symbol for the activists wanting to change the system. Student groups in the US lobbied for independent monitoring of factories of companies selling goods on US campuses, threatening Nike's share of a \$2.4bn business in college wear. Activist groups such as Global Exchange bombarded the media with anti-Nike stories.

Nike's initial response was stumbling but it soon gathered pace. In 1992, the company implemented a code of conduct that dealt explicitly with labour rights. There followed a series of initiatives: Ernst & Young, the international firm of auditors, began monitoring labour conditions in 1994; Nike joined President Bill Clinton's Fair Labour Campaign in 1996. The company asked Andrew Young, a prominent black American who had been Ambassador to the United Nations, to review factories in Vietnam, China and Indonesia. The company also set out to improve the lives of workers. It launched lending programmes for workers, adult education and better factory monitoring. By 2007, it was committing itself by 2011 to 'improving working conditions in our contract factories through a holistic, integrated business approach to our supply chain'. In particular, it would eliminate excessive overtime in contract factories; implement management training on workers' rights, women's rights and freedom of association and collective bargaining in contract factories; and work with other companies on compliance issues in 30 per cent of their supply chain. Nike is also one of the few companies which publicly disclose the exact location of their contract factories worldwide.

Despite all these initiatives, Nike continues to receive criticism. In 2000, for example, a BBC documentary accused Nike of using child labour in Cambodia. The company as a result reviewed all 3,800 workers records and interviewed those it suspected were under age. But it couldn't verify that all the workers were adult. As a result, it pulled out of production in Cambodia in an attempt at damage limitation. Oxfam Community Aid Abroad, the Australian-based organisation that closely monitors Nike, alleges that 'workers producing for companies like Nike, FILA, adidas, Puma, New Balance and Asics commonly face low wages, long hours, verbal abuse, dangerous working conditions, denial of trade union rights and high levels of sexual harassment'.



Nike itself admits that it is not perfect. In its first 'corporate responsibility report', published in October 2001, it said that making Nike trainers was 'tedious, hard and doesn't offer a wonderful future'. It knew far too little about what happened in the factories it uses. Finally it admitted that its monitoring system did not work well enough. By the time it published its 2005-06 Corporate Responsibility Report, Nike was being much more assertive about its ability to create a supply chain where contract factories could be made to comply with Nike imposed rules about the use of labour.

Nike knows that it will now continue to be targeted by activists unless it uses factories with Western style conditions of work, if not pay. To do that could turn a highly profitable company into one making huge losses, unable to compete against other companies continuing to use cheap Third World labour. It also knows that almost all large clothing manufacturers, or giant retailers such as Wal-Mart (which owns Asda), routinely buy from Third World 'sweatshop' factories where conditions of work are just as poor, if not poorer, than Nike factories. However, perhaps more so than other businesses, it is addressing issues in a realistic way and attempting to put itself ahead of competitors in the corporate social responsibility stakes.

Source: adapted from *The Financial Times*; [www.wikipedia.org](http://www.wikipedia.org); [www.oxfam.org.au](http://www.oxfam.org.au); [www.nikebiz.com](http://www.nikebiz.com).

- Discuss whether, from an ethical standpoint, Nike should source its products mainly from low cost locations in the Third World rather than from factories in the USA. (40 marks)
- Evaluate the costs and benefits to Nike of working with other companies to monitor conditions in its supply chain. (40 marks)