Cases from Mellahi and Wood's *The Ethical Business: Challenges and Controversies* (Palgrave Macmillan, 2003).

Corporate Governance

CASE STUDY 1: Towards Social Accounting?

RUMBLINGS THAT THE (UK) Government is considering appointing a minister for corporate responsibility may signal a sea change in existing business philosophy, ushering in a new era of social accounting. Senior management and finance directors are coming under increasing pressure to throw out the rule book and look beyond wealth creation for the sake of wealth creation by taking up a more ethical stance.

It is a subject that is also being addressed as part of the continuing company law review. The Government is considering proposals that could result in a wider set of social accounting disclosure requirements being brought into UK law. The review has a hefty remit that covers a broad spectrum of issues, from poor payment practice to lack of community investment to trading with oppressive regimes.

According to Franceska van Dijk, senior consultant in SustainAbility, the strategic sustainable development consultancy, campaigners are lobbying for the introduction of the so-called triple bottom line. That is a set of accounts that stretches beyond financial reporting to cover social and environmental accounting, alongside economic measures.

Roger Adams, technical director of the Association of Chartered Certified Accountants (ACCA), says that think tanks and non-governmental organisations, such as the New Economics Foundation and Amnesty International, are "increasingly putting companies under the spotlight."

High-profile public relations disasters include the Nike link to sweatshop labour in developing countries, and Monsanto's brush with the genetically modified foods backlash. But it was Shell's necessary policy turnaround after Brent Spa in the mid-nineties that set the bail rolling.

Mr Adams says: "You are beginning to get this change in corporate thinking that it is no longer appropriate to try to bully the market by brand power. There is a realisation that even the strongest brand can be damaged if a company loses the trust of a particular group of stakeholders."

Because of this, a handful of global players, alongside a number of smaller firms, are trying to clean up their image. SustainAbility's clients include Ford, Shell, and Procter & Gamble, all of which, Ms van Dijk says, "are very interested in the sustainable development debate and what it means for their business."

The push towards business with a conscience is far from altruistic. The argument that is likely to make finance directors sit up is that a body of opinion is forming that suggests that being a good corporate citizen adds value to a business, ultimately boosting the bottom line.

Resources are being put into identifying the business case. The World Business Council for Sustainable Development, a body of international companies committed to social accounting, last month released a report setting out why it makes business sense to adopt an ethical policy. (*The Times*, London, 22/2/2000).

ISSUES: Do you think that — using the above case as an example — firms are acting ethically if their actions are purely prompted by financial concerns, but are likely to

produce socially desirable results?

Other Questions:

1. What are the reasons behind the increasing interest in the practice of corporate governance? Explain.
2. Do you think that there can be a “best practice” corporate governance model? Explain.
3. “A stakeholder in an organisation is any group or individual who can affect or is affected by the achievement of an organization’s objectives.” Critically discuss this definition.

CASE STUDY 2: Partnership Agreements:
Daimler-Chrysler South Africa

DURING THE APARTHEID ERA, South Africa had a closed economy, characterized by high levels of state intervention. Shielded by high protective tariff walls, and assisted by state incentives, a significant motor industry developed, moving beyond the mere assembly of knockdown kits to the manufacture of complete vehicles containing a large proportion of locally manufactured components. During the apartheid years, the company, then known as Daimler-Benz South Africa, gained a reputation for superior wage levels when compared to the rest of the South African motor industry and significant levels of social outreach expenditure, ranging from funding for sports activities to the beautification of the physical environment around the firm's East London manufacturing plant. Critics charged that this represented little more than "guilt money", given the firm's refusal to join North American motor firms that had disinvested from South Africa as a means of protesting against apartheid — and the fact that at various stages, it supplied truck components ultimately used by the South African military. The firm was also plagued by high levels of workplace militancy, culminating in a protracted strike/factory occupation that took place in 1990. The striking workers were opposed to the introduction of centralized bargaining in the motor industry, given that the firm offered considerably better conditions of service than other employers in the industry. The factory occupation was opposed by a significant component of the workforce, however, and the strikers were dismissed as a result of their actions.

The ending of apartheid also brought with it the phasing out of protective tariffs and reduced levels of state intervention in the economy; in response to pressure from global financial institutions, the ruling African National Congress's economic policies are largely neo-liberal in character. In the case of the motor industry, however, an imaginative deal between the government and the main players in the industry has resulted in the phased reduction of tariff barriers. Manufacturers can now import components in return for an equal value of exports. This has led to several motor manufacturers gearing up production for the world markets; Daimler-Benz South Africa (now known as Daimler-Chrysler South Africa) concentrating on exports of C-class motor cars. But export contracts were contingent on meeting rigorous cost, productivity and quality criteria set by the parent company.

This led to management negotiating a partnership agreement, a deal being reached in mid-2001. To management, this agreement was primarily aimed at ensuring high quality and timely deliveries following the winning of major export orders. The incentive plan would enable workers to take home up to 23½ weeks' extra wages a year. The deals also allowed for draws for consumer goods, participation in the draws being contingent on high levels of attendance. But shortly after the deal was struck, a major nation-wide strike broke out across the South African motor industry, over wages. The strike was characterized by bitter exchanges between Daimler-Chrysler management and union officials as to what a partnership deal was really about. To managers, the strike was a violation of the spirit of the deal; to the union, the deal was simply a limited trade-off, which did not free management from their obligation to pay a "living wage." Eventually, the strike was resolved through a pay compromise.

This dispute highlighted the fact that partnership agreements do not necessarily

reflect the main parties sharing basic goals and values.

ISSUES: Do you think that modern social partnerships represent a reflection of more ethical managerial strategies or simply a tool for enhancing profits? In other words, are they simply there to ensure greater productivity, or should they represent the outcome of genuine concessions and trade-offs and explicitly aim to ensure greater fairness at the workplace and/or within wider society?

Other Questions:

1. What, do you think, consitutes “social partnerships?” Explain.

CASE STUDY 3: British money fuels circle of debt and destruction

Big UK banks put in millions

by Paul Brown and John Aglionby in Jakarta
Tuesday, June 26, 2001
The Guardian

ASIAN PULP AND PAPER (APP) is caught in a vicious circle. Because it has used relatively cheap timber culled from the rainforests, it has been able to undercut competitors and so depress the global paper market.

But now it finds itself with huge debts, in part caused by this depressed market. It is having to service the deficit by driving up production — and cutting down more trees. When all the Indonesian forests are gone, there could be a world paper shortage and spiralling prices.

APP has international debts of £8.5bn, and its share price plummeted from £5 to 8p before dealing was suspended. Normally, bankruptcy would quickly follow this situation, but a financial conjuring trick by the Indonesian government has kept APP afloat.

The government took over the local bank to which APP owed most money, making it the preferential creditor. Investors would get little or nothing if they forced the company into bankruptcy.

As a result APP can go on cutting forests until it runs out of trees. According to *Science* magazine: "If the current state of resource anarchy continues, the lowland forests of the Sundra shelf, the richest forests on earth, will be destroyed by 2005 in Sumatra."

Prominent in the destruction is the APP subsidiary Indah Kiat, the vast paper and pulp plant which is accused of getting large quantities of cheap timber supplies by clear cutting tropical rainforest.

One Indah Kiat supervisor told the *Guardian*: "There's no hurry to use more sustainable wood because that's more expensive to process. So we are using tropical hardwood and not asking too many questions about how legal it is."

British investors are among those who have ploughed money into APP. NatWest led a syndicate to provide £50m for companies within the APP group, and its current lending remains at £7m. A Friends of the Earth report, *Paper Tiger: Hidden Dragons*, claims that Barclays arranged a £430m loan in September 1990. The bank has refused to comment. Legal and General has holdings worth £120,000 in Indah Kiat and another subsidiary, Tjiwi Kimia, but is to review them. London-based Newton Investment Management is reported to be the 19th biggest shareholder in APP, with stock worth £1.4m — it refused to comment.

Ed Matthew, Friends of the Earth forests campaigner, said APP's trouble "would never have reached this stage if international investors had not put money into the company so it could go on building bigger plants. This led to them clear cutting even more rainforest, so flooding the market with cheap paper. Because the paper is so cheap the company has not been able to pay its debts, creating a vicious circle of more destruction and more debt."

ISSUES: The above case raises a range of key questions. First, how accountable should financial institutions be for the range of actions of their customers: should banks lend money when it is evident that such money may be used to support palpably unethical activities? Second, would a more hardline approach by the banks at this stage — if prompted solely by the parlous financial state of APP — be devoid of moral worth?

Other Questions:

1. Why should firms take environmental issues seriously? Explain.
2. Should there be more to corporate environmental responsibility than the desire to secure long-term profits? Explain.

CASE STUDY 4: Oil Concessions in Angola:
Pushing the Limits of Ethical Behaviour?

THE SOUTH AFRICAN STATE of Angola has been wracked by a bloody civil war for over 25 years. Most of the Angolan oil industry is located in shallow-water reserves offshore, safely removed from the activities of the rebel UNITA movement. But advances in oil extraction technology have opened the way for the exploitation of vast deep-water (1500 to 5000 feet below sea level) and ultra-deep-water reserves (5000 and 7000 feet). Current oil production is 750 000 barrels a day, although this is likely to rise substantially in the future.

Angola's offshore oil is particularly attractive owing to a desire by international firms to diversify supplies away from the Middle East and geological factors. Angolan seismic data makes it relatively easy for firms to accurately target their drilling, with a success rate of 60−70 per cent, as opposed to a world average of only 10 per cent.

The oil industry is jointly run by foreign firms, and the state oil firm, Sonangol. There has been intensive competition between Western petrochemical companies for exploitation rights on recently identified ultra-deep-water blocks. There is little doubt that US firms are at a substantial disadvantage vis-á-vis a number of European firms on account of more rigorous US anti-bribery legislation.

The bulk of oil revenue is diverted through secret defence accounts, ostensibly in the interests of national security, although this has created considerable opportunities for the expropriation of oil revenue by a notoriously voracious state elite. Given the diversion of oil revenues into the personal accounts of senior government officials, on the military and to service foreign debt, only some 7 per cent of the annual budget was devoted to public expenditure by 1998.

The aggressive jockeying among Western petrochemical firms for Angolan concessions, and controversies surrounding the payment of signature bonuses, led to renewed questions being asked about the role of other petrochemicals firms in Angola in the aftermath of the Angolagate scandal. The latter implicated several senior government officials and oil firms in a complex illegal arms, oil and debt deal.

In Angola, a number of petrochemical companies — including TotalElfFina, BP and Chevron — have been making substantial donations to the official Social Bonus Fund. The secretive manner in which these donations is being spent has led the newsletter, *Africa Confidential*, to charge that the social spending of oil companies in Angola could become "another vehicle for (extending) credit to the Angolan elite" (*Africa Confidential* 15/9/2000).

ISSUES: Do you think that oil firms should invest in Angola at all, and what is ethically acceptable in the current scramble for ultra-deep-water concessions? Should companies enquire too closely into the business of charitable concerns that are favoured by, or have close links to undoubtedly corrupt governments that are in the position to grant lucrative concessions? Third, there is the perennial "free rider" problem: there is little doubt that any oil firm that withdraws from Angola will soon be replaced by other, less principled, entrants. Should this, in any way, affect the decisions oil companies must make in dealing with the Angolan state elite?

Other Questions:

1. What do you understand by the concept of globalization? Does this process pose any specific ethical dilemmas for firms? Explain.
2. Introduce the principal ethical challenges most likely to confront a transnational corporation.
3. What do you understand by the concept of “fair trade?” Should this affect how firms do business in the developing world?

CASE STUDY 5: Redundancies in a Cold Climate

A RECESSION, IF IT COMES, will be very different from the last — if you work in the service sector. Redundancy payouts in the media, IT and banking sectors are coming in well above statutory minimums, and mass culls of certain grades of staff, common in the downsizing phenomenon of the early '90s, are out. But in Britain's two-tier economy, manufacturing remains the poor relation when the axe falls on workers.

An example of how the service sector is laying off workers comes from the business-magazine division of Reed Elsevier, which publishes titles such as *Farmers Weekly* and *Caterer & Hotelkeeper*.

It has identified five jobs on its motor magazines that it says must go. It says it is now making strenuous efforts to find the people affected jobs on other titles. If that fails, it pays a month's salary for each year worked as part of what it describes as a generous redundancy package. Editorial staff can also expect to receive three months' notice pay.

A spokesman for the company says: "The downturn hit without warning and like most other publishers we have battened down the hatches. But there has always been a generous redundancy package at Reed and we have not seen any reason to change that."

Bradford & Bingley this week said it wanted to cut 500 clerical jobs and create some 200 jobs for financial advisers. But the bank insisted it would ensure that most of the job losses would be voluntary and was keen to encourage existing staff to retrain as financial advisers.

The day before B&B's announcement, Japanese electronics firm Fujitsu said it planned to cut 900 jobs. A spokesman said he expected all the jobs to go through natural wastage, mostly through its DMR manufacturing facility rather than its CL software and services subsidiary. "Providing IT services is a people business and it is sensible to keep staff on in this area. It is much harder to recruit good staff than it is to retain them."

Simon Webley, a policy adviser at the Institute for Business Ethics, which is funded by about 60 major firms, says the need to keep employees happy through the bad times is important, or they abandon ship when the good times return. "Changes in the law have also pushed companies to behave better," he says. "The changes have signalled that companies cannot just say 'you're out, mate' without considering the consequences."

But not everyone — particularly in manufacturing — will be treated with dignity and respect when the job they do is no longer deemed essential by their company.

Peter Booth, national organiser for manufacturing at the Transport & General Union, says little has changed in the way companies in his sector have handled staff relations. He believes manufacturing companies have been largely untouched by the enlightened attitude adopted in other sectors. Most firms pay the minimum one week's pay for each year worked and give only the minimum notice period.

"Things haven't changed significantly in my day-to-day work. Many conpanies, especially global companies with subsidiaries in the UK, are dealing with huge over-capacity in their markets and they react by cutting jobs," he says.

"In the rest of the EU, there are restrictions on withdrawing from a manufacturing facility. The company must draw up a social plan and get agreement with the local council. The council will also want to know if attempts were made to find another buyer. None of this is incorporated into UK law."

"Look at Marks & Spencer. The cuts in stores and jobs it announced in Britain

have happened. In France it was forced to go back and think again, and instead of the stores simply closing down, they are now up for sale with the prospect that there might be a buyer and the jobs saved."

Steel maker Corus shocked staff and unions when it told shareholders that 5000 jobs and several plants would close. It was a shoot-first, think-later policy that encapsulated the worst aspects of cutbacks in manufacturing.

Yet the threat of an appearance at an industrial tribunal for breaching laws incorporated from EU directives has persuaded many employers that being nice pays.

Meriel Schindler, head of employment law at solicitors Withers, says investment banks in the City of London are a case in point. Many instituted job freezes at the beginning of the year. Then came job cuts. The hardest hit have been staff at subsidiaries of the giant US banks such as Merrill Lynch and Goldman Sachs.

But the banks have tried to stop themselves from over-reacting to what could be a brief downturn in work. Many have adopted voluntary redundancy programmes. Others have paid staff more than they were expecting in severance pay. Several have done both.

Public relations companies and firms of headhunters have been hit by budget cuts in the City and, in Ms Schindler's experience, have mostly approached the prospect of job cuts in the same way: "The companies we come into contact with are starting to deal with the situation with more caution and more sensitivity. It is fair to say that every human resources department knows that unfairly dismissing someone is no longer a cheap way to get rid of them."

A survey by consultant Penna Sanders and Sidney goes some way to supporting the idea that employers have improved. More than a third (37%) agreed that employers have a more responsible attitude towards redundancy. Only a fifth disagreed.

The sensitivity and caution are largely borne of fear that a redundancy programme will end up as an acrimonious court case.

Staff have for some time been able to claim that their redundancy is, in fact, unfair dismissal. But until three years ago the most compensation someone could win was £11,000. Few people bothered to complain, given the paltry sums on offer. The Labour government increased the figure to £50,000. It now stands at £51,000.

The number of complaints has trebled in the last three years to 130,000, which The Confederation of British Industry (CBI) says shows the new laws have gone too far. This week it claimed employment tribunals, many of them concerned with cases of unfair dismissal following a redundancy programme, will cost businesses £633m in 2001, up from £426m in 1999.

Digby Jones, director general of the CBI, said employers were seeing their consultation and dispute procedures bypassed by employees who went straight to tribunals to win compensation payments: "In too many cases the tribunal system is the solution of first resort rather than last resort. That is bad for employers but it is also bad for employees who face a stressful court case and often find themselves out of a job or in lower paying work," he says.

The Trades Union Council said many firms involved in disputes had failed to draw up procedures that allow someone to complain. Small firms are the most likely to ignore procedures and even laws when they announce redundancies, though many laws only apply to larger companies.

Worst off are the workers at companies which go bust rather than slimming down. When the receivers march in, they only pay the legal minimum redundancy and there is no chance of ex-gratia payments to soften the blow.

Another tactic is to worsen employees' terms and conditions to avoid redundancy. Workers at car-maker Rover, for example, have seen their pay cut and their pension entitlements reduced in order to keep the firm solvent. While in this case it was openly negotiated with the workforce, many other firms use it as a tactic to cut costs in a downturn regardless of their financial position.

Mr Booth says one firm in North Wales asked its staff for cuts in pay, holidays and a host of other entitlements. The workforce refused to agree. They were locked out of the factory and after the legal consultation period was over they were all sacked. These are extreme examples, but they show that while service industries that count people as their key resource are being fairer, many manufacturers still consider their staff a commodity to be used and abused.

Perhaps they should take heed of a growing trend in the US, where firms that have treated staff like they would steal paperclips have reported a huge growth in sabotage by those made redundant. Emailing a computer virus or three to their former employer is a particularly popular pastime among disgruntled sacked staff. That's another reason to use redundancy as a last resort. (*The Guardian*, London, 25/8/2001)

ISSUES: In your opinion, what is the best way to deal with "over-capacity" when firms face a slow down? Do you think it is right to continuously adjust and readjust employment policies to market downturns by hiring-firing and rehiring tactics?

Other Questions:

1. "Contemporary human resource management (HRM) accords too little attention to ethical questions." Critically discuss this statement.
2. What do you think the principal objectives of an ethical code of conduct governing HRM should be?
3. What, do you think, are the principal ethical challenges facing the practice of HRM? Explain.

CASE STUDY 6: Monitoring Financial and Social Conduct

THE CO-OPERATIVE BANK (in the UK) has long been regarded as outside the mainstream when it comes to deciding to whom it will lend and how it will conduct its business. Now it has updated its ethical policy in a move that it believes will keep the bank at the forefront of the issue until well into the next century.

Simon Williams, the bank's head of corporate affairs, says the review, announced at the turn of the year, was an essential part of ensuring that the Co-op's policy "echoes developments in society at large".

He adds: "We are committed to regularly consulting our customers on the details of our ethical stance. After all, it is their money in the bank. New ethical concerns arise from time to time, and if they involve a question of finance or banking, they will be put before our customers. We then adopt a stance on these issues if our account holders mandate us to do so."

The biggest change to the policy involves extending the bank's ecological commitments to business activities considered unsustainable. As a result, the bank will not invest in companies whose core activity relies on the extraction or production of fossil fuels, the manufacture of unnatural chemicals or the "unsustainable harvest of natural resources." Revisions have also been made to the stance on the arms trade, human rights and trade and social involvement.

In particular, the bank is seeking to use its influence in the development of the "social economy" through assisting co-operatives, credit unions and charities. Already 60 per cent of credit unions bank with the Co-op.

Other organisations are also promoting the importance of social and ethical accounting. In the autumn the New Economics Foundation published the "quality scoring framework," with the aim of allowing the comparison and evaluation of different approaches to social accountability. And this week the Institute of Social and Ethical Accountability hosts a conference on "the practice of social reporting for business."

The event, to be held at the Commonwealth Conference Centre in London on 19 January 2001, will include presentations from Paul Monaghan, partnership development manager at the Co-op, Chris Tuppen, social and environmental measurement manager at BT, and John Elkington, chairman of the SustainAbility consultancy.

The organisers say: "Business and corporate success can no longer be defined solely in terms of earnings, growth and the balance sheet as social and ethical responsibility has become both an individual necessity and an organisational requirement."

The Co-op is confident that it is in a good position to encourage those who do not see how matters are developing. "Every company needs a bank account and many need lines of finance. Therefore, a bank is in a strong position to decide whether to fund a business activity or not," says Mr Williams. (*The Independent*, London, 17/1/01).

ISSUES: What role, if any, do you think, banks have in ensuring ethical behaviour by their clients? And, should the definition of auditing be expanded to encompass not only the monitoring of financial procedures and conduct but also, social ones?

Other Questions:

1. "By branching out into consulting, accounting fiorms have hopelessly compromised the traditional role of the auditor." Critically discuss this statement.
2. "Creative accounting — so-called — is unethical and should face the strongest legal sanctions." Critically discuss this statement.

CASE STUDIES 7: GM and Nike

A: GM'S Policy Covering Gifts, Entertainment, and Other Gratuities from Suppliers

BOTH AS A MATTER of sound procurement practice and basic business integrity, we at General Motors must make our purchase decisions solely on the basis of which suppliers offer General Motors the best value for the goods and services we need. We should avoid doing anything that suggests our purchase decisions may be influenced by any irrelevant or improper consideration whether illegal, such as a kickback or bribe, or technically legal, such as personal friendship, favors, gifts or entertainment.

Consequently, it is General Motors policy that no General Motors employee accept any gift, entertainment or other gratuity from any supplier to General Motors or bidder for General Motors business, including supplier units which are part of General Motors. This policy applies to all employees whether or not they are directly involved in purchasing activities.

There may be rare circumstances where to refuse a gift conceivably could be against General Motors' legitimate business interests, particularly in those countries where gift giving is simply an expected social courtesy and is not intended to corrupt or influence a particular purchase decision. There inevitably will be gray areas or situations where the applicability of this policy may not be immediately apparent. For example, very inexpensive mementoes, such as "logo" pens, cups, caps, or other similar items of nominal value, may be accepted subject to any more stringent policy which your business unit may adopt.

To help in interpreting this policy, several illustrations of its application to hypothetical fact situations are attached. In the final analysis, however, the best course is to decline any gift, entertainment or other gratuity from a supplier to General Motors. Any questionable situation should be discussed with your supervisor to determine how best to handle it. If there is a reason for you ever to accept a particular gift of any real value, it should be reported to your management and the gift always must be turned over to the Corporation for display, use or other appropriate disposition (Anonymous 1996).

B: The Case of Nike

NIKE HAS MADE ENVIRONMENT performance a priority, reaching out beyond Nike-owned facilities to include manufacturing partners, suppliers and material vendors. In an effort to green its supply chain, in February 1993, the Nike Environmental Action Team (NEAT) arose out of Nike's efforts to coordinate specific environmental efforts around the world in the context of its business practices. NEAT's mission was to develop answers to the problems that Nike's business — and the sports industry as a whole — poses to the environment. Nike actively seeks partnership with ecologically responsible suppliers who have made a commitment to sound business practices. Facilities not meeting Nike's environmental business standards are offered assistance through NEAT representatives.

To help track its contractors' progress in reducing pollution, Nike supplies all chemical vendors, equipment suppliers and manufacturers with an educational programme which includes: an overview of Nike's objectives; its corporate environmental

policy; a master substances list; legislation concerning products and packaging; executive summaries on all programmes so that factories/vendors know which programmes apply to them; a sustainability assessment; and labour practices programme information. In addition, Nike has developed a program for Management of Environmental Safety and Health (MESH) to help its manufacturing partners develop objectives and targets to reduce and eliminate environmental impacts.

Nike's objectives include its aim to:

- Integrate principles of sustainability into all major business decisions.
- Scrutinize its environmental impacts in its day-to-day operations and throughout every stage of the product life cycle.
- Design and develop product, materials and technologies according to the fundamental principles of sustainability.
- Promote Nike's practices throughout the supply chain and seek business partnerships with suppliers who operate in a manner consistent with Nike's values.
- Educate its employees, customers, and business partners to support its goal of achieving sustainability.
- Turn awareness into action by integrating environmental responsibility into job responsibility.

Nike's efforts have been emulated by many other leading firms operating in a wide range of different sectors, Ironically, despite evidence of good practice in the environmental area, Nike has had to contend with allegations that at least one key South East Asian subcontractor has made use of sweatshop labour.

KEY QUESTIONS:

1. Do you think the dominant firm in a supply chair should be responsible for the ethical conduct of its suppliers? Give reasons for your answer.
2. Introduce and critically discuss two ethical challenges facing today's supply chain manager.
3. Critically discuss General Motors' "Policy Governing Gifts, Entertainment and Gratuities from Suppliers" (see above). Do you think this policy does enough to ensure ethical conduct?
4. Can Nike's environmentally sound policies mean that the firm should be allowed greater leeway in its labour practices? Give reasons for your answer.

CASE STUDY 8: Monitoring the Supply Chain of Cocoa

WITHIN SUPPLY CHAINS, those at the end tend to be the most dominant. A major producer of chocolate, Cadbury Schweppes, decided in early 2001 to review its entire supply chain in Ghana, a major producer of cocoa and Cadbury's major supplier (*Financial Times*, 4/5/2001). This followed on concerns prompted by allegations of poor labour practices in the West African cocoa industry; the firm has traditionally avoided the Ivory Coast, where there is some evidence that child labour is employed (ibid.). Cadbury's will be working with the Corporate Citizenship Company (a consultancy firm specializing in ethical issues) to audit the relevant parts of its supply chain. Since the nineteenth century, Cadbury's has placed a strong premium on ethical conduct. Certainly, dominant users in a supply chain are in a powerful position to set the agenda.

ISSUES: Should the Cadbury's example be emulated by firms operating in other industries, and, if not, why not?

CASE STUDY 9: Becoming Respectable — the Case of Philip Morris

CIGARETTES KILL PEOPLE. Even the companies that make them now admit that. Indeed, Philip Morris, maker of the world's best-selling cigarette brand Marlboro, actually pointed out the "benefits" of killing people last week.

It commissioned a study for the Czech Republic that concluded that its government saved £21m in 1999 through not having to support, house and care for smokers who died prematurely from tobacco-related illnesses.

In spite of the rather twisted moral logic of such an argument, the initiative was just the latest example of Philip Morris' new strategy of openness and "responsibility." Earlier this month it emerged that the company was working with London advertising agency Doner Cardwell Hawkins to develop a European campaign positioning it as more socially responsible.

Typically, a senior Philip Morris spokesman denies all knowledge of the campaign, although he admits that DCH has been "doing some development work for us."

The agency won't discuss the brief, but it is understood that the tobacco giant is trying to emulate the $100m-a-year campaign it has been running in the US that is trying to reposition Philip Morris for the 21st century. It concentrates on the range of public work and projects it funds using the endline: "Working to make a difference. The people of Philip Morris."

As part of its drive for respectability, Philip Morris is also keen to position itself as the world's biggest packaged goods company, rather than a tobacco baron. Although two-thirds of Philip Morris' $80bn sales last year came from tobacco, its website makes great stock of the fact that its subsidiary Kraft is the world's second biggest food company and that it owns Miller, the second biggest brewer in the US.

Ironically, it seems it was this revelation that prompted pressure group Adbusters to place a powerful anti-Philip Morris ad in magazines such as *Harpers & Queen*. The ad pictures Kraft brands such as Maxwell House, Philadelphia and Shreddies, and the headline: "Why are you buying your food from a tobacco company?"

Philip Morris' new approach was crystallised in March when chairman and chief executive Geoffrey C. Bible launched a new mission statement to institutional investors: "To be the most responsible, effective and respected developer, manufacturer and marketer of consumer products, especially products intended for adults."

He said that only responsible manufacturers would have a role in shaping the industry's future and announced a strategy of "constructive engagement" with both government and pressure groups.

At the meeting, Bible even suggested that Philip Morris should work with the US government in regulating the tobacco industry, to which one share-holder quipped: "It's like the Ku Klux Klan helping develop civil rights laws."

But there is logic in this thinking. The holy grail for Philip Morris is to be seen as a credible business. It wants to validate tobacco — which is still a legal, taxed product — alongside other "adult" drugs it makes, such as alcohol and coffee.

"We're seeking to be more responsive to society," says David Davies, vice-president for corporate affairs. "We will look at appropriate opportunities to communicate with societies generally about the values that we hold." (*Financial Times*, 24/7/2001).

ISSUES: Do you think that companies in controversial industries such as tobacco face advertising restrictions, even if they are not directly promoting their principal product, in this case, tobacco? Alternatively, does the sophisticated nature of Philip Morris's marketing strategies in the first world underscore the near impossibility of regulation in this area?

Other Questions:

1. What ethical issues are likely to intrude into the relationship between marketing managers and their customers?
2. Is a code of ethics sufficient to ensure fair play in marketing? Explain.
3. Introduce and critically discuss the concept of "green marketing."