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## ***Postgraduate winner***

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**Topic Addressed:** *What is ethical sourcing? What factors are likely to influence the success of ethical sourcing in changing supplier practices?*

## **Abstract**

The paper examines the issue of ethical sourcing in the light of complex supply chains in countries in the developing world, including China, India, Vietnam, Bangladesh and Thailand. Exploitation of resources and staff has been highlighted by various NGO's and intensified pressure on corporations to become more socially responsible. This essay outlines what ethical sourcing means in the supply chain and looks at several case studies including Marks & Spencer's and C&A. It shows that the factors of consumer pressure, commitment of head corporations and the complexity of the supply chain can have an impact on supplier practices. For ethical sourcing to be successful, the way codes of ethical sourcing codes are designed and the auditing process are factors in making these policies affective.

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Globalisation has enabled corporations to have a broad range of choice for the production of their products; a choice that mainly extends to countries in the third world (Crane and Matten, 2004). Examples include China, India, Vietnam, Bangladesh and Thailand; places with 'preferable' operating conditions. Crane and Matten (2004) explain such preferable conditions often mean a low level of regulation and social provision for employees and the environment. Exploitation of resources was highlighted by various NGO's in the 1990s, who also intensified pressure on corporations to become more socially responsible (Bonini et al., 2006). The result has been a plethora of CSR initiatives with varying degrees of success. Ethical sourcing is one such tool corporations have employed to address ethical issues in the supply chain. This essay will outline what ethical sourcing means and demonstrate the tool through several case studies. It will be shown that the factors of consumer pressure, commitment of head corporations, the complexity of the supply chain, the way codes of ethical sourcing codes are designed and the auditing process all impact the success that ethical sourcing has on changing supplier practices.

Blowfield (2003), an authority on ethical sourcing, describes the concept as:

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*"When a company at one part of the supply chain (typically a brand owner, retailer or other Western company with a public profile) takes responsibility for the social and/or environmental performance at other stages of the chain, especially for that of primary producers" (p. 1).*

Crane and Matten (2004) clarify this definition by explaining that explicit social and environmental criteria are included in supply chain management policies, procedures and programmes. Such criteria or 'taking responsibility' includes dealing with child labour, providing good employee working conditions, ensuring freedom of association and sustainable use of environmental resources (Joppen, 2005). The supply chain of a product does not necessarily change but each specific tier is supposed to reevaluate the working conditions for its employees or examine its impact on the local environment.

A simple example of ethical sourcing is provided by Marks and Spencer. The relevance of applying sourcing ethics to the Marks and Spencer corporations was raised when it was discovered that labour costs in the production of clothes only equals 1%, compared with 25% for brand profit and promotion (Robins and Humphrey, 2000). The retailer suffered brand damage in the late 1990s when such statistics were publicised. Johnson (2004) explains that because of this, ethical sourcing is now a business imperative for M&S. The company is in a unique relationship with its suppliers because it is the largest solely 'own brand' retailer in the UK and is therefore dependant on its suppliers (Johnson, 2004). It is for this reason that in 1999 a code of conduct for suppliers was introduced. This would allow both parties to work together towards improving employee working conditions and environmental protection.

Ethical sourcing has grown in popularity since the 1990s and has now become part of the policy arsenal of CSR advocates (The Economist, 2005). However, its success in changing supplier practices is dependant on several complex factors. The first, and arguably most significant factor, is consumer pressure. Ethical consumerism is gradually gaining popularity. A survey of ethical consumerism found an increased willingness by respondents to shop 'ethically', with 7% claiming to buy or use ethical products, which is double the figure of 1990. Correspondingly, the number of consumers 'unconcerned' about ethical issues has fallen from 22% to 15% over the same time period (Mintel, 1999). These consumers are using the feminist ethics of care argument to put pressure on corporations to improve practices in the supply chain. For example, advocates, such as Smith (1998) believe that we cannot live by spatially restricted reasoning; geographical proximity should not be a relevant factor in determining how we care for each other. Equally, Singer (1972, p. 26) states:

*"we cannot discriminate against someone merely because he is far away from us".*

Such arguments have been successful and numerous corporations have had to re-examine their supply chains. For example, the footwear industry and especially Nike were targeted by various NGO's for their use of child labour (See Zadek, 2000). Similarly, DIY firms in the UK, like B&Q, were criticised for their use of unsustainably sourced tropical timber by Friends of the Earth Crane and Matten, 2004). These are just a few of the many cases where consumer pressure was successful in steering corporations towards ethical sourcing.

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Without consumer pressure it is unlikely that corporations would respond by placing their own pressure on suppliers. This is directly linked to the second important factor in influencing the success of ethical sourcing in changing supplier practices; commitment of the corporation. In the case of high consumer pressure, corporations are fearful of brand damage and therefore engage in ethical sourcing to maintain good reputations by meeting the expectations of society (Roberts, 2003). By using consequentialist ethics in the above mentioned M&S case, it is clear the corporation acted in an enlightened egoist manner; they took on ethical behaviour insofar as doing so promoted self interest. The social compliance manager even stated that the corporation believed that ethical sourcing would enhance its profile and also provide a competitive advantage (Johnson, 2004). Enlightened egoism is common amongst such corporations but the theory's very nature leads to uncertainty over the commitment of the corporations concerned. It is possible to state ethical sourcing will only be included as long as it is the company's interest to do so. Such a motivation is not as strong as a deontology argument would be; workers in the supply chain should be treated as an end and never as a means only. Thus corporations have a duty towards workers in the supply chain to ensure tools like ethical sourcing have solid commitment rather than one that is dependant on consumer pressure.

Another important factor influencing the success of ethical sourcing in changing supplier practices is the perspective of the particular corporation. Research by Browne et al., (2000) revealed that the understanding and implementation of ethical sourcing was dependant on the particular industry and each company had its own understanding of ethical sourcing. The 34 interviews that were carried out within the food and agricultural industry in the UK revealed that no strict definition of ethical sourcing existed. Respondents could define Fair Trade clearly but the concept of ethical sourcing meant different things to the respondents. Some companies were found to adopt a holistic interpretation of 'being ethical'. For example, one tea importer stated that all aspects of their production system must be totally ethical. This meant that not only must the tea be ethically produced in terms of workers' pay and conditions and their rights to certain social benefits, but that the paper used for the tea-bags and the product packaging must be ethically sourced. Their view was that there is no point in maintaining high people-focused standards if their environmental practices are socially detrimental. Other corporations, such as the major supermarkets that were interviewed, focussed more on social benefits for their workers, the protection of children, equal opportunity and occupational health and safety. Varying degrees of implementation for ethical sourcing means that there is a possibility for suppliers to be omitted from the improvement process. For example, the footwear retailer Reebok developed an ethical sourcing strategy and now has a code of conduct and extensive auditing system to ensure compliance with its suppliers (Berthiaume, 2006). However, information on the extraction of its raw materials and the sustainability of its packaging is non-existent. Ethical sourcing that is holistic, like the above mentioned tea producer, is likely to influence a greater amount of suppliers to change their practices.

The complexity of a supply chain and the amount of suppliers that a corporation may have is the third factor that determines the success of ethical sourcing in changing supplier practices. Joppen (2005) explains that some corporations have such a vast amount of suppliers that they can only concentrate on the ethical sourcing of the first

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tier. This is supported by Blowfield's (2003) research that found the industries where ethical sourcing was most advanced are those where the supply chain is relatively straightforward and where there is already some motivation for knowing the product origin. For example supermarkets need to know where their fresh vegetables come from because of a legal liability for food safety. Likewise, in segments of the coffee market, a premium is attached to product origin, which creates a need for tracing mechanisms, and these in turn can be used in monitoring ethical performance. Conversely, some supply chains are so complex that a guarantee of ethical sourcing can be impossible. A good example is the cocoa industry where beans are bought and sold by numerous middle men and therefore practically impossible to keep track of. These complex chains are unlikely to be influenced by ethical sourcing and changing supplier practices as more simple ones are.

Correspondingly, the 'power principle' may also prevent ethical sourcing from improving supplier behaviour. The power principle is found in cases where the first tier supplier is bigger than its customer, with examples including Archers Daniel Midland and Cargill (Joppen, 2005). Blowfield (2003) refers to the same principle in his analysis of the cocoa bean industry where traders are in some instances larger than the major confectionery companies. Even a company as large as Nestle or Hershey may not be able to influence the behaviour of suppliers in the way that large textile and footwear brands have exerted pressure on their suppliers to adopt ethical standards.

However, it is important to note that in some situations this power principle can be overcome and ethical sourcing can significantly influence supplier practices. The process that a small Swedish textile trading company, Verner Frang AB, undertook provides evidence that greening the supply chain is not the prerogative of only the big and powerful corporations (Kogg, 2004). The owner of the company targeted the growing niche market for cotton textiles to increasing its revenues. As the idea was researched the owner made a strong personal commitment when it was realised how cotton farming adversely affects the environment. A virtue ethicist would claim that the case shows that knowledge and judgement needs to be cultivated over time through experience and participation. This resonates with Crockett's (2005) argument that entrepreneurial ventures represent the optimal target for an Aristotelian paradigm. The company was able to motivate the relevant actors to comply with its environmental requirements and therefore alter supplier practices through ethical sourcing.

The next significant factor that contributes to the success of ethical sourcing in influencing supplier practices is how the new sourcing technique is designed and implemented. Codes of conduct are the most common tool of legitimising ethical sourcing. As Samet (2003) argues, companies like codes of conduct because they are presumed to be voluntary and can be implemented any way management decides they are most effective. Examples of ethical sourcing codes of conduct include Marks and Spencer's Global Sourcing Principles or Starbuck's Preferred Supplier Programme. Such codes of practice contain social and environmental criteria, or separate codes that focus on specific performance aspects, like a code for forest management or worker welfare (Blowfield, 2000). However, as Hughes (2001) notes, the presence of codes does not guarantee greater social and environmental justice. Nowhere is this more prevalent than in the cut flower industry. Dolann and

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Opondo (2005) note that it is one of the most codified industries but violations still persist. In their evaluation of the Kenya cut flower industry they found codes were developed by UK and Dutch corporations with little or no stakeholder dialogue. By ignoring such an important consideration, codes fall into the cultural imperialism trap. Specifically, Wood (1995) asserts that when Western corporations assume Third World host countries operate at lower ethical standards than their own countries, they automatically believe that the values and norms of their own cultures are superior. The result is that only superficial change in supplier practices is made.

Another problem with ethical sourcing codes is that the majority have been developed in Europe or North America and prioritize the issues with most resonance for stakeholders in those regions regardless of the relevance or importance of those issues in developing countries (Blowfield, 2000). With the Kenya cut flower industry, codes were designed to reflect best practice for the Dutch flower industry and not that of the Kenyan industry. For example, a focus was made on energy consumption and chemical usage but artificial lighting is not an issue and pesticide concerns are very different because growing takes place at a higher altitude. The tailoring of codes to local situations is essential if ethical sourcing is to lead to changing supplier practices. A corporation that claims to have a code that is sensitive to local norms and traditions is the clothing retailer C&A. Graafland's (2002) review of the corporation's ethical sourcing policy found the company is realistic about what is attainable in the context of local conditions. He uses the case of child labour and how the company does not simply dismiss these children but looks for alternative arrangements. When applying strategies of organising ethical behaviour (see Graafland et al., 2003), Graafland argues C&A's approach is a compliance strategy. For example, the C&A code mainly contains rather concrete rules that can be checked and clearly outline what must be done or not done. However, they are aware that a strict compliance strategy can sometimes ignore important local needs and therefore, C&A also uses the dialogue strategy. Consequently, if there is to be any significant change in supplier practices, codes of ethical sourcing need to include stakeholder dialogue and be flexible so that local conditions can be accounted for.

The final factor that likely to influence the success of ethical sourcing in changing supplier practices is the validity of the auditing process. Crane and Matten (2004) explain that a successful ethical sourcing strategy should be followed through with an auditing system otherwise suppliers will have little incentive to alter their behaviour. Although complex supply chain makes it difficult for such a system to work there are examples where audits were the main reason ethical sourcing was able to make supplier chains more ethical. Perhaps one of the best examples is provided by SOCAM, an independent auditing organisation created by C&A. SOCAM goes a long way towards overcoming the common problem of a conflict of interest that many other internal auditing departments face. It can also be argued from a utilitarian point of view C&A have a moral obligation to continue the audit activities of SOCAM. This is because the net affect of SOCAM is positive and it ensures a high level of welfare for the greatest amount of people (Graafland, 2002). For example, several suppliers of C&A stated the audit activities of SOCAM improved their particular working conditions and raised awareness of the relevance of ethical sourcing (Graafland, 2002). Therefore, effective auditing of ethical sourcing contributes towards changing supplier practices within the supply chain.

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Collectively, these factors determine how successful ethical sourcing is in changing supplier practices and how the supply chain can generally be improved. However, there is one crucial flaw in the concept of ethical sourcing that needs to be considered. Witkowski (2005) explains that the difference between the two concepts is one of pricing. Fair trade delineates and maintains price levels for producer products whilst ethical sourcing does not address this. Instead it focuses on social and environmental conditions the goods are produced or extracted in. Therefore, even if products are ethically sourced there is no guarantee a fair price or wage is being paid for them. C&A justify the absence of pricing in their ethical sourcing policy by observing that if the minimum wage in a country is insufficient for a living wage, the possibility for the corporation to force a supplier to change its wage level is limited (Graafland, 2002). Blowfield (2000) believes the omission of pricing considerations is typical of corporations and also seems to be very short sighted; low prices or wages encourage the type of behaviour that ethical sourcing seeks to prevent, namely exploitation and environmental degradation.

Overall, it has been shown that ethical sourcing is an important concept for supply chain management that sees corporations extending their responsibility downwards to consider supplier practices at all tiers of the production process. Employee working conditions are re-examined to meet higher standards and the environment is also regarded in a more sustainable way. However, through the discussion of the factors that are likely to influence the success of ethical sourcing in changing supplier practices, it was demonstrated that high levels of consumer pressure, thorough commitment from head corporations, locally sensitive codes of conduct, and an independent audit system, need to be present for a significant change to occur. It was also noted that even if these factors are in place, influencing supplier practices is more difficult when complex supply chains are involved. The fact that ethical sourcing is dependent on these factors to influence supplier practices means different degrees of implementation are found. This is compounded by the different motivation that may exist for implementing an ethical sourcing policy. For example, it was found that enlightened egoism was a less solid motivation compared to a deontological or virtue ethicist argument. Another weak point is the fact that the concept does not address pricing concerns or wage levels which can be argued to be counter productive. Yet, the absence of legislation or its weak enforcement in supplier countries means ethical sourcing is possibly the most effective form of regulation for companies (Crane and Matten, 2004).

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## ***Undergraduate winner***

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**Topic Addressed:** *A critical analysis of the statement: "The social responsibility of business is to increase its profits."*

## **Abstract**

This paper examines the validity of the argument that businesses primary social responsibility is to pursue profits. The film 'Wal-Mart: the High Cost of Low Price' (2005) is used to illustrate the normative argument of this essay.

It considers in detail Friedman's three arguments: that since businesses are artificial entities not independent actors, they cannot be held morally responsible for their actions; that the predominant responsibility of those running a firm is to fulfill the goals of its owners, which are assumed to relate to profits; and that it is the role of government to ensure society's welfare and represent their interests and not that of business.

Given the failure of two key mechanisms, government and the market, at limiting business in society's interests, it is necessary for business to take social responsibility into account in a way that goes beyond self-interest to account for the human rights and legitimate interests of numerous stakeholders. This need is exacerbated by globalisation and the growing role of businesses as political actors.

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The validity of the argument that businesses should simply pursue profits is predicated in large part on the efficient functioning of markets and effective governmental regulation. These mechanisms should ensure that society's interests and the pursuit of profits coincide. In observing actual business practice it becomes clear that these mechanisms sometimes fail to fully and fairly safeguard society's interests. Because of this, solely pursuing profits, even within the law, does not guarantee that the rights of current and future generations or interests of legitimate stakeholders will be respected. Thus, businesses have an additional social responsibility to respect these rights and interests. The given statement is considered within the context of Friedman's full argument and his basic assumptions are outlined. Each assumption is refuted, followed by a consideration of the consequences of his argument in light of the reality of markets and governmental regulation. 'Wal-Mart: the High Cost of Low Price' (2005) will be the main film used to illustrate the normative argument of this essay, supported by other films and examples throughout. For the sake of this argument, 'business' will be considered to be the private corporation selling consumer (ie. not public) goods.

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In defining 'social responsibility' it is useful to consider a broader and more inclusive definition than the restrictive philanthropic view of CSR Friedman takes. The social responsibility of business can be thought of as "the economic, legal, ethical and philanthropic...responsibilities expected of it by stakeholders" (Thorne et al, 2003: 4). Socially responsible actions may thus be self-interested or altruistic. This definition underlies the arguments presented in this essay.

For any statement to be valid and reasonable, the assumptions upon which it is based must hold true. The core of Friedman's statement rests on three premises (Crane & Matten, 2007). He firstly argues that, since businesses are artificial entities not independent actors, they cannot be held morally responsible for their actions. In other words, only human beings can have social responsibilities. His second argument is that the predominant responsibility of those running a firm is to fulfil the goals of its owners, which are assumed to relate to profits. His third premise is that businesspeople are not qualified to determine what is best for society's welfare or how to improve well-being in practice; they are only experts in their areas of business. He argues that it is the role of government to ensure society's welfare and represent their interests.

In addition to these premises, there are a number of implicit arguments underlying this statement. Friedman argues from an egoist perspective in that the firm, on behalf of its owners, should be able to freely pursue its own interests (Crane & Matten, 2007). It is also a utilitarian argument in that pursuing profits within the confines of the law is assumed to result in the greatest amount of good for the greatest amount of people. In this sense, pursuing profits is a 'socially responsible' activity. One reason for this is that market expectations and pressures impose certain limits on the firm's activities. The product market is a good example of this. If a firm engaged in practices seen as undesirable by consumers, in a perfectly competitive market consumers would exercise their 'consumer vote' (Hertz, 2001) and buy from another firm. Thus, in order to pursue profits and keep its customers, the firm will act in their interests. This mechanism ensures that no one egoist pursues his, her, or its interests at the expense of another. In other words, "the great virtue of private competitive enterprise [is that] it forces people to be responsible for their own actions and makes it difficult for them to 'exploit' other people for either selfish or unselfish purposes" (Friedman, 1970: 124).

Friedman assumes the government can regulate to represent society's remaining interests where market pressures are insufficient. Thus, if a firm pursues profits within the limits of the law and market mechanisms, it will by definition be behaving within the interests of society; the firm thus has no residual social responsibilities. It is important to note that Friedman does not argue that social welfare and human rights are unimportant, but that the market mechanism and governmental regulation will safeguard them.

The fundamental assumptions and premises upon which Friedman's argument is based are theoretically and practically flawed. Firstly, although businesses are artificial entities, they can in fact hold responsibilities due to the existence of the internal corporate decision-making structure and the organisational culture (Crane & Matten, 2007). These two mechanisms provide a moral compass beyond the agency of any individual working within the firm, giving the firm independence as an entity.

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Even if the second premise of the statement held true, its implicit assumption that shareholders solely seek profits is flawed and outdated. Ethical behaviour or activities are increasingly becoming prerequisites for shareholder investment (Sparkes, 2001). Although profits are still sought, they are sought in conjunction with social responsibility. The second premise of Friedman's statement is also contested by stakeholder theory. A stakeholder may be defined as "a group or individual which either: is harmed by or benefits from the corporation; or whose rights can be violated, or have to be respected, by the corporation" (Crane & Matten, 2007: 58). Stakeholder theory essentially states that businesses must take into account these stakeholders for legal, normative, and instrumental reasons (Phillips, Freeman & Wicks, 2003). The actual salience of stakeholders to management depends on their possession of legitimacy, power, and urgency, although those with legitimate claims should be the most salient (Mitchell et al, 1997). Friedman would argue that all stakeholders' interests are taken into account in the pursuit of profits via the market and regulation.

Friedman's third premise and assumption that the government can and does regulate to fully represent society's interests is questionable. A key reason for this is that business has a distinct influence over the government to act in its interests, even though these may contradict society's interests (Crane & Matten, 2007). This influence largely arises from the government's dependence on business coupled with the growing political and economic power of business (Hertz, 2001). For instance, governments depend on business for a healthy economy and tax revenue. Thus, governments may regulate in favour of business even where the total benefits to society are outweighed by the long-term costs or where benefits do not arise at all. This can be illustrated by one particular case of Wal-Mart opening in the city of Cameron. The local government provided Wal-Mart with a \$2.1 million subsidy to open in its town. When the owners of the local IGA stores requested a subsidy to enable fair competition, they were declined by both the city and county levels of government. The result of Wal-Mart opening in this town was that many local businesses including the IGA stores went bankrupt, reducing consumer choice. It also reduced choice of local employment, the negative effects of which were compounded by Wal-Mart's poor practices as an employer. Thus, it could be argued that opening this Wal-Mart did not improve overall societal welfare due to the numerous costs incurred by society. As can be seen through the Cathedral City Wal-Mart store, Wal-Mart's 'profit at all costs' behaviour meant that regulating in businesses interests brought costs but few benefits to society. Wal-Mart took advantage of the temporary tax holiday it received for opening in Cathedral City, then moved 2 miles away to just outside the city limits when the holiday expired. The city was left with an empty space too big to fill, no taxes received, and bankrupt local businesses. In both of these cases Wal-Mart was aided by the government.

Businesses can also use their sizable resources to more directly and actively influence government regulation (Crane & Matten, 2007). While it may be argued that regulating in favour of a healthy economy can benefit society somewhat, putting aside issues of wealth distribution, these methods purely seek to further the interests of business. This may be done through lobbying, as can be seen through Nick Naylor's attempts to avoid further legislation on warning labels for cigarettes in 'Thank You for Smoking' (2005). Businesses may also make financial contributions to or build close relationships with the political party in power in attempts to influence

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regulation in their favour. In the case of the artificially created power outages in California, it is implied in 'Enron: The Smartest Guys in the Room' (2005) that Enron's close personal ties likely influenced the federal government's decision to oppose California's appeal for federal price controls on energy. It is also evident from voting turnout and levels of consumer activism that people no longer feel that traditional politics and the government can best represent their interests (Hertz, 2001).

The weakened ability of governments to protect the interests of society is exacerbated when considered in a global context. Scholte (2001) defines globalisation as deterritorialisation. As multinationals operate across multiple territorial states and above national governments, issues of control are raised. No one national government can control the multinational in the interests of its society, yet global governance mechanisms are not adequately developed. This has led to an increase in self-regulation (Crane & Matten, 2007). Seeing as regulation is intended to protect the interests of society, businesses have a responsibility to take these into account rather than simply pursue profits.

It is an exaggeration to say that the government is completely subject to the whims of business and cannot protect society's interests at all. For example, in 'Thank You for Smoking', as in real life, the government eventually approves the health warning label legislation, against the interests of tobacco firms. However, from the above examples it can be seen that the government's ability to fully represent the interests of society is far from perfect, as Friedman's argument assumes.

The final challenge to Friedman's argument is to his fundamental assumption of a perfectly competitive market. In practice there are clearly many serious market failures relating to power and informational asymmetries. A perfectly competitive market depends on there being a number of equivalent competitors, and on all participants having perfect information. In other words, it depends on all parties having the power to choose. The case of Wal-Mart illustrates how markets can fail to operate efficiently. In terms of consumers, many have little choice but to shop at Wal-Mart. It is emphasised in the film that the opening of a Wal-Mart results in bankruptcy of local businesses, thus directly reducing consumer choice. Its low prices also mean that poorer consumers may have few or no practical alternatives. In terms of employees, although many seem unhappy with low wages and unpaid overtime, they continue to work at Wal-Mart. The lack of other local businesses and low mobility of employees again results in lack of choices. According to Friedman, the threat of employees quitting and customers shopping elsewhere should sanction Wal-Mart, forcing it to respect their interests. Clearly this is not the case, in large part because of Wal-Mart's far greater power relative to these groups which allows it to pursue profits at their expense. In terms of employees, this power differential is fiercely defended by Wal-Mart through its anti-union stance.

It is important to note that market failure does not mean firms can freely pursue profits with no inhibitors. It is shown in the film that many local communities have launched successful campaigns to prevent Wal-Mart from opening in their towns. Consumer activism in general is substantial and growing (Bernstein et al, 2000; Hertz, 2001). However, market failure means that commercial interests and the interests of society do not necessarily coincide. In other words, Wal-Mart can pursue

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profits at the expense of some groups, such as less empowered consumers and employees.

Given the failure of two key mechanisms limiting business in society's interests, simply pursuing profits has serious implications for human rights and the right to fair treatment. If a business acts purely in the interests of profits, only those groups with enough political or economic power to influence profits will have their rights respected. In other words, the possession of human rights becomes dependent on political and economic power, thus violating the principles of procedural justice (Crane & Matten, 2007). The interests of stakeholders possessing power will be accounted for whereas the interests of legitimate stakeholders may be ignored (Mitchell et al, 1997). It can also be argued from a utilitarian perspective that this would not result in the greatest amount of good for the greatest amount of people, but would rather exacerbate welfare gaps. Although other factors such as civil society organisations (Crane & Matten, 2007) and sociocultural norms (Davis, 1973) impose limits on business, as the case of Wal-Mart illustrates, there is clearly a need for corporate social responsibility.

In conclusion, from a normative point of view, the failure of markets and governments necessitates that business takes social responsibility into account in a way that goes beyond self-interest to account for the human rights and legitimate interests of numerous stakeholders. This need is exacerbated by globalisation and the growing role of businesses as political actors. The implication of acting in self-interest in light of the failure of these mechanisms is that the rights of only those stakeholders with political or economic power (ie. those with the ability to affect profits) are respected, regardless of the legitimacy and rights of other stakeholders. In other words, in having a purely instrumental attitude towards social responsibility, the interests of business and society may, but will not necessarily, coincide.

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