

Chapter Thirteen: Ethics and Corporate Social Responsibility

Model answers

Mini case 13(i): Managing the ethics of stem cell research at Pfizer

Discussion point

Is stem cell research ethically and morally acceptable?

There has been an on-going heated debate on this issue involving scientists, governments, human rights groups, church representatives, patients groups, doctors, and many more stakeholders. The destruction of a human embryo to harvest stem cells lies at the heart of the moral and ethical dilemma. Although only a very small number of cells are involved, it nevertheless represents life. There are significant benefits to be gained from the technique in treating patients with debilitating diseases and conditions. For example, people who have suffered paralysis have hope that one day they may regain some mobility thanks to advances in stem cell research. On the other hand, there are some groups who believe strongly in the sanctity of human life, and argue that the taking of the life of the embryo is morally wrong. It is up to each individual to weigh the arguments and formulate their own opinion on the moral dilemmas of this technique.

Questions and task

Research and highlight the main points of the Pfizer Stem Cell Policy Guide.

The main parts of the policy are as follows:

- Pfizer recognizes the enormous potential of stem cell research. Stem cells are important tools for modern biomedical research, including Pfizer's search for innovative new medicines.
- Pfizer has made significant investments in animal stem cells and in human adult hematopoietic (somatic) stem cells. The company will continue to invest in these stem cell technologies.
- Pfizer recognizes that human embryonic stem cells may provide even greater potential due to their increased ability for self-renewal and capacity to form a wide variety of cells and tissues.
- Pfizer acknowledges the sensitive issues raised by this research, and we support proper ethical safeguards that take into account both the moral issues and public sensitivities.
- Pfizer will only engage in stem cell research projects that meet the highest ethical standards set by leading scientific authorities around the world, including the Guidelines developed by the National Academy of Sciences in the USA.
- Pfizer strongly opposes any efforts to clone human beings.

What are the key issues that managers have to address at Pfizer when deciding on whether or not to pursue stem cell research?

There are a number of competing issues that managers have to consider before deciding on whether or not to pursue stem cell research. These involve moral, commercial, technical, security, and political issues. Firstly, the question of morality has to be addressed. Managers have to be satisfied that both they and their staff are not compromised by acting in an unethical or

morally corrupt manner. Whilst the choice to engage in stem cell research ultimately resides with individuals, managers have a duty to explain the company policy on the moral question. In other words they cannot duck the issue: they have to take a position. In the case of Pfizer the management have decided that on the balance of arguments they would continue to engage in stem cell research. As the topic is a highly charged one, with numerous groups and individuals passionately against the research, there may be some security issues for management to address. The company has a duty of care for its staff and must take measures to protect them.

Other issues relate to the commercialisation of the research and the investment in technology and staff to deliver commercial outputs. Managers face the usual issues related to production, marketing, and customer service as other normal trading companies, but in the case of stem cell research there has to necessarily be a great sensitivity employed in how they go about this.

There is also a political dimension to this field of science. Companies such as Pfizer have had to become adept at political lobbying and public relations in their pursuit of the right to undertake their work. Managers have had to think through the implications for the reputation and future prospects of their organisation when taking a stance on this issue.

If Pfizer do not invest in stem cell research then rivals in other countries will. Is this a suitably compelling argument for deciding to undertake stem cell research?

Many will view the economic argument as the least compelling when set against some of the moral questions this research raises. Nevertheless, it is a

reality of commercial life that competing firms do not operate on a level playing field, and that some will have advantages bestowed upon them by the type of government or regulatory regime they operate under. Whilst the moral question has to take primacy, the economic issues also have to be taken into account.

Mini case 13(ii): Whistleblowing on GlaxoSmithKline in Puerto Rico

Discussion point

Should 'whistleblowers' be financially rewarded for exposing wrong-doing?

Whistleblowers take huge risks in exposing malpractice in organisations. They may suffer bullying, exploitation and financial and career risks by embarking on this course of action. Where there is clear evidence of harm being stopped or avoided by the actions of whistleblowers, then one might suggest it is only reasonable to reward their actions. However, problems may arise if the sole reason for whistleblowing is the financial reward associated with the action. Some may be tempted to expose malpractice where none really exists, or it may be exaggerated. Nevertheless, whistleblowing is an important means of ensuring that malpractice is reported and acted upon.

Questions and task

Identify four examples of management failure in the GSK case.

The evidence in the case study suggests that management at GSK failed to take responsibility for the duty of care they owe to stakeholders. Even when the malpractice was highlighted, the chief executive refused to act properly. Management also failed to control the manufacturing process at the Cidra

plant or appoint line managers who could ensure quality control and high standards of corporate behaviour. Managers also failed to ensure that the distribution of drugs was closely monitored, and that the contents of bottles were not harmful. Management also failed to disclose the truth to the Food and Drug Administration (FDA) when they had the opportunity to do so. All these types of failing led to the closure of the plant and huge financial penalties for the company.

Who is to blame for the unethical practices at the Cidra plant?

Although many people were involved in malpractice at the Cidra plant, ultimately, it is the responsibility of top management to ensure that operations were being carried out in a lawful and ethical manner. JP Garnier, as chairman at the time of the scandal, could be seen to have to accept full responsibility for what happened at the plant.

What can GSK do to ensure that malpractice of the type outlined in the case cannot happen again?

GSK can set in place stringent guidelines that are accredited internationally to ensure that quality control and distribution at their plants meet standards expected. There could also be a social audit of the company on a regular basis to ensure that their practices are ethical and meet the requirements of set policies for corporate social responsibility. It could be argued that GSK need to demonstrate that they are good corporate citizens by fully engaging with stakeholders, to the extent that there could be stakeholder representatives on the board. Moreover, full disclosure of activities must be made to the *FDA* as well as other official health and safety bodies in the regions where the company manufactures and sells its products. Rigorous human resource management strategies can help to ensure that only the

most ethically sound and qualified people are hired throughout the organisation. RFID technology can be used to identify and track every bottle of drugs to ensure that they end up where they should. GSK have undertaken some of these actions as a means of ensuring that what happened at the Cidra plant cannot happen again.

Mini case (iii): Moral meltdown at News Corporation

Discussion point

Are governments in free market democracies powerless to prevent the power being vested in just a few firms in the global media industry?

The global media industry is characterised a few dominant firms owning the majority of the market share. This situation arises in free market democracies because firms are largely free to acquire or merge with rivals. However, governments can put in place regulations that prevent one firm from gaining a monopoly (full ownership of an industry sector). In the UK the *Competition Commission* oversees levels of competitiveness across industry and reports on cases where excessive power may not be in the public interest. The body has the power to deny a company the right to buy another company (or for two or more companies to merge) if they deem it to be 'not in the public interest'. This usually means that the action would lead to excessive market power being vested in one or a few companies. Sometimes it is denied because there is a conflict of interests that the acquisition or merger would bring about. This was the case when a mooted merger between Manchester United and broadcaster Sky was denied because the broadcaster would

then have sole access to the rights to broadcast Manchester United matches. This was deemed not in the public interest as it denied other broadcasters rights to that product.

Questions and task

Identify the world's five most powerful media organisations.

News Corporation, Viacom, Bertelsmann, Time-Warner, Disney.

Can regulation work in controlling the excesses of newspapers?

The *Press Complaints Commission (PCC)* was established to monitor and regulate the press in the UK. In light of the phone hacking scandal and the outcome of the subsequent Leveson Inquiry, it was proven that it palpably failed to do so. The lack of real power exercised by the *PCC* meant that the press was largely self-regulating. This approach clearly failed as it created an environment within which unethical and criminal behaviour could flourish. The *PCC* was subsequently disbanded but the issue of press regulation is one that remains contentious. Those in favour of tighter regulation believe that the public (and in particular celebrities) need to be protected from the type of intrusions into their private lives highlighted in the Leveson report. Many of those in industry believe that regulation would deny newspapers the right to investigate stories properly and act as a constraint on free speech. Regulation has not worked in the past but may do so in the future. It depends on what form of regulation is required, how it works, its powers, and the purpose of it. These are questions for government to resolve.

Where did the culture of unethical behaviour by managers and staff at the *News of the World* and *The Sun* newspapers stem from? Consider the role of individual staff members, line managers, top executives, rivals, government, consumers, police, wider society, etc.

Normally top executives set the tone for the behaviour of staff under their aegis. Rupert Murdoch has always enjoyed a reputation for ruthlessness in his business dealing and the 'win at all costs' attitude permeated downwards through the organisation. Several of his immediate associates were branded as complicit in either the cover-up of the phone hacking scandal or having misled parliament. It might thus be construed his acolytes were chosen specifically to implement the Murdoch way of doing business. Others became compromised along the way, including politicians (the Murdoch press had significant influence in shaping public opinion on political issues) and the police (there have been allegations that payments for stories constituted a form of secondary income for some serving police officers). It could be argued that the consumers have some responsibility in the culture that emerged at News International's stable of newspapers. Without the high level of demand for the type of salacious stories so common in publications such as the *News of the World*, there would have been no scandal to report. The outcome of the Leveson inquiry reveals some uncomfortable truths not just for the media industry, government and police, but also British society more widely.

Case Study: The Fairtrade credentials of Starbucks in Guatemala

Discussion point

Does Fairtrade help or hinder the economic prosperity of small-scale coffee farmers?

This is a question that has been hotly debated for a long time. Critics of *Fairtrade* point to the fact that it is an unnatural intervention in the free market that is ultimately self-defeating. That is, the market will simply find other ways to circumvent the premium added to the price for acquiring *Fairtrade* products. It may simply be passed on to the consumer. This may lead to a fall in demand for *Fairtrade* products upon whose revenue producers rely to pay for the subsidies that *Fairtrade* represents. On the other hand, advocates of *Fairtrade* argue that it is an effective means of ensuring that small-scale growers are able to meet the minimum economic returns required to keep them in business and to develop their economic and social welfare. They also believe that the reputational benefits that accrue to *Fairtrade* supporting companies far outweigh the costs of participation.

In some countries, such as Guatemala, the economic benefit of *Fairtrade* to small-scale growers is marginal and they continue to operate at subsistence level. In other regions, such as Kenya, some real economic development has been achieved through the direct link to *Fairtrade*. The way *Fairtrade* plays out depends on the economic, political, social, and climatic conditions in different regions.

Questions and task

Research and list the countries that Starbucks buy coffee from.

In 2011 Starbucks bought coffee from 19 of the 25 coffee producing countries around the world. You can search for a definitive list online.

Explain how the concept of Fairtrade works.

Fairtrade aims to help economically disadvantaged producers in developing countries by addressing inequalities in conventional trade. The key asset of the *Fairtrade* concept is the ability it has to bestow enhanced reputational capital on organisations through the promotion *Fairtrade* credentials. For instance, the *Fairtrade Mark* is awarded to organisations that can provide evidence that the production of retail products sold has been produced in accordance with internationally agreed *Fairtrade* standards. *Fairtrade* assists and improves the economic position of producers in poor and developing nations by influencing the supply and demand dynamics. On the supply side, it encourages wholesale buyers to purchase at prices higher than the market prices, and on the demand side, it encourages consumers to support the concept of fair trade through their purchasing power. The *Fairtrade* logo, that signifies that producers have met the rigorous standards, has become a sought after form of accreditation for organisations who want their ethical trading activities recognised. The difference in price paid by buyers should, in theory, be used to subsidise small-scale coffee growers in economically marginalised regions of the globe such as Guatemala and Kenya.

Do Starbucks act ethically in their dealings with coffee growing stakeholders in Guatemala?

In Guatemala, there has been evidence of *Starbucks* withholding purchases of coffee until a more advantageous price can be negotiated. Even under *Fairtrade*, the actual prices paid to small-scale growers is barely enough to exist on. Some argue that the presence of *Starbucks* and the *Fairtrade* agreements hinders rather than helps the small-scale growers – indeed, research has found that a significant rise in prices paid by wholesale buyers

would be necessary for the industry to continue to exist at that level. Some critics argue that large corporations are simply squeezing the life out of the small-scale growers before taking over the *fincas* for a low price as farmers are forced to sell up. *Starbucks* on the other hand, could argue that they have significantly increased their *Fairtrade* activities in Guatemala as a concerted effort to address the economic inequalities that characterise the industry in the country.

How do Starbucks demonstrate their CSR credentials in Guatemala?

Starbucks claim to demonstrate their CSR credentials in Guatemala by fully engaging in dialogue with all stakeholders in the coffee industry, including small-scale farmers. They further argue that they participate fully in *Fairtrade* agreements and continually seek to contribute to the economic welfare of small-scale growers and labourers in the industry.

The company point to a range of social and educational initiatives that underpin their commitment to CSR by delivering services to the community that would otherwise not exist. The company has been in active negotiations with the government of Guatemala to determine a strategy for the future that not only helps them to achieve their corporate aims, but leaves a lasting economic, social, and welfare legacy to the country.

However, one of the problems facing *Starbucks* and other Western corporations is the political and social instability that characterises the region. Coffee growing countries such as Guatemala, Nicaragua and Mexico have been ravaged by internecine fighting between political groups, drug wars, and uncontrolled violence and crime. This makes it a very complex and difficult region to formulate coherent strategic plans.

Chapter questions and task

Identify a moral dilemma you have experienced in your life. How did you resolve it?

You can answer this according to your own experience. Think about how you addressed the dilemma, what helped you to come to a decision, and if there were winners and losers from the outcome. Did you resolve it by taking an individualistic approach, or were you informed by the effect the outcome would have on others?

Explain the term 'Corporate Social Responsibility (CSR)'.

CSR is the idea that business has a duty to serve society as well as the financial interests of shareholders (stockholders).

Explain the difference between utilitarian and human rights approaches to ethics.

The utilitarian approach is characterised by the principle of 'the greatest good for the greatest number'. Here, it is acceptable for some to lose out as long as the majority benefits. The human rights approach emphasises equality for everyone.

What is a 'social audit'?

A 'social audit' attempts to measure a company's actual social performance against the social objectives it has set for itself.