Business Ethics and Corporate Governance

Block

2

MANAGEMENT AND ETHICS - I

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Block 2
Management and Ethics – I

The second block of the course on Business Ethics and Corporate Governance deals with the ethical problems in some of the management functions like strategic management, marketing management, operations management, and purchase management. The block contains four units. The first unit discusses the ethical problems in strategic management. The second and the third units focus on the ethical problems in marketing management and operations management, respectively. The fourth unit discusses the ethical problems in the purchase management.

The first unit, Ethical Issues in Strategic Management, discusses the strategic management function of an organization, and the ethical issues involved in it. It discusses the ethical decision-making model. The unit ends with a discussion on the principles underlying an ethical approach to strategic management.

The second unit, Ethical Issues in Marketing Management, explains the ethical issues involved in marketing management and marketing strategy. The unit describes the ethical issues involved in the marketing mix. The unit ends with a discussion on the importance of marketing research.

The third unit, Ethical Issues in Operations Management, discusses the role of the operations manager, and discusses the ethical issues involved at the workplace. The unit also discusses the ethical dilemmas faced by operations managers with respect to ensuring quality control. The unit ends with a discussion on the analytical framework of the ethical problems in operations management.

The fourth unit, Ethical Issues in Purchase Management, talks about the role of the purchase manager. The unit discusses the ethical issues involved in purchasing. It ends with a discussion on the code of ethics to be followed in carrying out the purchase function.

Unit 6
Ethical Issues in Strategic Management

Structure

"Ethics must begin at the top of an organization. It is a leadership issue and the chief executive must set the example."

- Edward Hennessy (1933 -), Philanthropist and Retired Chairman and CEO of AlliedSignal Inc.

6.1 Introduction

Strategy talks about the ends and means of business and Strategy Management guides the organisation in achieving the Business Objectives. Ethics plays an important role in the strategic decision-making process of business.

In the last unit of the previous block, we have discussed business ethics and environment. In this unit, we shall discuss the ethical issues in strategic management.

Strategic management and change are closely related as strategic decision-making is affected by a change in circumstances. Strategic decisions involve formulating the vision statement, new business expansion strategies, and global expansion through mergers and acquisitions. Organizations face certain ethical issues while taking such decisions.

This unit will first discuss strategic management. We shall then move on to discuss the ethical issues involved in strategic management. We shall also discuss the ethical decision-making model. Finally, we shall discuss the principles underlying an ethical approach to strategic management.

6.2 Objectives

By the end of this unit, you should be able to:

- Define strategy and strategic management.
- Explain the ethical issues involved in strategic management.
- Discuss the ethical decision-making model.
- State the principles underlying an ethical approach to strategic management.

6.3 Strategic Management-An Overview

In business, 'strategy' is used to explain the way in which an organization is going to achieve its objectives and mission. Objectives can be achieved through various ways. Strategy helps in evaluating these ways to identify the best one. Determining and evaluating the alternatives involves judging whether business decisions are right or wrong. This means, ethics plays a role in the strategic decision-making process of business. Strategy answers the basic questions about the business and its purpose (ends and means) and guides the organization in achieving its objectives.

Example: Ethical Issues in Business

Researchers found that Ivermectin, a veterinary medicine developed by Merck in 1975 was able to kill single-strand RNA viruses like SARS-CoV-2, which causes COVID. Merck & Co. has faced ethical dilemmas whether to invest in their drug Ivermectin or not to combat COVID Virus and its variants. However, Merck has strategically chosen not to proceed with improving the drug despite huge potential market. Even Merck cautioned the public against the drug's use against COVID since there were No meaningful evidence for clinical activity or clinical efficacy found in patients with COVID-19 disease. Merck & Co believed that behaving ethically and morally in the business environment as a good business practice. Merck & Co, has taken several measures to be socially responsible to maximize its positive impact and minimize its negative impact on society. Many companies like Merck & Co have to face several challenges and issues such as cultural differences, unethical standards, political and economic differences and diversification issues. Any ethical business practice ensures that customers satisfaction and employees motivation in the long run.

Source: The Case Solutions.com, 2022, https://www.thecasesolutions.com/ethical-issues-in-business-40404 accessed on 24/06/2022

Activity: Strategic decisions deal with those business issues which are long-term in nature such as expansion of capacity and entering into strategic alliances. Mention five such strategic decisions that can be taken by the top management of an organization.

Answer:

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6.4 Ethical Issues in Strategic Management

Strategic management involves decisions related to all management levels that would impact the stakeholder's expectations and interests. Stakeholders comprise stockholders, employees, customers, and suppliers. According to MacIntyre, while taking strategic decisions, organizations should consider potential ethical issues and frame realistic strategies. Ambiguous strategies lead to unethical employee behavior, further leading to inefficient performance. Organizations may come across certain ethical issues while making strategic decisions like those that follow.

6.4.1 Developing the Vision Statement

The vision statement significantly influences the organization strategy. It reflects the values and priorities of strategic decision makers. It provides managers with a sense of direction, and also projects a sense of worth and intent that can be identified and Assimilated by the stakeholders. A company vision on statement reflects the company's culture and values.

The vision statement is usually developed by the top management. However, in some organizations, the employees are also involved. The ethical issue involved here is the extent to which stakeholders can be given the right to develop and articulate the strategic vision. In most companies, the CEO frames the vision statement. Though most such companies have succeeded, there are also instances of failure due to this one-man approach. The best solution would be to involve the CEO and the senior managers in developing the vision statement.

6.4.2 Leadership and Senior Managers' Remuneration

A leader enables the company to attain its business objectives by taking long-term strategic decisions and by encountering risky situations. He/she also has to maintain healthy relations with stakeholders through 'contracts' to avoid risk and also ensure the smooth functioning of the business. Tom Cannon, CEO of Ideopolis International Ltd. and Professor of Strategic Development at the University of Buckingham, has described three types of contracts.

- Knowledge contract enables managers to use their competence and skills for the benefit of the organization.
- Efficiency contract helps managers to make decisions that minimize wastage and at the same time, maintain a consistent effort in reward standards.
- Psychological contract is aimed at motivating employees and giving recognition to stakeholders. It also offers some security.

Due to his/her leadership qualities (ability to face risk and maintain contracts), the leader is rewarded with a huge remuneration even at times of a downturn. The ethical issue here is that the stakeholders feel that the remuneration for senior managers is too high. To solve this, a remuneration committee is set up to give a sense of justice to both the employer (who receives high remuneration) and the employees.

In India, the board of directors decides the compensation of CEOs. Some companies set up a compensation committee. The Kumar Mangalam Birla committee on corporate governance recommends that a remuneration committee should be formed that will determine, on behalf of shareholders, the company's policies on specific remuneration packages for Executive Directors and the CEOs.

Check Your Progress-1

1. Identify the statements that hold true regarding strategic decisions.
   i. Strategic decisions are taken bearing in mind the possibility of a change incircumstances.
   ii. Organizations do not face any ethical problems while taking strategic decisions.
   iii. Strategic decisions are concerned with the formulation of the vision statement, expanding into new businesses, and global expansion through mergers and acquisitions.
   a. Only i and ii
   b. Only i and iii
   c. Only ii and iii
   d. i, ii, and iii
2. Which of the following statements is true regarding strategy?
   i. It is used in a business to describe how an organization is going to achieve itsobjectives and mission.
   ii. It is concerned with evaluating the alternative options to identify the most suitableoption.
   iii. It tackles the fundamental questions about the business and its purpose, i.e., endsand means.
   iv. It guides the business in achieving their objectives.
   a. Only i, ii, and iii
   b. Only i, iii, and iv
   c. Only ii, iii, and iv
   d. i, ii, iii, and iv
3. Stakeholders comprise all of the following, except:
   a. employees
   b. competitors
   c. customers
   d. suppliers
4. Which of the following statements is not true according to MacIntyre regardingstrategic decisions?

a. Organizations should consider potential ethical issues while taking strategic decisions.
b. Strategies should be realistic rather than ambiguous.
c. Ambiguous strategies can lead to unethical employee behavior.
d. Realistic strategies can result in inefficient performance from employees.

5. Identify the statements that hold true regarding vision statement.
   i. It plays a major role in influencing the strategy of an organization.
   ii. It reflects the values and priorities of strategic decision makers.
   iii. It provides managers with a unity of direction.
   iv. It projects a sense of worth and intent that can be identified and assimilated by the insiders and outsiders of the company, i.e., stakeholders.

   a. Only i, ii, and iii
   b. Only i, iii, and iv
   c. Only ii, iii, and iv
   d. i, ii, iii, and iv
6. Identify the type of contract that enables managers to use their competence and skills for the benefit of the enterprise.
   a. Knowledge contract
   b. Efficiency contract
   c. Psychological contract
   d. Both (a) and (b)
7. Efficiency contract
   i. helps managers to make decisions to minimize wastage.
   ii. aims at motivating employees and giving recognition to stakeholders.
   iii. helps managers to make decisions that maintain a consistent effort in reward standards.
   iv. enables managers to use their competence and skills for the benefit of the enterprise.

   a. Only i and ii
   b. Only i and iii
   c. Only ii and iv
   d. Only iii and iv
8. Which of the following statements does not hold true regarding psychological contract?
   a. It is aimed at motivating employees.
   b. It is aimed at giving recognition to the stakeholders.
   c. It offers some security.
   d. It helps managers to make decisions that minimize wastage.

9. Match the following types of contracts with their descriptions.
   i. Knowledge contract
   ii. Efficiency contract
   iii. Psychological contract
   p. This is an informal contract that is aimed at motivating and represents the mutual understanding between the employer and the employee.
   q. This helps managers to make decisions that minimize wastage and at the same time, maintain a consistent effort in reward standards.
   r. This enables managers to use their competence and skills for the benefit of the enterprise.
   a. i/p, ii/q, iii/r
   b. i/q, ii/r, iii/p
   c. i/r, ii/q, iii/p
   d. i/r, ii/p, iii/q

6.4.3 Implementing Strategic Changes

Strategic management often deals with changes in work, people, workspace, and lifestyles. According to Toffler, Lynch, and Kordis, a lot of changes have taken place during the 20th century. Earlier, a majority of the population was dependent on agriculture for their livelihood. Due to seasonal changes, calamities like floods, earthquakes, and droughts took place causing crop failure. People accepted these changes, and termed them as 'acts of God'. In the current scenario, such changes are taking place as they are caused by human beings. The ethical issue here is the extent to which changes are required. The outcome of change can be positive or negative. Organizations should ensure that their decision has the least negative impact on the stakeholders.

6.4.4 Changes in Organization Ownership

Rapid changes in technology, competition, and customer demands have increased the rate at which companies need to change their strategies for their survival. This change in strategy was apparent in the form of mergers and acquisitions. Strategic changes through mergers and acquisitions help in successful business expansion, enable entry into new markets, increase the firm's value and efficiency for the stakeholder, and move resources in order to achieve their best use. They lead to ownership changes that represent results in the following activities.

- Exchange offers involve exchanging debt for common stock, which increases leverage, or exchanging common stock for debt, which decreases leverage.
- Share repurchase involves buying back by the corporation of some fraction of its outstanding shares of common stock.
- A going-private transaction involves a small group of investors purchasing the entire equity interest in a former public corporation.

- Leveraged buy-outs involve financing from third parties through substantial borrowing by the private company.
- Such moves are usually taken up to either diversify or to gain a more dominant position within a particular industry. During restructuring, several ethical issues arise such as whether these activities (mergers, acquisitions, restructuring) are good or bad for the economic health of the company? And, do they divert managerial energies from economic activity to financial manipulation?
- Financial manipulation can arise in the form of 'Corporate raiders', which create anenvironment in which there is a threat of takeover, and the target company is forced to buy back shares at a premium, i.e., the 'Greenmail technique. The threat of financial manipulation has provoked the development of defensive strategies like 'poison pills' which ensure that the potential buyers will possess a disproportionate amount of capital in order to gain a controlling interest. Such activities unnecessarily increase costs, and the stakeholders can be served better even without them. Additionally, will the merger enhance the company's mission? Synergy, though beneficial, can take place only when the culture and management styles of the two organizations complement each other.

Example: Merger of Equals: The Amalgamation Story of Indian Bank and Allahabad Bank

On August 30, 2019, the Ministry of Finance of the Government of India (GoI) announced the merger of ten nationalized banks into four banks. For instance, Indian Bank and Allahabad Bank were to be merged into a single bank, and the new amalgamated entity was expected to commence operations on April 1, 2020. Merging two different banks with thousands of employees, branches and stakeholders within a pre-set time window was complex enough under normal business environment, but the challenge was compounded because of COVID-19 and subsequent national lockdown announced in March 2020. Despite this, Top management played an effective role and created well-defined organizational structures to go ahead with the integration efforts and to achieve Synergy from the culture and management styles of the two Banks. In view of rationalization efforts in several functional areas, Indian Bank not only achieved a better financial position than before but also redefined its vision to become a future-ready bank. However, the learnings from the amalgamation process are phenomenal and efficiency and effectiveness have become part of the organization's DNA.

Source: Harvard Business Publishing Education, August 04, 2021, https://hbsp.harvard.edu/product/ISB274-PDF-ENG accessed on 24/06/2022

6.4.5 Global Strategic Operations

MNCs operating in various countries will face problems due to competition, which can be solved through an effective strategy. These companies can invest in various countries and soon become global leaders if they fight competition. To attract new firms, countries reduce employment standards. However, the less stringent consumer regulations allow the dumping of unsafe or inappropriate products. While operating in another country, firms can also easily achieve the employment rights and safety standards, which are usually below the home country standards. The ethical dilemma would be whether a company operating in another country should adopt a different set of (inferior) standards from those followed in the home country.

Example: Integrity and Ethics of a Chemical Company

The ethos of responsibility and sustainability are interwoven in corporate and work philosophy at Tata Consumer Products. The Company was driven by its vision to build better lives and thriving communities. In their goal towards building a sustainable future, their sustainability strategy is centered around 'Better Living', which encompasses the four pillars of 'For Better' — Nutrition, Sourcing, Communities and Planet. Tata Consumer Products (TCP) has committed to growing their business in a responsible manner, as it continued to respect the environment and strengthen sustainability efforts. TCP sustainability strategy comprises the company's initiatives towards sustainable sourcing, natural resource management, circular economy, and community development. Thus, an ethical decision-making model has provided a framework for better living. Sustainability Strategy has guided managers in making ethical decisions. It helped managers to identify business problems and to find out the best ways to build a sustainable future.

Source: https://www.tataconsumer.com/sites/g/files/gfwrlq316/files/2022-07/tcpl-ESG-report-2022.pdf last accessed on 09/11/2022

Check Your Progress-2

10. Which of the following committees has recommended the formation of a remuneration committee that would determine the company's policies on specific remuneration packages for Executive Directors and CEOs on behalf of the shareholders?
    a. CII committee
    b. Cadbury committee
    c. Kumar Mangalam Birla committee
    d. Company law committee
11. Companies opt for mergers and acquisitions in order to
    i. enhance the value of the firm for the stakeholders.
    ii. enhance the efficiency of the firm for stakeholders.
    iii. move resources in order to achieve their best use.
    iv. successfully enter into new markets
    a. Only i, ii, and iii
    b. Only i, iii, and iv
    c. Only ii, iii, and iv
    d. i, ii, iii, and iv
12. Which of the following activities result in a change in the ownership?
    i. Exchange offers

ii. Share repurchases
iii. Going-private
iv. Leveraged buy-outs
a. Only i, ii, and iii
b. Only i, iii, and iv
c. Only ii, iii, and iv
d. i, ii, iii, and iv

13. Which of the following involve(s) trading debt for common stock, which increases leverage, or trading common stock for debt, which decreases leverage?
a. Share repurchase
b. Exchange offers
c. Going-private
d. Leveraged buy-outs

14. Which of the following activities can be attributed to share repurchase?
a. Exchanging debt for common stock, which increases leverage
b. Exchanging common stock for debt, which decreases leverage
c. Buying back by the corporation of some fraction of its outstanding shares ofcommon stock
d. Purchase of the entire equity interest in a former public corporation by a smallgroup of investors

15. Identify the statements that hold true regarding going-private transaction.
a. It involves financing from third parties through substantial borrowing by theprivate company.
b. It involves purchase of the entire equity interest in a former public corporation bya small group of investors.
c. It involves buying back by the corporation of some fraction of its outstandingshares of common stock.
d. All of the above

16. Which of the following is involved in a Leveraged buy-out?
a. financing from third parties through substantial borrowing by the privatecompany.
b. buying back by the corporation of some fraction of its outstanding shares ofcommon stock.
c. purchase of the entire equity interest in a former public corporation by a smallgroup of investors.
d. Both (b) and (c)

17. Match the following types of transactions with their activities.
i. Exchange offers
ii. Share repurchase
iii. Going-private
iv. Leveraged buy-outs

p. Involves buying back by the corporation of some fraction of its outstanding shares of common stock

q. Involves purchase of the entire equity interest in a former public corporation by a small group of investors

r. Involve financing from third parties through substantial borrowing by the private company

s. Involves exchanging debt for common stock, which increases leverage, or exchanging common stock for debt, which decreases leverage

a. i/p, ii/q, iii/r, iv/s
b. i/r, ii/s, iii/q, iv/p
c. i/s, ii/p, iii/q, iv/r
d. i/r, ii/p, iii/s, iv/q

18. Which of the following would create an environment of threat of takeover and force the target company to buy back shares at a premium?
    a. Exchange offers
    b. Corporate raiders
    c. Shares repurchase
    d. Leveraged buy-outs

19. Identify the statements that hold true regarding corporate raiders.
    a. It is a form of financial manipulation.
    b. It involves transfer of ownership.
    c. They create an environment of threat of takeover and force the target company to buy back shares at a premium.
    d. Both (a) and (c)

Activity: Match the following types of contracts proposed by Cannon with their respective descriptions.

Contract	Description
Knowledge contract	p. It helps managers to make decisions that minimize wastage and at the same time, maintain a consistent effort in reward standards.
Efficiency contract	q. It is aimed at motivating employees and giving recognition to stakeholders and also offers some security.
Psychological contract	r. It enables managers to use their competence and skills for the benefit of the organization.

Answer:

6.5 Ethical Decision-Making Model

Businesses can be complex and ambiguous. Managers should strike a balance between right and wrong decisions, and identify the correct course of action to be taken. An ethical decision-making model provides a framework for tackling ethical issues. It does not replace moral or business leadership, but guides managers in making ethical decisions. It helps managers to identify business problems and find out the best way to resolve these problems. The ethical decision-making model recommends a four-step process as given in Table 6.1.

Table 6.1: Ethical Decision-Making Process

Steps	Description
Evaluating the decision	Identify the stakeholders who will be affected by the decision. whether the proposed decision will violate the shareholders fundamental rights.
Judging the decision	Judge the decision on the basis of certain moral principles. The principles stated in the mission statements and moral principles of the company form the basis for the judgment.
Establishing a moral intent	Prioritize those activities, which are aimed at resolving moral concerns. While doing this, organizations should ensure the involvement of top and middle management. Involvement of only top-level managers narrows down the shareholders economic interest.
Engaging in ethical behavior	Ensure that all participants engage in ethical behavior. If an organization wants to follow ethical practices, its employees should be directed toward ethical behavior. The corporate code guides the employees to behave in an ethical manner.

6.6 Principles Underlying an Ethical Approach to Strategic Management

There are three principles governing the ethical approach to strategic management stakeholder theory, strategy, and ethics; loyalty and psychological contract; andcultural relativism.

6.6.1 Stakeholder Theory, Strategy, and Ethics

The basis for the stakeholder theory is that business is an activity of society and assuch, has responsibilities toward the stakeholders. The theory is against-ethics approach that stems from the fact that the business community does its best to survive in a hostile environment. Business communities that follow this approach frame strategies to fight against the internal and external threats. During this situation, business communities should frame ethically correct decisions only if they make goodsense. Business can be alternatively viewed as having a proactive role to play increating an ethical society. Business is usually considered a pervasive and powerful force in contemporary life that can no longer confine itself to a narrow universe ofaccounting goals.

6.6.2 Loyalty and Psychological Contract

Psychological contract forms the basis for a relationship between the employer and the employee and has employee's loyalty as the key element. Employees have certain expectations about how they will be treated, and in turn, they are willing to make certain sacrifices for the organization. Every strategic change will involve some sacrifice by the employees, and requires the commitment of all the organization members. The ethical issue is that efforts must be made to convince people that the change is legitimate. Employees will continue to be loyal once they are sure that their psychological contract with the firm is not undermined.

6.6.3 Cultural Relativism

There are no worldwide standards for conduct of business. Cultural norms and value systems vary within the country and also among countries. An act which is unlawful in one country may be considered a normal business practice in another. Cultural differences pose problems for firms operating in foreign countries.

Cultural differences can be solved by adopting cultural relativism, which implies adopting the norms of the country in which the organization is operating its business. However, there are certain instances when companies follow certain practices as they are allowed in a particular country, but in reality, may be unethical activities. In such cases, carrying out unethical activities in the name of cultural relativism would increase and become serious ethical issues, especially when MNCs have to carry out global operations for their long-term survival.

Activity:

Priyanka had been working as an electronic engineer in a multinational company in Hyderabad for the past 15 years. She was sent to Moscow to work atthe headquarters of the company on a defense-related project. Priyanka was the co- project manager of the project, and she had to stay in Moscow for about five years till the project was over. She faced certain problems relating to the work culture. Employees did not have any fixed entry and exit timings. They were, however, bound to stay for 8 hours in the office. There were no performance targets or deadlines set for the employees. Priyanka saw most of the employees spending their time chatting or checking personal e-mails. She also observed that these employees used to stay late in the night to do office work. Priyanka felt that this was because there were no standards set for business conduct. Do you agree with this opinion? Why or why not?

Answer:

Check Your Progress-3

20. The ethical decision-making model
    i. is a substitute for moral or business leadership.
    ii. only guides managers in making ethical decisions.
    iii. helps managers to identify the business problems.
    iv. helps managers to work out the best way of resolving the business problems.
    a. Only i, ii, and iii
    b. Only i, iii, and iv
    c. Only ii, iii, and iv
    d. i, ii, iii, and iv
21. Following are the stages in the ethical decision-making model.
    i. Establishing a moral intent
    ii. Judging the decision
    iii. Evaluating the decision
    iv. Engaging in ethical behavior

    Identify the option that gives the correct sequence of steps.
    a. i-ii-iii-iv
    b. ii-iii-iv-i
    c. iii-ii-i-iv
    d. iv-i-iii-ii
22. The first step in the ethical decision-making model evaluating the decision, involves
    i. identifying the stakeholders who will be affected by the decision.
    ii. judging the decision on the basis of certain moral principles.
    iii. determining whether the proposed decision will violate the fundamental rights ofits shareholders.
    iv. prioritizing those activities that are aimed at resolving moral concerns.
    a. Only i and ii
    b. Only i and iii
    c. Only ii and iv
    d. Only iii and iv
23. Identify the stage in the ethical decision-making model in which the principles stated in the mission statement and the moral principles of the company are considered.
    a. Evaluating the decision
    b. Judging the decision
    c. Establishing a moral intent
    d. Engaging in moral behavior

24. Identify the statements that hold true regarding the third stage in the ethical decision-making model establishing the moral intent.
    i. The organization must prioritize those activities which are aimed at resolving moral concerns.
    ii. The organization should consider its moral principles and the principles stated in the mission statement.
    iii. The organization should ensure that all the participants are engaged in ethical behavior.
    iv. Organizations should ensure the involvement of top and middle management.
    a. Only i and ii
    b. Only i and iv
    c. Only ii and iii
    d. Only iii and iv
25. In the fourth step engaging in ethical behavior in the ethical decision-making model, the organization
    a. should identify the stakeholders who will be affected by the decision.
    b. ensures that all the participants engage in ethical behavior.
    c. should prioritize those activities that are aimed at resolving moral concerns.
    d. All of the above
26. Which of the following are principles for ethical approach to strategic management?
    i. Cultural relativism
    ii. Stakeholder theory, strategy, and ethics
    iii. Theory of corporate moral excellence
    iv. Loyalty and psychological contract
    a. Only i, ii, and iii
    b. Only i, ii, and iv
    c. Only i, iii, and iv
    d. Only ii, iii, and iv
27. Identify the statement that does not hold true regarding the stakeholder theory.
    a. It emphasizes that business is an activity of society.
    b. It emphasizes that business has responsibilities to a much wider range of stakeholders than merely its shareholders, directors, and creditors.
    c. It views business as having a proactive role in creating an ethical society.
    d. It supports the bolt-on ethics mentality that stems from the fact that the business community sees itself as doing its best to survive in a hostile environment.
28. The relationship between the employer and the employee is usually based on which form of contract?
    a. Social

b. Knowledge
c. Psychological
d. Employment

29. Identify the statement that does not hold true regarding the loyalty and psychological contract between the employer and the employees in an organization.
    a. The employee's loyalty to the organization is a key element of the psychologic contract.
    b. Employees do not have any expectations about how they will be treated, but inturn, are willing to make certain sacrifices for the organization.
    c. A successful strategic change requires the commitment of all the organizationmembers.
    d. Employees will continue to remain loyal to the organization only if they are surethat their psychological contract with the firm is not undermined.
30. Which of the following refers to the practice of adopting the norms of the country in whichan organization has its operations?
    a. Insider trading
    b. Cultural relativism
    c. Corporate governance
    d. None of the above

6.6 Summary

- In business 'strategy' is used to explain the way in which an organization is going to achieve its objectives and mission.
- While making strategic decisions, such as setting its vision, fixing senior managers remuneration, implementing strategic change, changes in organization ownership and global strategic operation, organizations face some ethical issues and the question as to what extent its decisions on such issues are proper.
- An ethical decision-making model provides a framework for tackling ethical issues. It comprises a four-step process evaluating the decision, judging the decision, establishing a moral intent, and engaging in ethical behavior.
- There are three principles that govern the ethical approach to strategic management stakeholder theory, strategy, and ethics; loyalty and psychological contract; and cultural relativism.

6.7 Glossary

Efficiency contract: A system that helps managers to make decisions that minimize wastage and at the same time, maintain consistent effort in reward standards.

Ethical decision-making model: A model that helps to identify business problems and work out the best way of resolving the problems. Exchange offers involve exchanging debt for common stock, which increasesleverage, or exchanging common stock for debt, which decreases leverage.

Going-private transaction: involves purchase of the entire equity interest in a former public corporation by a small group of investors.

Knowledge contract: enables managers to use their competence and skill for the benefit of the enterprise.

Leveraged buy-outs: involve financing from third parties through substantial borrowing by the private company.

Psychological contract: is aimed at motivating employees and giving recognition to stakeholders and also offers some security.

Share repurchase: Buying back by the corporation of some fraction of its outstanding shares of common stock.

6.8 Self-Assessment Test

1. Organizations face certain ethical issues while taking strategic decisions. What is strategic management? Explain the ethical issues involved in strategic management.
2. An ethical decision-making model provides a framework for tackling ethical issues. Explain this model in detail.
3. There are certain principles underlying an ethical approach to strategic management. Explain these principles.

6.9 Suggested Readings / Reference Material

1. K P Muraleedharan, E K Satheesh (2022). Fernando's Business Ethics and Corporate Governance, Pearson India. 3rd edition
2. Manuel G. Velasquez (2021). Business Ethics – Concepts and Cases. Pearson Education, 8th edition
3. K Viyyanna Rao & G Naga Raju (2020). Business Ethics and Corporate Governance. 1st edition. Wiley
4. Jyotsna GB & RC Joshi (2020). Business Ethics and Corporate Governance. McGraw Hill India. 1st edition
5. Sandeep Goel (2020). Corporate Governance. McGraw Hill India. 1st edition

6.10 Answers to Check Your Progress Questions

1. (b) Only i and iii

Strategic decisions are taken bearing in mind the possibility of a change in circumstances. These decisions are concerned with the formulation of the vision statement, expanding into new businesses, and global expansion through mergers and acquisitions. While taking such strategic decisions, organizations may face some ethical problems.

2. (d) i, ii, iii, and iv

The term strategy is used in a business to describe how an organization is goingto achieve its objectives and mission. Strategy is concerned with evaluating the alternative options to identify the most suitable option. It tackles the fundamental questions about the business and its purpose, i.e., ends and means, and guides the business in achieving their objectives.

3. (b) Competitors

Stakeholders comprise stockholders, employees, customers, and suppliers. All stakeholders expect some returns from the company. Stockholders desire appropriate returns on their investment, employees seek job satisfaction and rewards, customers expect value for money, and suppliers seek dependable buyers. Any decision taken by the management will have an impact on stakeholders expectations and interests. Competitors are not the stakeholders of a company.

4. (d) Realistic strategies can result in inefficient performance from employees.

According to MacIntyre, organizations should consider potential ethical issues when taking strategic decisions. The strategies made by organizations should be realistic rather than ambiguous. Ambiguous strategies can lead to unethical employee behavior resulting in inefficient performance.

5. (d) i, ii, iii, and iv

The vision statement plays a major role in influencing the strategy of an organization. It reflects the values and priorities of strategic decision makers. It provides managers with a unity of direction and also projects a sense of worth and intent that can be identified and assimilated by the insider and outsiders of the company, i.e. stakeholders.

6. (a) Knowledge contract

Knowledge contract enables managers to use their competence and skills for the benefit of the enterprise.

7. (b) Only i and iii

Efficiency contract helps managers to make decisions that minimize wastage and at the same time, maintain a consistent effort in reward standards.

8. (d) It helps managers to make decisions that minimize wastage.

Psychological contract is aimed at motivating employees and giving recognitionto the stakeholders. It also offers some security.

9. (c) i/r, ii/q, iii/p

Knowledge contract enables managers to use their competence and skills for the benefit of the enterprise. Efficiency contract helps managers to make decisions that minimize wastage and at the same time, maintain a consistent effort in reward standards. Psychological contract is aimed at motivating employees. It isan informal contract that represents the mutual understanding between the employer and the employee.

10. (c) Kumaramangalam Birla committee

The Kumaramangalam Birla committee on Corporate Governance in India has recommended the formation of a 'remuneration committee' that will determine on behalf of the shareholders the company's policies on the specific remuneration packages for Executive Directors and CEOs.

11. (d) i, ii, iii, and iv

Mergers and acquisitions are essential for the successful expansion of business firm. For successful entry into new markets, firms have to opt for mergers and acquisitions at some stage of their development. The advantages of mergers and acquisitions are that the company can increase its value and efficiency for the stakeholders, and can transfer resources in order to achieve their best use.

12. (d) i, ii, iii, and iv

Changes in strategy through mergers and acquisitions bring changes in ownership. A change in ownership results in activities such as exchange offers, share repurchases, going private, and leveraged buy-outs.

13. (b) Exchange offers

Exchange offers involve exchanging debt for common stock, which increases leverage, or exchanging common stock for debt, which decreases leverage.

14. (c) Buying back by the corporation of some fraction of its outstanding shares of common stock

A change in ownership results out of activities such as exchange offers, share repurchases, going-private, and leveraged buy-outs. Share repurchase involves buying back by the corporation of some fraction of its outstanding shares of common stock. Exchange offers involve exchanging debt for common stock, which increases leverage, or exchanging common stock for debt, which decreases leverage. A going-private transaction involves purchase of the entire equity interest in a former public corporation by a small group of investors.

15. (b) It involves purchase of the entire equity interest in a former public corporation by a small group of investors.

A going-private transaction involves purchase of the entire equity interest in a former public corporation by a small group of investors.

16. (a) Financing from third parties through substantial borrowing by the private company.

Leveraged buy-outs involve financing from third parties through substantial borrowing by the private company.

17. (c) i/s, ii/p, iii/q, iv/r

Exchange offers involves exchanging debt for common stock, which increases leverage, or exchanging common stock for debt, which decreases leverage.

Share repurchase involves buying back by the corporation of some fraction of its outstanding shares of common stock.

Going-private involves purchase of the entire equity interest in a former public corporation by a small group of investors.

Leveraged buy-outs involve financing from third parties through substantial borrowing by the private company.

18. (b) Corporate raiders

Corporate raiders create an environment of threat of takeover and force the target company to buy back shares at a premium, i.e., greenmail technique.

19. (d) Both (a) and (c)

Corporate raiders is a form of financial manipulation. They create an environment of threat of takeover and force the target company to buy back shares at a premium, i.e., greenmail technique.

20. (c) Only ii, iii, and iv

The ethical decision-making model is not a substitute for moral or business leadership. It only guides managers in making ethical decisions. It helps managers to identify the business problems and helps them to work out the best way of resolving these problems.

21. (c) iii-ii-i-iv

The ethical decision-making model involves a four step process evaluating the decision, judging the decision, establishing a moral intent, and engaging in ethical behavior.

22. (b) Only i and iii

The first step in the ethical decision-making model evaluating the decision, involves identifying the stakeholders who will be affected by the decision. In this step, managers need to determine whether the proposed decision will violate the fundamental rights of its shareholders. The second step judging the decision, involves judging the decision on the basis of certain moral principles. The third step is establishing the moral intent. According to this step, the organization must prioritize those activities that are aimed at resolving moral concerns.

23. (b) Judging the decision

The second step judging the decision, involves judging the decision on the basis of certain moral principles. The principles stated in the mission statement and moral principles of the company forms the basis for the judgment.

24. (b) Only i and iv

The third step in the ethical decision-making model is to establish the moral intent. In this stage, the organization should prioritize those activities that are aimed at resolving moral concerns. While resolving the moral concerns, organizations should ensure the involvement of top and middle management. In the second step judging the decision, the organization should consider its moral principles and the principles stated in the mission statement. In the fourth step engaging in ethical behavior, the organization should ensure that all the participants engage in ethical behavior.

25. (b) Ensures that all the participants engage in ethical behavior.

In the fourth step engaging in ethical behavior in the ethical decision-making model, the organization ensures that all participants engage in ethical behavior.

26. (b) Only i, ii, and iv

There are three principles for ethical approach to strategic management. These are: stakeholder theory, strategy and ethics; loyalty and psychological contract; and cultural relativism. The theory of corporate moral excellence is one of the theories used to judge the nature of the ethical organization.

27. (d) It supports the bolt-on ethics mentality that stems from the fact that the business community sees itself as doing its best to survive in a hostile environment.

The stakeholder theory is rooted in the belief that business is an activity of society, and hence business has responsibilities to a much wider range of stakeholders than merely its shareholders, directors, and creditors. It opposes a 'bolt on' ethics mentality, which stems from the fact that the business community sees itself as doing its best to survive in a hostile environment. The stakeholder theory also views business as having a proactive role in creating an ethical society

28. (c) Psychological contract

The relationship between the employer and the employee is based on a psychological contract.

29. (b) Employees do not have any expectations about how they will be treated, but in turn, are willing to make certain sacrifices for the organization.

The relationship between employer and employee is based on a psychological contract. The employee's loyalty to the organization is a key element of this contract. Employees have certain expectations about how they will be treated, and in turn, are willing to make certain sacrifices for the organization. Employees will continue to remain loyal to the organization only if they are sure that their psychological contract with the firm is not undermined.

30. (b) Cultural relativism

Cultural relativism refers to the practice of adopting the norms of the country in which an organization operates its business.

Unit 7
Ethical Issues in Marketing Management

Structure

Dishonesty in advertising has proved very unprofitable.

– Leo Burnett, founder of American Advertising Company ‘Leo Burnett Worldwide’.

7.1 Introduction

The statement highlights the various alarming issues related to unethical practices in marketing particularly in advertisement for businesses.

In the previous unit, we have discussed the ethical issues involved in strategic management. In this unit, we shall discuss the ethical issues involved in marketing.

Marketing is the most visible aspect of a company s policies and is the focus of consumer and media attention. Marketers need to understand the importance of ethics in their activities to enable a company to play a responsible role in society. Marketing management deals with providing products and services that create value for customers and also satisfy them.

According to Theodore Levitt, “A truly marketing-minded firm tries to create value-satisfying goods and services which the consumerwill want to buy”. It views the entire business as consisting of a tightly integrated effort to discover, create, and satisfy customer needs. This definition reflects the importance of consumers in the designing of marketing plans. The consumer movement and the changes in business practices along with changes in the law have changed the way businesses operate. The marketing concept has become synonymous with consumer orientation, societal marketing, and consumer importance. This has compelled companies to think about the social responsibilities in marketing management.

This unit will first discuss the ethical issues involved in marketing management and marketing strategy. We shall then move on to discuss the ethical issues involved in the marketing mix. Finally, we shall discuss the importance of marketing research.

7.2 Objectives

By the end of this unit, you should be able to:

- Discuss the ethical issues involved in marketing management and marketing strategy.
- Explain the ethical issues involved in the marketing mix.
- Identify the importance of marketing research.

7.3 Ethical Issues in Marketing Management

An organization interacts with its customers through its marketing department. Marketing helps in promoting the organization as a whole. Considering the growing customer orientation in marketing, a code of ethics should be formulated that can help in framing policies at all marketing levels and where employees can follow a uniform standard of ethics. Analysts have realized the need for specific ethical standards in marketing management as marketing outcomes are decided by the stakeholders. Ferrell and Gresham have identified three factors that determine the code of ethics framed by the marketer -- individual factors, significant factors, and opportunity factors.

- Individual factors are the moral values inculcated in a person by family, education, and culture. These play a crucial role in framing a marketing decision.
- Significant factors refer to the extent to which reference groups, the top management, and peers influence the marketer. These have more to do with the organizational climate of the marketer.
- Opportunity factors are the ethical codes and standards that are promoted in an organization. These are rules and policies framed by the organization, to which all the employees are expected to adhere.

These factors play a vital role in deciding the marketer's ethical status. Donaldson and Davis observed that a common ethical standard is required for shared values; to create higher quality products, processes, and services; and for better output and achievement.

7.3.1 Empirical evidence

Burke, Maddock, and Rose conducted a study titled 'attitudes of the business ethics' among decision makers and other that provided the empirical evidence of the factors just mentioned. About 13.5% of the professional groups were from marketing, 10% were company secretaries, 16.9% were from the personnel department, 18.6% were from finance, and the remaining 2.9% were directors. A total of 498 senior managers and 165 junior managers in the US were researched on four areas – conduct of business, employee relations, social responsibility, and environmental concern.

Example: ESG Risk.ai's Research Outcomes

In 2022, according to research by ESGRisk.ai, corporate scams occurred often in India. Typical corporate governance concerns included whistle blower allegations, unethical audit methods, and compliance fines. Additionally, between FY20 and FY21, the debates around the crucial topic of business ethics considerably increased. A number of the disputes were the result of breaches of the SEBI's Listing Obligations and Disclosure Requirements (LODR) 2022 regulations and insider trading laws.

The above information showed the empirical evidence of unethical practices going on in businesses.

Source: Mint (05.04.2022), "Study say 73% of ESG controversies due to business ethics". Retrieved from https://www.livemint.com/news/india/study-says-73-of-esg-controversies-due-to-business-ethics-11650886650407.html Accessed on 02.09.2022

The outcomes revealed the following --

- Managers and professionals had high consideration for ethical issues, considering their competitive position and profits.
- Many believed that it was vital to convey the truth while promoting or selling products and services.
- 88% disagreed with the contention that tax evasion was a necessary or legitimate business tactic.
- Their aim of marketing was not restricted to high quality, high-value goods or services.
- The basic marketing notion of customer-focus was cited as the justification for selling low quality goods. That is, the practice was considered quite acceptable if that was what the customer wanted. This notion accorded with the definition of marketing given by the Institute of Marketing. The institute defined marketing as a management process which identifies, anticipates, and supplies customer requirements efficiently and profitably.

7.4 Ethical Issues in Marketing Strategy

A marketing strategy is the plan designed to achieve the firm's marketing objectives. It decides the success of the organization, right from the business unit level. Nowadays, marketing strategies are being directed to achieve higher standards of ethics as they have come under public scrutiny. While formulating strategies, an organization should consider the effect of its decisions on the business, the customers, and its reputation in the marketplace. Through consumer orientation, organizations can enhance the consumer's interest and buying decision.

Ethical issues in marketing involve the company's stance toward its competitors. The strategies framed by companies can create rivalry among competitors, and may wipe out a player and establish a company as the main player in the particular market segment. Competitive pricing, effective advertising and distribution strategies, product development, and an efficient supply chain are some such strategies that are used by organizations to fight against other players in the marketplace. Sometimes, organizations may use unethical methods to wipe out their competitors from the market. Customers may lose confidence in the buyer-seller relationship because of the decrease in the number of firms operating. Due to this, they have fewer firms whose market offerings they can compare and have less choice in what they buy.

Example: Wells Fargo's ethical issue

According to a Forbes article (2020), the fourth-largest bank in the US, Wells Fargo, agreed to pay $3 billion to terminate its lengthy civil and criminal investigations into the terrible allegations of widespread fraudulent sales tactics. Wells Fargo's fraud consisted of its officials pressuring front-line bank employees to aggressively cross-sell goods in order to increase sales and income and reach predetermined goals.

The above information showed the fraud committed by Wells Fargo's executives.

Source: Jack Kelly (24.02.2020), "Wells Fargo Forced to Pay $3 Billion For The Bank's Fake Account Scandal". Forbes. Retrieved from https://www.forbes.com/sites/jackkelly/2020/02/24/wells-fargo-forced-to-pay-3-billion-for-the-banks-fake-account-scandal/?sh=7acaa51d42d2 Accessed on 02.09.2022

Check Your Progress-1

1. Which of the following deals with providing products and/or services that create value for the customers and also satisfy them?
   a. Purchase management
   b. Marketing management
   c. Operations management
   d. Human resources management
2. Through which of the following departments does an organization interact with its customers and promote itself?
   a. Finance
   b. Marketing
   c. Operations
   d. Human resources
3. Who among the following have identified the three factors that determine the code of ethics framed by the marketer individual factors, significant factors, and opportunity factors?
   i. Davis
   ii. Ferrell

iii. Donaldson
iv. Gresham
a. Only i and ii
b. Only i and iii
c. Only ii and iv
d. Only iii and iv

4. Identify the factors that determine the code of ethics framed by the marketer asidentified by Ferrell and Gresham.
   i. Individual factors
   ii. Significant factors
   iii. Opportunity factors
   a. Only i and ii
   b. Only i and iii
   c. Only ii and iii
   d. i, ii, and iii
5. What are the moral values inculcated in a person by family, education,and culture called?
   a. Individual factors
   b. Significant factors
   c. Opportunity factors
   d. Individual and Significant factors
6. Significant factors refer to
   i. the ethical codes and standards that are promoted in an organization.
   ii. the extent to which reference groups, top management, and peers influence themarketer.
   iii. the factors that are concerned with the organizational climate of the marketer.
   iv. the rules and policies framed by the organization, which all the employees areexpected to adhere.
   a. Only i and ii
   b. Only i and iv
   c. Only ii and iii
   d. Only iii and iv
7. Identify the factors that are concerned with the organizational climate of themarketer.
   a. Individual factors
   b. Significant factors
   c. Opportunity factors
   d. All of the above
8. Which of the following statements is true regarding opportunity factors?
   a. These are concerned with the organizational climate of the marketer.

b. These are ethical codes and standards that are promoted in an organization.
c. These are the moral values inculcated in a person by family, education, andculture.
d. These refer to the extent to which reference groups, top management, and peersinfluence the marketer.

9. Following are the factors that determine the code of ethics framed by the marketeras identified by Ferrell and Gresham. Match these factors with their descriptions.
   i. Individual factors
   ii. Significant factors
   iii. Opportunity factors
   p. The ethical codes and standards that are promoted in an organization
   q. The moral values inculcated in a person by family, education and culture
   r. The extent to which reference groups, top management and peers influence themarketer
   a. i/p, ii/q, iii/r
   b. i/q, ii/r, iii/p
   c. i/r, ii/q, iii/p
   d. i/r, ii/p, iii/q
10. Which of the following factors play the most important role in framing a marketing decision as identified by Ferrell and Gresham?
    a. Individual factors
    b. Significant factors
    c. Opportunity factors
    d. Both (b) and (c)
11. Which of the following are the benefits of a common ethical standard accordingto Donaldson and Davis?
    i. It is important for shared values.
    ii. It would bring in higher quality in products, processes, and services.
    iii. It would bring in better output and achievement.
    a. Only i and ii
    b. Only i and iii
    c. Only ii and iii
    d. i, ii, and iii
12. Identify the areas that were focused on in the study conducted by Burke, Maddock, and Rose about the attitudes of business ethics.
    i. Conduct of business
    ii. Employee relations
    iii. Social responsibility
    iv. Environmental concern

a. Only i, ii, and iii
b. Only i, iii, and iv
c. Only ii, iii, and iv
d. i, ii, iii, and iv

13. Which of the following is not true regarding the study conducted by Burke, Maddock, and Rose about the attitudes of business ethics?
    a. The research focused on four areas - conduct of business, employee relations,social responsibility, and environmental concern.
    b. It was observed that the managers and professionals had high consideration for ethical issues, keeping in view their competitive position and profits.
    c. Most of them believed that it was essential to tell the truth while promoting orselling products and services.
    d. About 88% of the managers researched agreed that tax evasion was a necessary orlegitimate business tactic.

Activity:

Natura, a comestics company, introduced "Snow White" Herbal Cream. The company claimed that Snow White was an all natural herbal cream, but the Medical Research Association found that it contained chemicals. The company also increased the price when the demand for the product increased. Comment on the ethical aspects of the marketing strategy employed by Natura to promote "Snow White" as a herbal cream.

Answer:

____

____

____

7.5 Ethical Issues in Marketing Mix

The marketing mix includes E. Jerome Mc Carthy's 4P of Product price, place, and promotion. It also includes the service aspects of the 3Ps of people, physical evidence, and process. Assembling and managing these is an important task for any marketer as they play a key role in the marketing decision-making process, and framing strategies.

7.5.1 Product

A product can be defined as something that satisfies the customer's need and form which he/she can derive value for the price he/she pays. Products have their own identity and personality. They also embody the ethical decisions made at the corporate level. Companies that produce cigarettes, alcohol, and infant milk supplement are usually criticized for doing so. There have been debates regarding ad regulation proposals for such products. Many argue that these ads encourage consumption of these products and that curtailing them would reduce the harmful impact of such products. Others disagree with this viewpoint and say that there is no evidence that the ads encourage consumption of these products, and that it is the product and not the advertising which should be regulated.

The tobacco industry in India faced an ethical dilemma when the government considered banning its products. The Indian government has announced that it will introduce a bill to ban tobacco companies from advertising their products and sponsoring sports and cultural events. This is meant to prevent adolescents from consuming tobacco products and will give the government powers to implement an anti-tobacco program. From the ethics point of view, the government should discourage the habit to ensure the welfare of citizens. From the commercial point of view, the tobacco industry is a major contributor to the State exchequer. Analysts have raised concerns about the proposed bill, questioning what they call the moral policing by the government and the credibility of the objective itself.

Updation in consumer products is considered as another unethical aspect if that updation leads to the original product having to be replaced with the updated one. As a product gets updated, it loses its basic features. If the organization discontinues the original product, and replaces it with an updated version, a section of consumers who still prefer the original product will be deprived of it. Also, service or spare parts of the original are discontinued (especially if the product belongs to the automotive and consumer electronics categories). This leads to consumer dissatisfaction and such consumers may no longer be interested in buying a new product from that company.

Apart from consumer products, this scenario is also applicable to financial companies. Harness and Mackay conducted a study that found that financial companies which failed to provide information to the consumers on their new financial packages lost many loyal customers. Companies need to add new features to a product to fuel market growth without stealing the product's basic identity and provide information to its customers. This is true according to the marketing principles which give importance to providing satisfaction to consumers and reaping profits at the same time.

Products that are dangerous to the environment are not acceptable. For instance, many companies have replaced the CFC gas used in refrigerators by an eco-friendly substitute as CFC was considered harmful to the environment. This initiative also earned profits for many companies. Similarly, the use of plastic bags is being slowly reduced as they are considered harmful to the environment.

7.5.2 Price

While making a purchase decision, buyers do not always consider price as a major criterion. The ethical decision regarding price is not always visible as it is based on the demand for a product. For instance, buyers may pay more for healthy and nutritious products or for products that are priced higher than the usual because of the high demand for them. The ethical issue here is whether it is valid for a company to charge more for products that are in great demand. Peta Cottee, author of "Tackling Diet-related Disease by Promoting Fruit and Vegetables" observed that manufacturers charged 40% extra for low fat food which was more in demand than their non-reduced fat counterparts. The manufacturers were criticized for cashing in on the demand for low fat food.

Experienced buyers and sellers can tell whether a particular price for a particular product of a particular quality is fair. However, most consumers do not have an idea whether a product is priced fairly or not. It is unethical if companies increase prices merely due to the customer's ignorance. At times large companies use price as a tactic to weed out small players from the market. This results in reduced choice for the customers especially for those who belong to the low income group.

7.5.3 Place

Place refers to all the locations through which the product moves from the supplier to the consumer. It is a point at which the customer is able to access information about a particular product or service and get the final product. It also includes the process of distributing the product and the type of delivery service that is offered to the final consumer. It is unethical if a marketer stops distributing a product to a place because there are no profits being earned there. It is unethical as customers who frequently purchase it from that place are deprived of the opportunity of getting it and have to goto other places to buy it. Another ethical aspect is whether the product is safe or not. Stricter codes are adopted by companies to protect the products from contamination to keep up their reputation and sales.

Example: Saudi Aramco raised prices for Asian markets.
In 2022, Saudi Aramco, world's largest oil producing company had increased the prices for Asian countries in view of the high demand shown by the Asian markets. Aramco raised prices by $2.10 per barrel on its key Arab Light crude grade

Source: Alfred Cang & Anthony Di Paola (06.06.2022), "Saudi Arabia raise oil prices more than expected amid Asia rebound". Bloomberg. Retrieved from https://www.business-standard.com/article/international/saudi-arabia-raise-oil-prices-more-than-expected-amid-asia-rebound-122060600029_1.html#:~:text=Aramco%20raised%20its%20key%20Arab,survey%20of%20refiners%20and%20traders. Accessed on 02.09.2022

7.5.4 Promotion

Companies use advertising and public relations strategies to attract customers. These strategies are scrutinized by consumers and by the regulatory authorities, which laid down the advertising code of ethics. Consumers bring out changes in business practices and laws, which govern how businesses must operate. Marketing has become synonymous with consumer orientation in the marketing concept. TV and radio programs publicize practices that easily deceive consumers. Selling practices include hard selling and soft selling techniques.

Hard selling techniques involve attracting a consumer toward a product through price reductions, gift coupons, etc. Soft selling techniques involve selling strategies based on the desires and emotions of customers.

Firms can build customer loyalty and trust (required during the long term) by training sales executives to provide efficient service to the customers at the right time. The UK-based Advertising Standards Authority (ASA) looks into the honesty, legality, and fairness of the advertisements and has the authority to withdraw advertisements that are considered offensive, misleading, and not in accordance with the law. The ASA has laid down certain rules that have to be followed by advertisers. In advertisements, a focus spreading unproven and negative rumors about a competitor would come under unethical practices.

Sometimes, when advertising aims at encouraging materialism and consumption, at stereotyping, of causing people to purchase items which they do need, at taking advantage of children, at manipulating people's behavior, and generally contributing to the downfall of the social system, it is an unethical practice. Advertisers, to promote a product, say that the product is the best in terms of value and quality, even if they know that it is not true. This is an unethical practice and is similar to lying about the product. This strategy may work in the short term, but in the long run, it reduces trust among the consumers, and leads to the company losing many customers. The consumers become more cynical, and prefer to judge for themselves.

7.5.5 People, Physical Evidence, and Process

People, physical evidence, and process are the service aspects of the marketing mix. Customer service is an important aspect of marketing management, which when done correctly, brings in repeat customers. Retaining existing customers is an easier and more economical task than attracting new ones. An ethical organization lays down organization-wide policies and procedures, and encourages all the employees to follow them. Negligence by the organization towards employees needs leads to inefficient service that further affects customer trust and loyalty. Lewis conducted a survey across banks in the UK and the US. It was found that the UK customers were more satisfied with the customer service they received. This was because of the training given to the staff. Firms are also realizing the importance of high quality information resources to gain and sustain a competitive advantage in the marketplace.

With the growing importance of individual privacy rights and tougher legislations, companies are becoming increasingly aware of the ethical issues in information acquisition. Peter's research demonstrated the importance of trust in customer relationship management. The degree to which customers are ready to share sensitive information with firms shows how they assess a particular firm. Customers assess a firm based on the relationship and the course of action that a firm demonstrates to them. Firms should solve the ethical issues raised by the customers, protect sensitive information, and understand how customer relations are affected by norms like trustand commitment.

Check Your Progress-2

14. What is the plan designed to attain the marketing objectives of a firmand decides the success of the company, right from the business unit level called?
    a. Marketing mix
    b. Marketing strategy
    c. Marketing research
    d. Marketing idea
15. Marketing strategies framed by companies would not
    a. bring in rivalry among market players.
    b. wipe out a player from the market.
    c. establish the company as a main player in the particular market segment.
    d. always ensure fair and ethical practices.
16. Identify the strategies adopted by marketers to wipe out competitors from the market.
    i. Competitive pricing
    ii. Effective human resource policies
    iii. Product development
    iv. Distribution strategies
    a. Only i, ii, and iii
    b. Only i, iii, and iv
    c. Only ii, iii, and iv
    d. i, ii, iii, and iv
17. Consumers lose confidence in the buyer-seller relationship because
    i. there is a decrease in the number of firms operating.
    ii. the customers do not have substantial number of firms to compare marketoffering.
    iii. the customers have no real choice in what they buy.
    a. Only i and ii
    b. Only i and iii
    c. Only ii and iii
    d. i, ii, and iii
18. The marketing mix was identified by whom?
    a. Donaldson and Gresham
    b. E. Jerome McCarthy
    c. American Marketing Association
    d. Burke, Maddock, and Rose
19. Which of the following options includes the service aspects of the marketing mix?
    a. Product, place, promotion

b. Process, physical evidence, people
c. People, product, process
d. Promotion, physical evidence, price

20. Identify the statement that does not hold true regarding a product.
    a. It is something that satisfies the need of a consumer.
    b. It is something from which the consumer can derive value for the price he/she pays.
    c. It does not have an identity and personality of its own.
    d. It embodies the ethical decisions made at the corporate level.
21. Which of the following statements is not true regarding ethical issues concerning products like cigarettes and alcohol?
    a. Advertisements pertaining to these products encourage consumption of these products.
    b. Advertisements should be reduced or severely restricted so that the harmful impact of such goods is reduced.
    c. The products should be regulated and not the advertisements about these products.
    d. There is real evidence that the advertisements encourage the consumption of these products.
22. Updating of products is considered as an unethical practice by some critics due to the following reasons, except:
    a. Continuous updation may result in the products losing their basic characteristics.
    b. Updation of products would always result in coming out with hazardous products.
    c. The original product may be discontinued and therefore, a section of consumers may get dissatisfied.
    d. When the product is updated, the service or spare parts of the original product may be discontinued.
23. Place in the marketing mix refers to
    i. the sum of locations by which the product moves from the supplier to the consumer.
    ii. the point at which the customer is able to access the information about a particular product and/or service and get the final product.
    iii. the process of distributing the product.
    iv. the type of delivery service that is offered to the final consumer.
    a. Only i, ii, and iii
    b. Only i, iii, and iv
    c. Only ii, iii, and iv
    d. i, ii, iii, and iv

24. Soft selling techniques used by companies refer to
    a. those unethical selling practices that are used for spreading rumors about a competitor.
    b. those selling practices that are used to communicate according to the desires and emotions of the customers.
    c. those selling practices that are related to signing a sales agreement by reinforcing the consumer positively toward price reductions, gift coupons, etc.
    d. All of the above

7.6 Marketing Research

Marketing research (MR) influences marketing and social systems. According to the American Marketing Association, MR links the consumer and the marketer. Information gained from research efforts broadens the range of product choices; increases the consumer's ability to make choices; helps identify and define marketing opportunities and problems; and helps generate, refine, and evaluate marketing actions. Overall, the information helps in enhancing a firm's marketing performance and process. With a rise in the research through marketing intelligence, and its growing impact on the social system, researchers are forced to examine and scrutinize their research activities to minimize controversies. This is a difficult task as ethical issues are highly subjective in nature and involve value judgments, fundamental beliefs, and basic assumptions about how the society should operate.

MR requires an analysis and prediction of the desired outcomes of the research. The Market Research Society lays down certain ethical standards to be observed by research practitioners, and specifies a framework of qualifications and membership grades reflecting the education, knowledge, and competence required for market research to be effectively conducted. Five distinct entities that are affected by the MR process are the society, the respondents in the specific study, the client, the researcher, and the research profession. Each of these entities has rights and responsibilities in the conduct and use of research results. The research profession in business has to ensure certain rights to the society. These rights are -- the right to be informed of critical research results and the right to expect an objective research result (i.e., it should not confirm or deny a particular claim with the intention of deceiving the consumers).

The common forms of research abuse that violate the respondents rights are use of MR to sell products; use of MR to obtain information for sales leads or as an opportunity to pitch a sales presentation; and use of telephone or personal interviews and mail surveys to generate sales leads or to solicit sales.

7.6.1 Issues involving the Rights of the Researcher

Researchers may sometimes violate certain ethical considerations either due to constraints like time and money or to please the clients. Their research findings not only benefit the clients, but also benefit the individuals and the society at large. Therefore, it is vital that others should respect their rights.

Following are the issues involving researcher's rights.

Protection against improper solicitation of proposals: Research proposals should be invited only to decide the research project's utility and viability It is unethical to invite proposals where there is no intention of engaging external research firms. Also, the proposals of one research firm should not be given to another upon its selection.

Misrepresentation of findings: The report has to accurately represent the research findings. Any distortion done to benefit the client is unethical. Excessive requests: After signing the contract, some clients request for additional tasks. Researchers may not be able to include such tasks if the clients make unreasonable demands as they involve additional cost, time, and energy.

Reneging on promises: Often, clients promise to provide certain information (sales and cost data) to the researcher, but fail to do so when it is required. This will become a hindrance to the project's completion.

Availability of funds: While requesting research proposals, clients should make a rough estimate of the budget so that the researcher can design their process within the limits.

Example: Rights of a Researcher – An incident in Google

According to The Economic Times article (2021), Gebru, an ethical researcher in AI and former employee of Google, said that Google dismissed her because she questioned the company's decision not to publish her research that claimed AI that mimics language might harm underprivileged people. Mitchell, a co-author of the article, publicly criticized Google for terminating Gebru and damaging her work's legitimacy.

Source: Reuters (20.02.2021), "Google fires second AI ethics leader as dispute over research, diversity grows" retrieved from https://economictimes.indiatimes.com/news/international/business/google-fires-artificial-intelligence-manager-who-protested-her-peers-departure/articleshow/81121001.cms Accessed on 02.09.2022

7.6.2 Right to expect Ethical Subject Behavior

Respondents have certain ethical responsibilities in research. They should report data truthfully and in an unbiased manner. The subject also has to keep the research findings confidential, if required.

The use and impact of MR on the industry and society at large have put under scrutiny the conduct of entities like clients, respondents, and researchers. Awareness and concern for ethical issues in research would help largely and also improve consumer cooperation

Activity:

A Pune-based market research agency rated an upcoming FMCG company very high, but soon after the company faced many lawsuits for making unethical claims in advertisements. Discuss the various ethical issues a market research agency has to consider when rating a company.

Answer:

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Check Your Progress-3

25. Hard selling techniques used by companies refer to which of the following?
    a. Those unethical selling practices that are used for spreading rumors about acompetitor.
    b. Those selling practices that are used to communicate according to the desires andemotions of customers.
    c. Those selling practices that attract a consumer toward a product through pricereductions, gift coupons, etc.
    d. None of the above
26. Identify the role of the Advertising Standards Authority to check unethical practices in promotion.
    i. It protects the honesty, legality, and fairness of the advertisements.
    ii. It has the authority to withdraw advertisements that are considered offensive,misleading, and not in accordance with law.
    iii. It has certain published rules which have to be followed by advertisers.
    iv. Unethical practices in advertisements that focus on attacking the competitor's products are not allowed.
    a. Only i, ii, and iii
    b. Only i, iii, and iv
    c. Only ii, iii, and iv
    d. i, ii, iii, and iv
27. Which of the following option is considered as a very important aspect than theothers in marketing management?
    a. Price
    b. Product
    c. Promotion
    d. Customer service
28. Identify the aspect that is considered as an important sign in the customer's assessment of a particular company.
    a. The products they purchase from the company

b. The market share of the company compared with its competitors

c. The degree to which they are willing to share sensitive information with firms

d. The prices of products offered by the company

29. Identify the statements that hold true regarding marketing research.

i. Marketing research is the function that links the consumer and the marketer.

ii. Marketing research information widens the range of product choices and

increases consumer's ability to make better choices.

iii. Marketing research information is used to identify and define marketing opportunities and problems.

iv. Marketing research information helps in improving marketing performance and process of a firm.

a. Only i, ii, and iii

b. Only i, iii, and iv

c. Only ii, iii, and iv

d. i, ii, iii, and iv

30. Identify the institution that has specified a framework of qualifications and membership grades reflecting the education, knowledge, and competence required for an effective conduct of market research.

a. American Marketing Association

b. Market Research Society

c. Institute of Chartered Accountants of India

d. Both (a) and (b)

31. Which of the following entities are affected by the marketing research process?

i. Society

ii. Respondents in the specific study

iii. Client and the researcher

iv. Research profession

a. Only i, ii, and iii

b. Only i, iii, and iv

c. Only ii, iii, and iv

d. i, ii, iii, and iv

32. The common forms of research abuse that violate the respondents right are

i. Use of marketing research to sell products and/or services.

ii. Use of marketing research for obtaining information for sales leads.

iii. Use of marketing research as an opportunity to pitch a sales presentation.

iv. Use of marketing research to generate sales through telephone or personalinterviews mail surveys.

a. Only i, ii, and iii

b. Only i, iii, and iv

c. Only ii, iii, and iv

d. i, ii, iii, and iv

7.7 Summary

- Marketing management deals with providing products and services that create value for the customers and also satisfy them. Considering the growing customer orientation in marketing, a code of ethics should be formulated that can help in framing policies at all marketing levels and where employees can follow a uniform standard of ethics.
- Ferrell and Gresham have identified three factors -- individual factors, significant factors, and opportunity factors -- that determine the code of ethics framed by the marketer. These factors have been validated by a study conducted by Burke, Maddock, and Rose.
- With public attention focused on ethics, there is a need for stricter controls in business practices, right from framing marketing strategies to finally delivering a product to the consumers.
- Marketing strategies decide the success of the organization, right from the business unit level. These are being directed to achieve higher standards of ethics as they are in public scrutiny.
- The marketing mix includes Mc Carthy's 4P of product, price, place, and promotion. It also includes service aspects of the 3Ps of people, physical evidence, and process.
- Marketing gained from research helps in enhancing a firm's marketing performance and research (MR) links the consumer and the marketer. Information process.
- With a rise in MR through marketing intelligence, and its growing impact on the social system, researchers are forced to examine and scrutinize their MR activities to minimize controversies.
- Researchers may sometimes violate certain ethical considerations either due to constraints like time and money or to please the clients. Their research findings not only benefit the clients, but also the individuals and society at large. Therefore, it is vital that others should respect their rights.
- The issues involving researcher's rights are protection against improper solicitation of proposals; misrepresentation of findings; excessive rights; reneging on promises; and availability of funds.

- Respondents have certain ethical responsibilities in research. They should report data truthfully and in an unbiased manner. The subject also has to keep the research findings confidential, if required.

7.8 Glossary

Individual Factors: are the moral values inculcated in a person by family, education and culture. (According to Ferrell and Gresham).

Marketing Strategy: It refers to the plan designed to attain the marketing objectives of a firm.

Opportunity Factors: refer to the ethical codes and standards that are promotedin an organization. (According to Ferrell and Gresham).

Significant Factors: The extent to which reference groups, top management and peers influence the market (According to Ferrell and Gresham).

7.9 Self-Assessment Test

1. What are the ethical issues involved in marketing management and marketing strategy?
2. Explain in detail the ethical issues involved in the marketing mix.
3. Discuss the importance of marketing research. What are the ethical responsibilities of the researcher and the respondent in marketing research?

7.10 Suggested Readings/Reference Material to be added

1. K P Muraleedharan, E K Satheesh (2022). Fernando's Business Ethics and Corporate Governance, Pearson India. 3rd edition
2. Manuel G. Velasquez (2021). Business Ethics – Concepts and Cases. Pearson Education, 8th edition
3. K Viyyanna Rao & G Naga Raju (2020). Business Ethics and Corporate Governance. 1st edition. Wiley
4. Jyotsna GB & RC Joshi (2020). Business Ethics and Corporate Governance. McGraw Hill India. 1st edition
5. Sandeep Goel (2020). Corporate Governance. McGraw Hill India. 1st edition

7.11 Answers to Check Your Progress Questions

1. **(b) Marketing management**

   Marketing is the interface between different and often competing value systems the firm, the customers, and other people with whom the business is concerned. It is the most visible of a company’s policies and such in the focus of consumer and media attention. Marketing management relies on providing products and/or services that create value for the customers and also satisfy them. The otheroptions are wrong.

2. **(b) Marketing**

   An organization interacts with its customers through its marketing department. Marketing also helps an organization to promote itself.

3. **(c) Only ii and iv**

   Ferrell and Gresham have identified three factors that determine the code of ethics framed by the marketer. These are individual factors, significant factors, and opportunity factors. Donaldson and Davis identified that a common ethical standard is important for shared values; to bring in higher quality in products, processes, and services; and also for better output and achievement.

4. **(d) i, ii, and iii**

   Ferrell and Gresham have identified three factors that determine the code of ethics framed by the marketer. These are individual factors, significant factors, and opportunity factors. Individual factors are the moral values inculcated in a person by family, education, and culture. Significant factors refer to the extent to which reference groups, top management, and peers influence the marketer. The opportunity factors are the ethical codes and standards that are promoted in an organization.

5. **(a) Individual factors**

   Individual factors are the moral values inculcated in a person by family, education, and culture. For instance, a group of people in the society are sensitive toward animal violence. Therefore, organizations that are into businesses likeusing animals for making their products should consider such people and should be very careful while marketing their products.

6. **(c) Only ii and iii**

   Significant factors refer to the extent to which reference groups, top management, and peers influence the marketer. These factors have more to do with the organizational climate of the marketer.

7. **(b) Significant factors**

   Significant factors refer to the extent to which reference groups, top management, and peers influence the marketer. These factors have more to do with the organizational climate of the marketer.

8. **(b) These are ethical codes and standards that are promoted in an organization.**

   The opportunity factors are the ethical codes and standards that are promoted in an organization. They are rules and policies framed by organization, which all the employees are expected to adhere. For instance, some companies have mandated that their suppliers, distributors, and other business partners should follow ethical practices in their respective organizations. Such companies expect that all the employees in their organization as well as in those of their business partners should follow and adhere to these rules.

9. **(b) i/q, ii/r, iii/p**

   Ferrell and Gresham have identified three factors that determine the code of ethics framed by the marketer: individual factors, significant factors and opportunity factors. Individual factors are the moral values inculcated in a person by family, education and culture. Significant factors refer to the extent to which reference groups, top management and peers influence the marketer. These have more to do with the organizational climate of the marketer. The opportunity factors are the ethical codes and standards that are promoted in an organization. These are rules and policies framed by the organization, which all the employees are expected to adhere.

10. (a) Individual factors

Individual factors play the most important role in framing a marketing decision.

11. (d) i, ii, and iii

Donaldson and Davis identified that a common ethical standard is important for shared values; to bring in higher quality in products, processes, and services; and also for better output and achievement.

12. (d) i, ii, iii, and iv

A study titled 'attitudes of business ethics was conducted among decision makers and other professional groups by Burke, Maddock, and Rose. The research focused on four areas conduct of business, employee relations, social responsibility, and environmental concern.

13. (d) About 88% of the managers researched agreed that tax evasion was a necessary or legitimate business tactic.

A study titled 'attitudes of business ethics was conducted among decision makers and other professional groups by Burke, Maddock, and Rose. The research focused on four areas conduct of business, employee relations, social responsibility and environmental concern. The results from the study showed that managers and professionals had high consideration for ethical issues, keeping in view their competitive position and profits. Most of them believed that it was essential to tell the truth while promoting or selling products and/or services. About 88% of the senior and middle managers researched disagreed that tax evasion was a necessary or legitimate business tactic.

14. (b) Marketing strategy

Marketing strategy is the plan designed to attain the marketing objectives of a firm. It decides the success of the corporation, right from the business unit level.

15. (d) always ensure fair and ethical practices.

The ethical issues in marketing involve the stance adopted by a company towards its competitors. The strategies framed by companies can bring in rivalry among market players, at times wipe out a player, and establish a company as a main player in the particular market segment. However, not all marketing strategies ensure fair and ethical practices.

16. (b) Only i, iii, and iv

Strategies like competitive pricing, effective advertising, distribution strategies, product development, efficient supply chain etc., are adopted by the marketers to wipe out competitors from the market. Employing effective human resource policies would not directly help marketers to compete with their competitors. This strategy would help in ensuring effective functioning of the organization, which would indirectly help the organization to become successful in the market.

17. (d) i, ii, and iii

Consumers lose confidence in the buyer-seller relationship because there is a decrease in the number of firms operating, the customers do not have substantial number of firms to compare market offering, and the customers do not have any real choice in what they buy.

18. (b) E. Jerome McCarthy

Marketing mix was identified by E. Jerome McCarthy.

19. (b) Process, physical evidence, people

The service aspects of marketing mix include people, physical evidence, and process.

20. (c) It does not have an identity and personality of its own.

Product is defined as that which satisfies the need of a consumer and from which he/she can derive value for the price he/she pays. Products have an identity and a personality of their own. Products embody the ethical decisions made at the corporate level.

21. (d) There is real evidence that the advertisements encourage the consumption of these products.

There have been debates regarding advertisement regulation proposals for products like cigarettes and alcohol. Many critics have argued that advertisements encourage consumption of such products, and that curtailing or severely restricting these advertisements can reduce the harmful impact of these goods. Others counter that there is no real evidence that the advertisements encourage consumption of these products. They argue that it is the product and not the advertising that is the danger, and therefore, the product should be regulated.

22. (b)Updation of products would always result in coming out with hazardous products.

Updating products is considered as an unethical practice by some critics. They argue that in the process of manufacturing and new product development, products may lose their basic characteristics. Also, a section of consumers will be deprived from getting the original products of their choice. When the product is updated, service or spare parts for the earlier version may no longer be available. This creates dissatisfaction among customers and they may not be willing to buy a new product from that particular company. Updation of products would not result in coming out with hazardous products.

23. (d) i, ii, iii, and iv

By place, marketers refer to the sum of locations by which the product movesfrom the supplier to the consumer. Place refers to the point at which the customeris able to access the information about a particular product or service and get the final product. Place also includes the process of distributing the product and the type of delivery service that is offered to the final consumer.

24. (b)Those selling practices that are used to communicate according to thedesires and emotions of customers.

Using soft selling techniques, companies communicate according to the desiresand emotions of the customers.

25. (c) Those selling practices that attract a consumer toward a product through price reductions, gift coupons, etc.

Hard selling is related to attracting a consumer toward a product through pricereductions, gift coupons, etc.

26. (d) i, ii, iii, and iv

Advertising Standards Authority is a UK based authority that protects the honesty, legality, and fairness of the advertisements. It has the authority to withdraw advertisements that are considered offensive, misleading, and not in accordance with the law. It has certain published rules, which have to be followed by the advertisers. Unethical practices in advertisements, which focus on attacking the competitor's product, are not allowed, Spreading unfolded and damaging rumors about a competitor is also considered as an unethical practice.

27. (d) Customer service

All the given factors are important in marketing management. However, customer service is considered as a very important aspect among all factors. Good response and customer interaction will bring back repeat customers. It is easier and more economical to retain existing customers than attracting new customers.

28. (c) The degree to which they are willing to share sensitive information with firms

The degree to which customers are willing to share sensitive information with firms can be interpreted as a powerful signal about their assessment of a particular company. Customers would share their information only if they consider that the company is good and would benefit them in the future. The other aspects are also important. However, the assessment with regard to those aspects might change over time based on a change in the product offerings, change in the market share, and change in the prices of the products offered by the company.

29. (d) i, ii, iii, and iv

Marketing research exerts a significant influence over marketing and social systems. Information obtained from marketing research widens the range of product choices and increases consumer's ability to make better choices. According to the American Marketing Association, marketing research is the function that links the consumer and general public to the marketer. This information is used to identify and define marketing opportunities and problems. It also helps in generating, refining, and evaluating marketing actions. Marketing research information also helps in enhancing marketing performance and process of a firm.

30. (b) Market Research Society

The Market Research Society has laid down certain ethical standards to be observed by research practitioners. It has specified a framework of qualifications and membership grades reflecting the education, knowledge, and competence required for an effective conduct of market research.

31. (d) i, ii, iii, and iv

Five distinct entities are affected by the marketing research process. These are the society, the respondents in the specific study, the client, the researcher, and the research profession. Each one of these entities has certain rights and responsibilities in the conduct and use of research results.

32. (d) i, ii, iii, and iv

The common forms of research abuse that violate the rights of the respondents are: using marketing research as a guise to sell products and/or services; using marketing research to obtain information for sales leads or as an opportunity to pitch a sales presentation; and using marketing research to generate sales leads or to solicit sales through telephone of personal interviews.

Unit 8

Ethical Issues in Operations Management

Structure

If you've got the confidence and the work ethic, you can make any dream come true.

\- Bret Har, Canadian-American Professional Wrestler

8.1 Introduction

Ethics in the business especially in the operations management is getting more significance as ethics consider whether or not business objectives are right or wrong and also concerned about the rules of human behavior.

In the previous unit, we discussed the ethical issues in marketing management. In this unit, we shall discuss the ethical issues in operations management.

Organizations have developed numerous systems and codes to incorporate ethical issues into their decision-making processes. Operations management is one such area in which resources flowing within a defined system are combined and transformed in a controlled manner to add value in accordance with the policies communicated by management. Operations managers hold various titles and their responsibilities differ depending on the industries in which they work. Mostly, operations managers make use of materials, capacity, and knowledge available in the production facility. Their role can be best defined through the functions that they carry out. An analysis of the job description can help in finding out whether a job being performed by the operations manager is ethical or not.

This unit will first discuss the role of the operations manager. We shall then move on to discuss the ethical issues pertaining to operations management at the workplace. We shall also discuss the ethical dilemmas faced in quality control. Finally, we shall discuss the analytical framework of the ethical problems in operations management.

8.2 Objectives

By the end of this unit, you should be able to

- Recognize the role of the operations manager.
- Identify the ethical issues relating to operations management at the workplace.
- Explain the ethical dilemmas faced in quality control.
- Discuss the analytical framework of the ethical problems in operations management.

8.3 Role of Operations Manager

Operations managers have to make efficient use of the available resources to achieve the desired quality and quantity of output. In operations, the term resources include manpower, machinery and equipment, capital, materials (raw, semi-finished, and finished), spares, components, floor space, and other things that are required for production. Operations managers have to follow certain specified codes to achieve the desired output levels. For instance, they have to follow certain standards pertaining to production, the sequence of carrying out the manufacturing process, safety, etc., while manufacturing a product. Though the basic codes of conduct are the same, operations managers have to look into some extra operations depending on the sector in which they are functioning.

The role of the operations manager can be classified into two models –

- Model 1 based on the production sector
- Model 2 based on the service sector.

An analysis of their job description helps identify the ethical problems at the workplace. An operations manager has to manage human, technology, and system resources by carrying out tasks like planning, directing, organizing, staffing, motivating, and controlling.

Example: Improving Business Operations to Achieve Excellence

Operations managers had to make efficient use of the available resources to achieve the desired quality and quantity of output executing a business strategy more effectively and consistently than the competition. For example, operational excellence in Toyota Car Company went further as it involved setting the organization up for growth by understanding what the market wanted and creating an uninterrupted value stream that continuously met the need. The principle of respect must be applied by and for every person in an operationally excellent organization. It applied to employees, customers, partners, suppliers and the community. Employers' demonstrated respect when they created development plans for employees that included appropriate goals, involved employees in continuous improvement and provided consistent coaching for problem-solving. While perfection is an unattainable goal, pursuing it created the environment for a culture of operational excellence. When leaders focused on the process, they got to the root cause of the

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operational errors and improved them. Quality happens when the work environment is organized so that potential problems become visible immediately. Operationally excellent organizations understood that processes are intertwined and that the most significant problems often occurred when work is moved from one process to another.

Source: Johnnie Warabeck, Jul 13th, 2019, kainexus, https://blog.kainexus.com/improvement-disciplines/operational-excellence/what-it-takes-to-achieve-operational-excellence accessed on 25/06/2022

8.3.1 Production

The job responsibilities of the Model 1 (Production) manager include –

- Receiving raw materials
- Storing them in a safe and secure environment
- Supervising the movement of materials in the whole plant
- Ensuring that the employees produce the right quality
- Scheduling orders
- Maintaining the established quality standards
- Negotiating with suppliers and customers
- Packaging and distributing the products
- Ensuring the health and safety of the workers at the workplace
- Assessing the standard time values used in the manufacturing process
- Initiating employee suggestion schemes
- Taking decisions on operational and quality issues

All these functions require the efficient handling of men and machines. The operations manager must motivate the staff and set high work performance standards. Motivation is required to encourage employees to manufacture good quality products. Customer retention being important, it is vital to satisfy customers with good quality products. A manager's success in achieving operations management objective can be measured through his/her productivity, efficiency, and effectiveness.

Service

Services differ from manufacturing in the following ways. There is no back up or supporting inventory for poor service. Customer involvement is always there while a service is being provided. Production and consumption take place directly. The customer is directly involved in the operations. Service errors lead to the lossof customer trust and loyalty. The operations manager of the service sector has numerous responsibilities to earn customer trust and loyalty. The job specifications of an operations manager help in identifying the ethical problems faced on the job.

The job specifications of the Model 2 (Service) manager include:

- Receiving incoming calls and mails; storing documents of relevance
- Prioritizing jobs according to their importance
- Motivating quality performers among the staff and giving directions to the staff; negotiating with suppliers and dealing with enquiries
- Taking decisions on the policies that have to be implemented; ensuring the health and safety of the workers
- Maintaining computers and office equipment; taking decisions regarding operational issues; andensuring quality management.

Other activities of operations managers include:

- *Total Quality Management (TQM):* TQM is concerned with the principles and overall philosophy that drive an organization to ensure that its products and services are of very high quality. It is important for the success of the operations management in manufacturing and in service excellence.
- *Forecasting:* This involves predicting future demand to ensure the timely manufacture of products. It also involves the forecasting of human resources.
- *Improving technology:* With increasing international competition, operations managers must have an understanding of the various strategic opportunities offered by advanced technologies. Technological improvement is vital for producing high quality goods and making these available to the consumers at the right time.

Managers need to achieve planned output levels in terms of goods or services. The production manager's output is tangible in nature and any change required in the plant in terms of layout or design, plant or machinery maintenance can be checked and verified using objective methods. For a service manager, a greater degree of subjectivity is required in decision making as the customers are directly involved in the operations.

A manager has to balance freedom with responsibility. He/she needs to have a clear idea about the introduction of greater accountability in the work being carried out by the employees. This responsibility and accountability can be ensured through employee empowerment. For the production as well as the service manager, the ethical dilemma involved is the relationship of trust that he/she has with the employees.

Check Your Progress-1

1. What is an area in which resources, flowing within a defined system are combined and transformed in a controlled manner to add value in accordance with the policies communicated by the management?
   a. Purchase management
   b. Operations management
   c. Marketing management
   d. Total quality management

2. Which of the following statements define the role of an operations manager?
   i. Making an efficient use of materials, capacity, and knowledge available toachieve an output of the desired quality and quantity.
   ii. Motivating the staff and setting high standards of work performance.
   iii. Maintaining the established standards of quality.
   a. Only i and ii
   b. Only i and iii
   c. Only ii and iii
   d. i, ii, and iii
3. The operations manager has to manage
   i. human resources.
   ii. technology resources.
   iii. system resources.
   a. Only i and ii
   b. Only i and iii
   c. Only ii and iii
   d. i, ii, and iii
4. The role played by the operations manager is classified into models as Model 1 and Model 2. Model 1 and Model 2 are based on which of these sectors?
   a. Marketing, service
   b. Service, production
   c. Production, service
   d. Production, marketing
5. Identify the activities that an operations manager has to take up to manage the human, technology, and system resources.
   i. Planning and organizing
   ii. Directing and controlling
   iii. Staffing
   iv. Motivating
   a. Only i, ii, and iii
   b. Only i, ii, and iv
   c. Only ii, iii, and iv
   d. i, ii, iii, and iv
6. The job responsibilities of the Model 1 manager does not include:
   a. Receiving raw materials.
   b. Maintaining computers and office equipment.
   c. Supervising the movement of materials in the whole plant
   d. Packaging and distributing the products.

7. The job responsibilities of the Model 1 manager include:
   i. Receiving incoming calls and mails.
   ii. Storing the raw materials in a safe and secure environment.
   iii. Ensuring that the employees produce the right quality.
   iv. Motivating quality performers among staff.
   a. Only i and ii
   b. Only i and iv
   c. Only ii and iii
   d. Only iii and iv
8. The job specifications of the Model 2 manager include:
   i. Storing the documents of relevance.
   ii. Distributing the products.
   iii. Scheduling orders.
   iv. Taking decisions on the policies that have to be implemented.
   a. Only i and ii
   b. Only i and iv
   c. Only ii and iii
   d. Only iii and iv
9. The job specifications of the Model 2 manager include all except:
   a. prioritizing jobs according to their importance.
   b. receiving incoming calls and mails.
   c. packaging and distributing the products.
   d. negotiating with suppliers.\

8.4 Ethical Issues at Workplace

Of all the ethical problems, what is of major concern to the operations manager is the safety of operations. Sometimes, workers may consume alcohol or drugs at the workplace. This may hinder the work process and also affect their judgments at the workplace. In such situations, the operations managers should take the situation under their control and ensure the safety of their staff.

Example: Workplace Safety at CISCO

The safety of employees working in organizations had been a vital ethical consideration for managers. During fiscal 2021, Cisco took actions to protect their employees, customers and partners and ensure their safety during the COVID-19 pandemic. CISCO's Environmental, Health and Safety team closely monitored the pandemic in each region, reviewed applicable regional health and safety requirements, assessed risks and developed comprehensive safety control plans and training for their workforce. Cisco employees and

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contractors continued to adapt to a hybrid work model and benefited from program enhancements designed to support their work at home or in the office. As a result, there was an increase in the utilization of virtual assessments conducted by professional ergonomists. This measure allowed CISCO's technical support employees' ergonomic needs and minimize COVID-19 exposure risks. Emergency Preparedness had been considered as another important component of safety. About 2,337 employees were part of 136 Emergency Response Teams setup by CISCO worldwide. These teams were trained to administer first aid, help evacuate buildings, and provide other support. Annual Incident Management Drills were used to keep all employees prepared. If a disaster occurs, CISCO has a system to inform employees and others through their intranet portals. Individual Customers in some countries have also been allowed to access and signup for their Emergency Notification System to indicate whether they need any help.

Source: CISCO ESG Reporting Hub, 2021, https://www.cisco.com/c/m/en_us/about/csr/esg-hub/people/workplace-safety.html accessed on 24/06/2022

The safety of employees working in organizations is a vital ethical consideration for managers. If an organization focuses only on gaining maximum profit at minimum cost and ignores employee safety, the result may be unhealthy/dangerous working conditions. The Occupational Safety and Health Act was enacted in the US government. Its main goal was to ensure that the employers provided hazardous-free environment to their workers. The act makes it mandatory for employers to provide a safe and healthy working environment to their employees. It contains specific standards regarding acceptable levels of noise and air pollution, and for general workplace safety. An employer who fails to adhere to these standards is given a warning and a reasonable amount of time to take corrective action. If safety violations lead to worker's death. Fines can be levied and managers imprisoned.

The Act also created two agencies -- the National Institute of Occupational Safety and Health (NIOSH), a research agency dealing with occupational safety and health, and Occupational Safety and Health Administration (OSHA). OSHA has the authority to inspect workplace safety violations and close down any company or industry, which it feels is unsafe for the workers. OSHA contains safety regulations with regard to job design, facility layout, facility location, inventory management, scheduling, and materials handling.

Theft and loss of vital information are the other ethical issues faced by managers at the workplace. To prevent theft, companies have to spend a considerable amount of time and money. They need to introduce sophisticated security and budgetary control procedures. While these measures would restrict unethical practices, companies runthe risk of losing the trust and confidence of honest and loyal employees. Accordingto the Association of Certified Fraud Examiners, fraud and abuse cost the US employers more than US$ 400 billion annually. This includes losses due to asset misappropriation, corruption, false statements, showing false overtime work, petty theft and pilferage, and use of company property for personal benefits.

Check Your Progress-2

10. Which of the following is primarily concerned with the principles and overall philosophy that drive an organization to ensure that its products and services areof very high quality?
    a. Purchase management
    b. Operations management
    c. Total quality management
    d. None of the above
11. Forecasting involves which of the following?
    a. Trading on the price sensitive information.
    b. Predicting future demand in order to ensure timely manufacture of products.
    c. Disguising assets so that they can be used without the detection of illegal activitythat produced them.
    d. Financing from third parties through substantial borrowing by the private company.
12. Identify the statement that does not hold true regarding the role of a production manager.
    a. The work carried out by a production manager is tangible in nature.
    b. They have to deal with the customers directly and therefore, require a greater degree of subjectivity in decision making.
    c. Any change required in the plant in terms of layout or design, maintenance of plant or machinery is checked and verified by objective methods by the production manager.
13. Identify the statements that hold true regarding a service manager.
    i. The service manager requires a greater degree of subjectivity in decision making.
    ii. The work carried out by a service manager is tangible in nature.
    iii. Service managers have to directly deal with the customers.
    a. Only i and ii
    b. Only i and iii
    c. Only ii and iii
    d. i, ii, and iii
14. In an organization, a manager should
    i. be able to balance freedom with responsibility.
    ii. have a clear-cut idea of introducing greater accountability in the employees.
    iii. empower the employees.
    iv. by empowering employees the responsibility and accountability can be ensured.

a. Only i, ii, and iii
b. Only i, iii, and iv
c. Only ii, iii, and iv
d. i, ii, iii, and iv

15. Which of the following is considered as an important ethical consideration for organizations?
    a. Earn profit
    b. Maintaining good relations with the customers
    c. Ensuring employee safety
    d. All of the above

16. Which of the following are the objectives of the Occupational Safety and Health Act (OSHA)?
    i. To ensure a healthy and safe work environment for the workers
    ii. To inspect any violations of workplace issues by the firm
    iii. To close down any industry that it feels is unsafe for the workers.
    iv. To lay down certain standards regarding acceptable levels of noise and airpollution and for general workplace safety.
    a. Only i, ii, and iii
    b. Only i, iii, and iv
    c. Only ii, iii, and iv
    d. i, ii, iii, and iv

8.5 Quality Control - Ethical Dilemmas

Operations managers have to maintain the prescribed standards of quality for the company's survival in the market. Quality management also helps organizations in expanding their market and entering into a new product line. Most organizations spend huge amounts on training and quality improvement initiatives like TQM, ISO-9000, and Six Sigma, without solving the constraints on quality or performance improvement. Organizations have to first find out the type of quality improvement required and then implement the required standard. With the evolution of lean production systems, the role of the operations manager has attained even greater importance. He/she has to integrate total quality management and improvement techniques at every level of manufacturing and service.

Example: De-board Passengers who Refuse to Wear Face Mask: DGCA to Airlines on Ethical Dilemmas

Operations managers were tasked to maintain the prescribed standards of quality for a success in the market. Managers faced ethical dilemmas when they had to achieve higher targets and at the same time optimize resources. For example, DGCA issued a circular giving separate binding directions to all staff

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persons deployed at the airports and in the aircraft, to take strict action against passengers and others who violated the masking and hygiene norms. followed by a Delhi High Court order of June 3, 2022, in case any passenger refused to wear mask or violated the COVID-19 protocol even after repeated warnings in flight mid-air, he could be treated as unruly passenger, then he or she could be de-boarded before departure.

Source: National Herald, June 08, 2022, https://www.nationalheraldindia.com/national/de-board-passengers-who-refuse-to-wear-face-mask-in-plane-dgca-to-airlines Accessed on 25/06/2022

Managers face ethical dilemmas when they need to achieve higher targets and at the same time optimize resources. Hidden/undetectable quality issues prompt operations managers to cut costs, at least in the short term. These unethical practices may help a company in the short term, but in the long run, would lead to losing loyal customers. This is also true of service-based organizations. For instance, when a hospital discharges a patient without curing his/her disease but charges the entire treatment money, it is an unethical practice. With consumers becoming more quality-conscious, operations managers need to emphasize giving them the right quality if they are to gain the loyalty and trust of the customers.

8.5.1 Managerial Roles in Quality Control

Employees should be assured that ethical standards or codes are uniform throughout the organization including for the top management. Leadership and direction begin at the highest level. Executives and managers should become role models for the workers. To implement effective quality control and bring in a uniform code of ethics in the organization, an operations manager should plan and coordinate with and organize and motivate the employees. Ethical planning involves using techniques like lean manufacturing that would generate high productivity levels and at the same time safeguard the workers safety and health. It also involves detailed scheduling and financial control procedures. It is very difficult for managers to consider all these aspects and also maintain efficient quality levels. It is more cumbersome for the operations manager to coordinate the use of resources by planning, organizing, staffing, and directing within an ethical framework.

To build in effective planning strategies within an ethical framework, a manager should analyze the future course of action and find answers to questions like what is being manufactured; the effects on the staff, the environment, and the customer; where the product is to be manufactured; the quality levels that need to be maintained; and the effects of the planning process on the staff. After planning, the next step is organizing, which refers to deciding on the administrative structure and the organization's working system. Ethical decision-making in organizing can be effectively structured if a manager finds the answers to questions like where the power is vested in the organization; safety measures to be incorporated by the staff; and accurateness of record keeping.

The next step in staffing deals with the human factor. Staffing deals with questions like are people with the right qualifications employed in the job; are the training and skills, type of working system, and compensation systems required for the employees to motivate them; and are the type of formal procedures like systems and infrastructure required by the employees to perform effectively. To better understand and resolve ethical dilemmas, organizations should develop and document a procedure for dealing with dilemmas as they arise. Ethical dilemmas, ideally, should be resolved by a group within the organization, such as an ethics committee comprising top managers and/or members of the board. Staff members should also be made part of the committee. The entire staff should be aware of this group as it will demonstrate the overall importance of maintaining an ethically correct workplace.

Check Your Progress-3

17. Quality management in organizations helps in
    i. allowing it to survive in the market.
    ii. expanding its market.
    iii. entering into a new product line.
    a. Only i and ii
    b. Only i and iii
    c. Only ii and iii
    d. i, ii, and iii
18. Identify the techniques that are used for managing and enhancing quality in organizations.
    i. TQM
    ii. ISO 9000
    iii. Six Sigma
    iv. Product counterfeiting
    a. Only i, ii, and iii
    b. Only i, iii, and iv
    c. Only ii, iii, and iv
    d. i, ii, iii, and iv

8.6 An Analytical Framework for Ethical Problems in Operations Management

Decision-making in operations research leads to ethical dilemmas. Producing goods that are cost-effective is a tough task and involves complex decision making. Following are some situations that may pose ethical dilemmas for managers.

- When an operations manager has to try and recruit an employee of a rival company because he/she has the requisite knowledge of products and company. Such practices may be unethical but the manager may have to do it to gain profits for his/her company.
- When operations managers of a particular industry collude with competitors to fix prices for products while bidding. The company that is awarded the contract then sub-contracts the work to the unsuccessful companies.

Six factors are involved in ethical decision-making. Of these six factors, if more than one factor affects the ethical dilemma then the ethical intensity increases.

Ethical intensity is described as the degree of importance given to an ethical issue. The six factors involved in decision making are:

Magnitude of consequence

This refers to the magnitude of the impact that a decision can have on the employees. If there is such an ethical dilemma, the manager tries to take a decision that would have comparatively less harmful consequences. For example, a decision regarding machine safety, which could cause the death of an operator, assumes greater importance than a decision that could result in the operator cutting a finger.

Probability of the effect

This is an ethical dilemma in which an operations manager has to decide on a product that is less harmful than another to the consumer. For example, there is greater probability of harm that could be caused by manufacturing a car which is dangerous to the occupants during normal driving, than by manufacturing a car which is dangerous while turning corners at high speed.

Social agreement

It is the degree of social acceptance that exists in defining something as good or bad. It reflects the cultural awareness of an individual during the process of decision-making.

Time interval

This is the gap between the product being introduced and the time at which its impact on the consumer begins to be felt. For example, the manufacture of a product that is likely to have ill effects immediately on some people requires faster attention than the manufacture of a product that produces side-effects say, after thirty years.

Proximity

While solving ethical dilemmas, a manager may adopt the decision that is beneficial to him/her or those affected socially, culturally, psychologically, or physically by the decision.

Concentration of effect

Decisions that affect a large number of people require greater attention. For example, a change in the acceptance of claims under a product quality guarantee which denies 10 people, each claiming a compensation of Rs. 10,000, has more of a concentrated effect than a change which denies claims made by say, 10,000 people of Rs. 10 each.

Example: Moonlighting in IT Sector

IT major Wipro fired around 300 of its employees for moonlighting. Wipro had discovered these employees were working directly for one of Wipro's competitors. While sacking its employees, the Wipro Chairman, Rishad Premji had said that playing in a band over the weekend is different from secretly working for rivals. He described moonlighting as “cheating, plain and simple”.

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The three core principles – 1) principle of respect for persons 2) principle of beneficence and 3) principle of justice were considered to be invaluable for organizations. These core principles could help HR leaders prepare policies for the organization to work in a more ethical way. Decision-making in operations are crucial in some situations like moonlighting.

Source: NDTV Business Desk Updated: September 23, 2022 https://www.ndtv.com/business/wipro-fires-300-employees-for-moonlighting-heres-how-companies-catch-such-acts-3371864 accessed on 31.10.2022

8.6.1 Analysis of Ethical Issues at the Workplace

Organizations often face problems due to the unethical practices of employees such as claims for extra allowances against poor input materials. A study conducted among workers of British Depa Crepes Ltd. (Nylon-processors in Oldham) revealed that the employees resorted to unethical practices. For instance, they carried out similar jobs simultaneously in the same department on adjacent machinery and claimed extra allowances stating poor input. The operations manager also did not show proper operating budgets.

Hellriegel, Slocum, and Woodman outlined certain rights that workers should follow. These rights reflect the thoughts and motivation of the individuals when faced with ethical dilemmas, and those of the personnel involved while analyzing ethical issues. Premeaux and Mundy provided another analysis according to which workers were given certain rights that they should follow to maintain ethical standards at the workplace.

Before taking a final decision on ethical issues, operations managers should ensure that the decision will have the greatest social benefit. They should consider all aspectsof a situation while framing rules regarding ethical conduct in an organization. The decision-making process should consider the operating conditions on which the rules were based and the past records to find out whether a similar situation had occurred earlier. Such an analysis will help the managers frame ethical codes appropriate to a particular situation and also help them to function in an unbiased manner.

Check Your Progress-4

19. Ethical intensity is
    a. the degree of importance given to an ethical issue.
    b. an ethical theory that treats self-interest as the foundation of morality.
    c. the study of the origin and meaning of ethical concepts.
    d. a degree of social acceptance that exists in defining something as good or bad.
20. Which of the following refers to the magnitude of the impact that a decision can have on the employees?
    a. Proximity
    b. Probability of effect
    c. Concentration of effect

   d. Magnitude of consequence

21. Probability of effect is
   a. the magnitude of impact that a decision can have on the employees.
   b. degree of social acceptance that exists in defining something as good or bad.
   c. an ethical dilemma in which a manager has decided on a product that is less harmful to the consumer.
   d. the gap between the time when the product is introduced and the time when the product impact on the consumer begins to be felt.
22. Social agreement is
   a. the magnitude of impact that a decision can have on the employees.
   b. the degree of social acceptance that exists in defining something as good or bad.
   c. an ethical dilemma in which an operations manager has decided on a product that is less harmful to the consumer.
   d. the gap between the time when the product is introduced and the time when the product impact on the consumer begins to be felt.
23. Which of the following factors reflects the cultural awareness of an individual during the process of decision making?
   a. Time interval
   b. Social agreement
   c. Probability of effect
   d. Magnitude of consequence
24. Time interval is one of the six factors involved in ethical decision making. This refers to which of the following?
   a. Gap between the time when the product is conceptualized and the time when the product is produced.
   b. Gap between the time when the product is produced and the time when the product is introduced into the market.
   c. Gap between the time when the product is introduced and the time when the product impact on the consumer begins to be felt.
   d. Gap between the time when the product is produced and the time when the product impact on the consumer begins to be felt.

Activity:
Operations managers of different industries face different ethical dilemmas in their day-to-day activities. What factors help an operations manager resolve those dilemmas and enable him to produce cost effective goods?

Answer:

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8.7 Summary

- Operations management is an area in which resources flowing within a defined system are combined and transformed in a controlled manner to add value in accordance with the policies communicated by management.
- Operations managers have to make efficient use of the available materials, capacity, and knowledge to achieve the desired quality and quantity of output.
- The role of the operations manager can be classified into two models -- model 1 based on the production sector and model 2 based on the service sector.
- Of all the ethical problems, a major concern to the operations manager is the safety of operations. Operations managers also face ethical issues like theft and loss of vital information at the workplace.
- Operations managers have to maintain the prescribed standards of quality for the company's survival in the market. An operations manager has to integrate total quality management and improvement techniques at every level of manufacturing and service.
- As consumers are becoming increasingly aware about the quality aspects, operations managers should emphasize giving them the right quality to gain loyalty and trust from the customers.
- Employees should be assured that ethical standards or codes are uniform throughout the organization including for the top management. To implement effective quality control and bring in a uniform code of ethics in the organization, an operations manager should plan and coordinate with and organize and motivate the employees.
- Six factors -- magnitude of consequence, probability of the effect, social agreement, time interval, proximity, and concentration of effect -- are involved in ethical decision-making. The presence of more than one factor affects the ethical dilemma, and in turn, increases the ethical intensity. Ethical intensity is the degree of importance given to an ethical issue.
- Before taking a final decision on ethical issues, operations managers should ensure that the decision has the greatest social benefit. They should consider all aspects of a situation while framing rules regarding ethical conduct in an organization.

8.8 Glossary

Lean production systems: To gain and maintain competitive advantage, firms are using Just-in-time philosophy, which is to eliminate waste by cutting unnecessary inventory and removing delays in operations.

Magnitude of consequence: This refers to the magnitude of the impact that a decision can have on the employees.

Probability of the effect: This is an ethical dilemma in which an operations manager has to decide on a product that is less harmful than another to the consumer.

Social agreement: It is the degree of social acceptance that exists in defining something as good or bad.

Time interval: The gap between the product being introduced and the time at which its impact on the consumer begins to be felt.

8.9 Self-Assessment Test

1. Discuss the role of the operations manager.
2. What are the ethical issues pertaining to operations management at the workplace?
3. What are the ethical dilemmas that operations managers face with respect to quality control?
4. Discuss in detail the analytical framework of the ethical problems in operationsmanagement.

8.10 Suggested Readings/Reference Material

1. K P Muraleedharan, E K Satheesh (2022). Fernando's Business Ethics and Corporate Governance, Pearson India. 3rd edition
2. Manuel G. Velasquez (2021). Business Ethics – Concepts and Cases. Pearson Education, 8th edition
3. K Viyyanna Rao & G Naga Raju (2020). Business Ethics and Corporate Governance. 1st edition. Wiley
4. Jyotsna GB & RC Joshi (2020). Business Ethics and Corporate Governance. McGraw Hill India. 1st edition
5. Sandeep Goel (2020). Corporate Governance. McGraw Hill India. 1st edition

8.11 Answers to Check Your Progress Questions

1. **(b) Operations management**

   Operations management is an area in which resources flowing within a defined system are combined and transformed in a controlled manner to add value in accordance with the policies communicated by the management

2. **(d) i, ii, and iii**

   Operations managers hold various titles and their responsibilities differ according to the industries in which they work. They make an efficient use of materials, capacity, and knowledge available to achieve an output of the desired quality and quantity. They are responsible for motivating the staff and setting high standardsof work performance. They are also responsible for maintaining the established standards of quality.

3. **(d) i, ii, and iii**

   Operations managers have to manage human, technology, and system resources.

4. **(c) Production, service**

   For an easy understanding of the role of operations manager, the roles are classified into two models. Model 1 is based on the production sector, while Model 2 is based on the service sector.

5. **(d) i, ii, iii, and iv**

   The operations manager has to manage human, technology, and system resources. Managing these resources would involve planning, directing, organizing, staffing, motivating, and controlling.

6. **(b) Maintaining computers and office equipment.**

   The job responsibilities of the Model 1 or the production manager include: receiving raw materials, storing them in a safe and secure environment, supervising the movement of materials in the whole plant, ensuring that the employees produce the right quality, scheduling orders, maintaining the established quality standards, negotiating with suppliers and customers, packaging the products, distributing the products, ensuring proper health and safety for the workers in work environment, assessing the standard time values used in the manufacturing process, initiating employee suggestion schemes, and taking decisions on operational and quality issues. Maintaining computers and office equipment is the job responsibility of the Model 2 or service manager.

7. **(c) Only ii and iii**

   The job responsibilities of the Model 1 or the production manager include: receiving raw materials, storing them in a safe and secure environment, supervising the movement of materials in the whole plant, ensuring that the employees produce the right quality, scheduling orders, maintaining the established quality standards, negotiating with suppliers and customers, packaging the products, distributing the products, ensuring proper health and safety for the workers in work environment, assessing the standard time values used in the manufacturing process, initiating employee suggestion schemes, and taking decisions on operational and quality issues. Receiving incoming calls and mails, and motivating quality performers among staff is the job responsibility of the Model 2 or service manager.

8. (b) Only i and iv

The job specifications of the Model 2 or the service manager include: receiving incoming calls and mails, storing the documents of relevance, prioritizing of the jobs according to their importance, motivating quality performers among staff and giving direction to the staff, negotiating with suppliers, dealing with enquiries, taking decisions on the policies that have to be implemented, ensuringthe health and safety of the workers, maintaining computers and office equipment, taking decisions regarding operational issues, and ensuring quality management. Distributing the products and scheduling orders is the job responsibility of the Model 1 or the production manager.

9. (c) Packaging and distributing the products.

The job specifications of the Model 2 or the service manager include: receiving incoming calls and mails, storing the documents of relevance, prioritizing of the jobs according to their importance, motivating quality performers among staff and giving direction to the staff, negotiating with suppliers, dealing with enquiries, taking decisions on the policies that have to be implemented, ensuring the health and safety of the workers, maintaining computers and office equipment, taking decisions regarding operational issues, and ensuring quality management. Packaging and distributing the products is the job responsibility of the Model 1 or the production manager.

10. (c) Total quality management

Total quality management or TQM is primarily concerned with the principles and overall philosophy that drive an organization to ensure that its products and services are of very high quality.

11. (b) Predicting future demand in order to ensure timely manufacture ofproducts.

Forecasting involves predicting future demand in order to ensure timely manufacture of products.

12. (b) They have to deal with the customers directly and therefore, require a greater degree of subjectivity in decision making.

The work carried out by a production manager is tangible in nature. Any change required in the plant in terms of layout or design, maintenance of plant or machinery can be checked and verified by using objective methods. In the caseof service manager, there is a greater degree of subjectivity required in decision making as the customers directly interact with the service manager.

13. (b) Only i and iii

In the case of service manager, there is a greater degree of subjectivity required in decision making as the customers are directly involved in the operations. The work carried out by a service manager is not tangible in nature, unlike that of a production manager.

14. (d) i, ii, iii, and iv

A manager should be able to balance freedom with responsibility. He/she needs to have a clear-cut idea of introducing greater accountability. Empowering the employees will make them responsible and accountable to the work they perform.

15. (c) Ensuring employee safety

Of the given options, ensuring employee safety is a major ethical concern for the organization.

16. (d) i, ii, iii, and iv

The National Institute of Occupational Safety and Health (NIOSH) administered the Occupational Safety and Health Act (OSHA) to provide a healthy and safe work environment. The objective of this act is to ensure a healthy and safe work environment to the workers. OSHA has the authority to inspect any workplace issues violations by the firm and close down any industry that it feels is unsafe for the workers. The act makes it obligatory for employers to provide employees witha safe and healthy working environment. It also lays down specific standards regarding acceptable levels of noise and air pollution and for general workplace safety.

17. (d) i, ii, and iii

Quality management is important for the survival of a company in the market, for expanding its market, and for entering into a new product line. It is important for the operations managers to maintain the prescribed standards of quality for long- term survival.

18. (a) Only i, ii, and iii

TQM, ISO 9000, and Six Sigma are some of the techniques used by the organizations to manage and enhance quality in organizations.

19. (a) The degree of importance given to an ethical issue.

Ethical intensity is described as the degree of importance given to an ethical issue.

20. (d) Magnitude of consequence

Magnitude of consequence refers to the magnitude of the impact that a decision can have on the employees.

21. (c) An ethical dilemma in which an operations manager has decided on a product that is less harmful to the consumer.

Probability of effect is an ethical dilemma in which an operations manager hasdecided on a product that is less harmful to the consumer.

22. (b)The degree of social acceptance that exists in defining something as good or bad.

Social agreement is the degree of social acceptance that exists in defining something as good or bad.

23. (c) Social agreement

Social agreement reflects the cultural awareness of an individual during theprocess of decision-making.

24. (c) Gap between the time when the product is introduced and the time when the product impact on the consumer begins to be felt.

Time interval is the gap between the time when the product is introduced and thetime when the product impact on the consumer begins to be felt.

Unit 9
Ethical Issues in Purchase Management

Structure

Businesses, the State, and the third sector should join forces for a fairer society around the theme of diversity and inclusion in the supply chain, diverse suppliers in general, and work and procurement with women in particular.

— Ofra Strauss, Israeli German business magnate and industrialist

9.1 Introduction

In the previous unit, we have discussed the ethical issues involved in operations management. In this unit, we shall discuss the ethical issues involved in purchase management.

Purchase managers frequently interact with the channel members of the firm. In some industries, about 60% of the firm's sales are controlled by the purchasing function. Due to the huge amounts of money involved, people working in the purchase department may indulge in unethical behavior. The purchasing department represents the firm to its external stakeholders, and hence, should not deviate from the expected standards and norms set by the firm. Past research has, however, revealed that the parts of the organization that are most exposed to the external environment are in turn most likely to diverge from the firm's behavioral standards, including ethical behaviors.

The growing interest of stakeholders in business activities has compelled companiesto ensure that all their supply chain partners are conducting themselves in a socially responsible way. Some companies are imposing codes of conduct on their suppliers and customers to ensure that other companies policies or practices do not have an unfavorable effect on them.

This unit will first discuss the role of the purchase manager. We shall then move on to discuss the ethical issues involved in purchasing. Finally, we shall discuss the code of ethics to be followed in carrying out the purchase function

9.2 Objectives

By the end of this unit, you should be able to:

- Explain the role of the purchase manager.
- Identify the ethical issues involved in purchasing.
- Discuss the code of ethics to be followed in carrying out the purchase function.

9.3 Role of Purchase Manager

The purchase manager has a strategic business function to carry out. The purchasingfunction has to be sensitive to the external market situation and also provide feedbackto the other functions. The purchase manager has to get the right quality of material inthe right quantity at the right time. The purchasing department is in direct contact with the suppliers. Open communication and trust among suppliers or buyers will help increating a long-term relationship with these suppliers. Through ethical behavior, thepurchasing department can build up a good image of the company and enhance the profitability.

The importance of the purchase manager has increased with the use of just-in-time (JIT) purchasing and total quality management (TQM) in product manufacturing. Some of the ethical issues that are associated with the purchasing function are deception, bribery, price rigging, and the sale of unsafe products. Following are the roles played by the purchasing department.

- It ensures the availability of proper quantity and quality of materials for smooth functioning of the production department.
- It procures materials at reasonably low costs (without compromising on quality) for the company.
- It ensures the supply of quality materials.
- It is aware of various substitute materials available in the market, their prices, and utility to the organization.
- It passes on information regarding purchasing to other departments of the company such as design, production, sales, and finance.
- It studies possible substitutes for raw materials.
- It ensures the continuity of supply of raw materials.
- It identifies and develops new vendors and maintains a good relationship with existing vendors. Vendor relations, vendor monitoring, or vendor evaluation, and development of new vendors is an integral part of the purchasing executives job.
- It develops good procedures and systems for the purchasing department.
- It co-ordinates with other functional departments to achieve continuity of information flow and integration between different departments to the extent possible.

A purchase manager has to carry out purchase research which involves a study of current trends regarding the cost of various input materials and also that of the general economic conditions, industrial conditions, and national and international developments that may be of importance to the organization. The study includes short- and long-range studies of the company's internal requirements and the external supply market.

The JIT purchasing concept has transformed the traditional relationship between buyers and sellers. The emphasis is more on product quality, delivery performance,schedules, and price. The concept was developed by the Japanese with the objective that nothing will be produced until it is needed, i.e., the materials arrive just-in-time when they are required. Following are the basic features of JIT purchasing.

- High quality components that arrive just when needed
- Frequent shipments of small lots
- A reliable transportation system
- Closer buyer-seller relationship
- Commitment to zero defects
- Stable production schedule

Products of unacceptable quality or delivery delays hamper the total production schedule of manufacturing a particular product. The role of the purchase manager is assuming greater importance in delivering quality products with more and more organizations taking up JIT purchasing. In JIT purchasing, the buyer relies more on the performance specifications than on product design, and the supplier is encouraged to be more innovative. The concept is also more responsive to customer needs. Any delay in the delivery of the final product will lead to customer dissatisfaction.

Example: L'Oreal's Procurement Department

According to McKinsey's article (2020), LOréal Cosmetics pursued participation in the development of new products. Through open talks on company goals and long-term commitment, the L'Oréal's procurement department constructed a successful co-development approach. The annual Cherry Pack event offered suppliers an early glimpse at the consumer trends with which the firm will be working and encouraged them to develop packaging solutions that reflect these trends.

The above information shows that the procurement department of Loreal makes a good relationship with its existing vendors.

Source: Agustin Gutierrez, Ashish Kothari, Carolina Mazuera, and Tobias Schoenherr (2020), "Taking supplier collaboration to the next level". McKinsey. Retrieved fromhttps://www.mckinsey.com/business-functions/operations/our-insights/taking-supplier-collaboration-to-the-next-level Accessed on 10.10.2022

Check Your Progress-1

1. Identify the statements that hold true regarding the purchasing function.
   i. It is a function that interacts with the other members of the supply chain.
   ii. It is a representation of a firm to its external stakeholders.
   iii. It should set a standard by not deviating from the expected standards and normsset by the firm.
   a. Only i and ii
   b. Only i and iii
   c. Only ii and iii
   d. i, ii, and iii
2. Which of the following parts of an organization are most likely to deviate fromthe behavioral standards, including those behaviors that are related to ethics?
   a. Those which are risk-taking and unethical
   b. Those that are most exposed to the outside environment
   c. Those which are risk-averting and ethical
   d. Those that are least exposed to the outside environment
3. Who among the following is responsible to get the right quality and right quantityof materials at the right time?
   a. Finance manager
   b. HR manager
   c. Purchase manager
   d. Marketing manager
4. The prime function of purchasing is to:
   i. remain sensitive to the external market situation.
   ii. maintain direct contact with the suppliers.
   iii. give feedback to the other functional areas of the organization.
   iv. get the right quality of materials, in the right quantity, at the right time.
   a. Only i and ii
   b. Only i and iii
   c. Only ii and iv
   d. Only iii and iv
5. The ethical behavior of the purchasing department would help in:
   i. building up a good image of the company.
   ii. pressurize the suppliers to cut prices and to get orders.
   iii. favoring suppliers who are close to the top management.
   iv. proving the profitability of the firm.
   a. Only i and ii
   b. Only i and iv
   c. Only ii and iii
   d. Only iii and iv

Activity: Sailaja was working as head of the purchasing department at APL Manufacturers, an automobile manufacturing company. The top management of the company wanted to shift from the traditional manufacturing approach to the just-in-time (JIT) manufacturing system. The purchasing system was also made JIT. Did not know how her department's role change with the adoption of the JIT system. She decided to seek the help of the production head in this matter. Assume that you are the production head. Explain to Sailaja the difference between the JIT manufacturing system and the traditional system. How would you explain the role played by her department in the JIT system?

Answer:

9.4 Ethical Issues in Purchasing

Companies usually adopt standard codes of ethics in purchasing. Research conducted by Browning and Zabriskie brought out the ethical issues involved in purchasing. The study inferred that purchasing personnel adopted high ethical standards. Another study conducted by Forker and Janson (1990) confirmed this finding. It found that purchasing personnel were ethical in dealing with salespeople; the actions of buyers were more ethical than their beliefs; and younger buyers were more ethical than their older counterparts.

Sibley conducted a study that compared the image that the purchasing department had about itself with the image that the other departments had of it. It was found that other departments considered that it was all right for the purchasing department to accept gifts from vendors. Rudelius and Buchholz conducted a survey that revealed that most purchase managers were concerned about accepting gifts and wanted clear guidance from the top management on these issues. Most purchasing personnel considered it okay to accept inexpensive gifts but not expensive ones. Though most studies revealed that purchasing personnel usually maintained high ethical standards, there were also instances of many unethical practices. Most purchasing managers were charged with adopting the following unethical practices.

Accepting free gifts

Accepting gifts is considered ethical if the suppliers, out of their free will, give gifts (inexpensive such as greeting cards, diaries, and stationery) to the buyers occasionally (during festivals, etc.) as a token of courtesy. However, it is considered unethical if the basic reason for giving such gifts is to win an order or gain preference over the other suppliers. Studies indicate that most buyers are honest and ethical in working with suppliers.

Example: Amazon and eBay Removed Unsafe Products from their Cart

In 2020, Amazon and eBay (US based e-commerce companies) have been accused of selling cosmetics with excessive amounts of mercury, which was harmful for the consumers. Activist groups of almost 12 countries purchased 158 skin-lightening cosmetics from Amazon and eBay, and found 60% of products were contaminated by mercury. And, none of the products mentioned mercury as an ingredient on their pack. Later, the companies removed the products from their platform.

The above information shows the big companies like Amazon and EBay committed mistakes of having unsafe products in their cart.

Source: Spencer Soper (2020), "Amazon, EBay accused of selling cosmetics with high mercury levels". Retrieved from https://www.business-standard.com/article/international/amazon-ebay-accused-of-selling-cosmetics-with-high-mercury-levels-119112800143_1.html Accessed on 10.10.2022

Deceiving suppliers

Purchasing personnel often trick the suppliers (question the quality of the suppliers) to get them to cut prices to get orders. Managers defend them by arguing that it is necessary to do so to increase the competition among suppliers and to get the best terms possible. Professional purchase managers, however, feel that these tactics can damage trust which is vital for maintaining vendor relations. Such practices can be eliminated by encouraging free and honest communication between buyers and suppliers.

Discrimination and favoritism

Purchase managers develop a mutually beneficial relationship by favoring suppliers who are also good customers. Sometimes, they favor suppliers who are close to the top management in order to gain their support and confidence. Such discriminatory practices result in opportunities being denied to other suppliers who may be able to supply better quality products. At times, suppliers are asked to directly deal with other departments that may not follow a professional approach. Thus the strategies of discrimination and favoritism raise questions about the professional ethics of the purchase manager as they hinder open and free competition, further preventing the firm from procuring the best supplies at the best terms.

Disclosure of confidential information

Suppliers give rewards to the purchase manager in exchange for confidential price-related information. Purchase managers operate a tendering system in which the selection criteria are revealed to some suppliers, thus putting others at a disadvantage. Sometimes, companies go in for selective leaks of the bid amount to encourage other bidders to quote the lowest possible prices, which is again unethical.

Forward Buying: Is it Ethical or Not?

Forward buying (buying stocks in advance to meet future requirements) is usually taken up to ensure the availability of raw materials. It is an ethical practice if the purpose is to assure supplies to the production department, and not to make a speculative profit against inventory. It is unethical if the raw materials are bought in advance with the aim of producing finished goods and then selling them for high prices during times of shortage. It is often difficult to estimate the correct amount of goods required for a particular period in a scarcity prone economy.

The Tandon Committee set up by the Reserve Bank of India in 1974, has laid down certain norms for inventory requirements. The committee examined various industries, their inventories, raw material requirements for work-in-process, finished goods, and receivables, and possibility and extent of own financing for buying and keeping inventories. The committee also considered the need for ensuring smooth production given the seasonality and other factors such as the availability of materials. Fixed norms were meant to indicate the level of current assets that could be financed by banks. Industries that were able to operate within the norms were encouraged to operate with lower inventory levels. Norms were laid down to provide bank funds for the legal requirements of business. The penalties for violating the norms could be either a penal rate of interest or some other punitive action. The deviations from the norms might occur due to irregularities in the import of raw materials; unavoidable interruptions in production due to strikes and power cuts; transport delays; and piling up of stocksof finished goods due to certain special situations.

Bribing is another unethical practice in purchasing. Selling of unsafe products is also an unethical practice, which could attract negative comments from the consumers. Organizations should therefore have a code of ethics that is applicable to them as well as their suppliers or partners.

Check Your Progress-2

6. Bribery, price rigging, and sale of unsafe products are all ethical issues associated with which of the following?
   a. Finance function.
   b. Purchasing function.
   c. Marketing function.
   d. HR function.
7. Which of the following statements clearly state the role of the purchasing department?
   i. To supervise the movement of materials in the whole plant
   ii. To ensure the availability of proper quantity and quality of materials for smooth functioning of the production department
   iii. To procure materials at reasonably low costs (without compromising on quality) for the company
   a. Only i and ii
   b. Only i and iii
   c. Only ii and iii
   d. i, ii, and iii

8. All the given tasks are carried out by the purchasing department, except:
   a. Be aware of various substitute materials available in the market, their prices, andutility to the organization
   b. Pass on information regarding purchasing to other departments of the companysuch as design, production, sales, finance, etc.
   c. Ensure the continuity of supplies of raw materials
   d. Maintain established quality standards and schedule orders
9. Purchase research involves:
   i. the study of the national and international developments.
   ii. the study of a function that links the consumer and the general public to themarketer.
   iii. the study of present trends regarding the cost of various input materials.
   iv. the study of the general economic conditions and industrial conditions.
   a. Only i, ii, and iii
   b. Only i, ii, and iv
   c. Only i, iii, and iv
   d. Only ii, iii, and iv

Activity: SK Enterprises, a textile manufacturing company, had always followed the policy of purchasing raw materials well in advance. The company claimed that this was done to ensure that there were continuous supplies to the production actual intention was to buy raw materials to produce finished goods and then sell them at a very high price when there was a shortage. What is this strategy of the company called? Is it ethical or unethical on the company's part to follow this strategy? Justify your answer.

Answer:

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9.5 Code of Ethics-Purchasing

Most companies establish a formal ethics policy or code. Professional bodies in the UK and the US have a formal code of ethics. Browning and Zabriskie studied the purchase managers based in the UK and the US on the code of ethics. It was reported that 90% of the respondents had an ethics policy. Most respondents in the US knew about the National Association of Purchasing Management that lays out the code of ethics for the proper functioning of the purchase managers. A similar study conducted by Rudelius and Buchholz revealed that the employees wanted the top management's help in laying down purchasing policy guidelines, companies, both private and public, are trying to deal with problems of unethical purchasing practices by following ethical purchasing policies.

9.5.1 Empirical Evidence for the Ethical Issues in Global Buyer-Supplier Relationships

The Center for Advanced Purchasing Studies conducted research to find out the relationships of the American buyers with their foreign suppliers. The main research objectives of the study were to examine:

- The factors that affected the level of unethical activities.
- Whether both the parties followed a similar code of ethics for judging businesstransactions.
- The impact of the level of unethical activities on the effectiveness of their relationships.

The research findings pointed to various factors that could affect the level of purchasing involvement in unethical activities. Unethical behavior in the buyer-supplier relationship could lead to dissatisfaction in both the parties. The buyer developed a negative perception of the effectiveness with which a supplier performs, though this was not true of all types of unethical activities. Following are the summarized results of the study.

- Activities like bribery were not included in either of the two buyer categories of unethical practices or unethical supplier activities.
- Both the parties had significantly diverse perceptions as to how involved the other party was in these activities.
- The deceitful practices of buyers were minimized when companies communicated their ethics policies to the suppliers and had an ethics hotline in place.
- Ethics training could help make new, inexperienced, and even seasoned buyers more aware of these less obvious, unethical behaviors. Including ethical issues asa part of a buyer s formal evaluations could help reinforce material and policies covered during training.
- Both the parties realized that employing unethical practices would result in short- term success at best, but would inevitably culminate in damage to the careers of both and the buyer-supplier relationship.
- There was no relationship between the supplier s nationality and the level of unethical activity in the buyer-supplier relationship.
- Buyers who were least satisfied with the supplier relationship were those who perceived their suppliers to be the most involved in unethical practices.
- When buyers perceived that suppliers were involved in unethical practices, they also believed that suppliers were performing less effectively.

Example: Amul and Parle refused to deliver products to Udaan

According to The Economic Times article (2021), some of India's major fast-moving consumer goods (FMCG) companies, like Amul and Parle Products, were refused to deliver inventories directly to Udaan, a Bengaluru-based firm, claiming that B2B ecommerce platform Udaan has monopolised supply to retailers.

Contd. .....

The above information provides the evidence of ethical issues in buyer-supplier relationships

Source: Ratna Bhushan (2021), "Amul, Parle, others stop direct supply to B2B startup Udaan" Retrieved from https://economictimes.indiatimes.com/tech/startups/amul-parle-others-stop-direct-supply-to-b2b-startup-udaan/articleshow/85964942.cms, Accessed on 10.10.2022

Check Your Progress-3

10. Which of the following includes short and long-range studies of the internal requirements of the company and the external supply market?
    a. Insider trading
    b. Purchase research
    c. Marketing research
    d. Both (a) and (b)
11. Identify the statement(s) that holds true regarding the just-in-time purchasing concept.
    a. It was developed by the Japanese.
    b. It is based on the objective that nothing will be produced until it is needed.
    c. It emphasizes on product quality, delivery performance, schedules, and price.
    d. All of the above
12. The just-in-time concept of purchasing emphasizes on:
    i. price
    ii. schedules
    iii. delivery performance
    iv. product quality
    a. Only i, ii, and iii
    b. Only i, iii, and iv
    c. Only ii, iii, and iv
    d. i, ii, iii, and iv
13. Which of the following is not a feature of the just-in-time purchasing concept?
    a. A reliable transportation system and a stable production schedule
    b. Intermittent shipments of huge lots
    c. High quality components that arrive just when needed
    d. Closer buyer-seller relationship and commitment to zero defects
14. In just-in-time purchasing concept, the buyer relies more on which of the following?
    a. Product design
    b. Performance specifications
    c. Manufacturing process
    d. Assembling process

Activity:

Vikram Singh (Vikram) has been appointed head of the purchase department in Kreator India Incorporation (KII), a 30-year-old company engaged in manufacturing engineering tools and equipment. After taking up his duties, the first thing Vikram wanted to do was check the earlier purchasing practices. Vikrammade the following observations.

The earlier purchase managers at KII had dealt with only three suppliers for raw materials and other components. Initially, Vikram thought that this might be due to the good relations that KII had with the suppliers. Upon further scrutiny, he found out that these suppliers had been favored in spite of their charging a higher price for materials than others in the market. Upon enquiring further, he found that the suppliers had bribed the purchasing personnel to get the orders. Vikram informed the top management about his findings, upon which it was decided that the concerned purchasing personnel would be punished and that the company would stop ordering from those three suppliers. The management also decided to draft a purchasing code of ethics. Do you agree with the management decision on the whole issue? What else could the management have done to solve the issue?

Answer:

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9.6 Summary

- The purchase manager has to carry out a strategic business function. He/she has to get the right quality of material in the right quantity at the right time.
- The purchasing function has to be sensitive to the external market situation and also provide feedback to the other functions. Through ethical behavior, the purchasing department can build up a good image of the company and enhance the firm's profitability
- The importance of the purchase manager has increased with the use of just-in-time (JIT) purchasing and total quality management (TQM) in product manufacturing.
- Some of the ethical issues associated with the purchasing function are deception, bribery, price rigging, and the sale of unsafe products.
- The purchasing department has to play various roles such as ensuring the availability of proper quantity and quality of materials for smooth functioning of the production department, procuring materials at reasonably low costs for the company, and studying possible substitutes for raw materials.

- Most purchasing managers are charged with adopting unethical practices such as accepting free gifts, deceiving suppliers, discrimination, favoritism, and disclosure of confidential information.
- Forward buying (buying stocks in advance to meet future requirements) is usually taken up to ensure the availability of raw materials. It is an unethical practice ifthe aim is to produce goods and market them for high prices taking advantage of the shortage of such raw materials.
- Companies, both private and public, are trying to deal with problems of unethical purchasing practices by following ethical purchasing policies.
- Many studies have been carried out on the purchasing code of ethics. The research findings have pointed to various factors that can affect the level of purchasing involvement in unethical activities.

9.7 Glossary

Forward buying: This refers to the technique of buying stocks in advance to meet future requirements. It is usually taken up to ensure the availability of raw materials.

Purchase research: It includes short and long-range studies of the internal requirements of the company and the external supply markets.

9.8 Self-Assessment Test

1. The behavior of purchase managers usually affects how the channel members view the firm. Explain the role played by the purchase manager and the purchasing department in an organization.
2. In spite of companies adopting standard codes of ethics in purchasing, there are instances of many unethical practices by purchasing personnel. Explain the studies that have been carried out in this regard. What are the unethical practices adopted by the purchasing managers?
3. Many studies have been carried out on the purchasing code of ethics. The research findings have pointed to various factors that can affect the level of purchasing involvement in unethical activities. Describe the research study and its findings in detail.

9.9 Suggested Readings / Reference Material

1. K P Muraleedharan, E K Satheesh (2022). Fernando's Business Ethics and Corporate Governance, Pearson India. 3rd edition
2. Manuel G. Velasquez (2021). Business Ethics – Concepts and Cases. Pearson Education, 8th edition
3. K Viyyanna Rao & G Naga Raju (2020). Business Ethics and Corporate Governance. 1st edition. Wiley
4. Jyotsna GB & RC Joshi (2020). Business Ethics and Corporate Governance. McGraw Hill India. 1st edition

5. Sandeep Goel (2020). Corporate Governance. McGraw Hill India. 1st edition

9.10 Answers to Check Your Progress Questions

1. **(d) i, ii, and iii**

   Purchase managers interact frequently with suppliers and other channel members and their behavior can and does affect how suppliers and others view the firm. Like marketing and sales, purchasing is a function that interacts with other members of the supply chain. The purchasing function is a representation of a firm to its external stakeholders and hence should set a standard by not deviating from the expected standards and norms set by the firm.

2. **(b) Those that are most exposed to the outside environment**

   Past research has indicated that those parts of an organization that are most exposed to the outside environment are most likely to deviate from the firm's behavioral standards, including those behaviors related to ethics.

3. **(c) Purchase manager**

   The purchase manager has a strategic business function to perform. He/she playsa major role in getting the right quality of material, in the right quantity, at the right time.

4. **(b) Only i and iii**

   The purchase manager has a strategic business function to perform. Purchasing is a window to the outside world. The prime function of purchasing is to remain sensitive to the external market situation and give feedback to the other functional areas of the organization. The purchase manager plays a major role in getting the right quality of material, in the right quantity at the right time. The purchasing department has to maintain direct contact with the suppliers.

5. **(b) Only i and iv**

   By behaving ethically, the purchasing department can build up a good image of the company and prove the profitability of the firm.

6. **(b) Purchasing function.**

   Deception, bribery, price rigging, and the sale of unsafe products are some of the ethical issues involved in the purchasing function.

7. **(c) Only ii and iii**

   The role of the purchasing department is to: ensure the availability of proper quantity and quality of materials for smooth functioning of the production department; procure materials at reasonably low costs (without compromising on quality) for the company; ensure supply of quality materials; be aware of various substitute materials available in the market, their prices and utility to the organization; etc. The operations manager (Model 1 or production manager) is responsible to supervise the movement of materials in the whole plant.

8. **(d) Maintain established quality standards and schedule orders**

   The role of the purchasing department is to: be aware of the various substitute materials available in the market, their prices and utility to the organization; pass on information regarding purchasing to other departments of the company such as design, production, sales, finance, etc.; ensure the continuity of supplies of raw materials; etc. The operations manager (Model 1 or production manager) is responsible to maintain established quality standards and schedule orders.

9. **(c) Only i, iii, and iv**

   Purchase research involves studying the present trends regarding the cost of various input materials and also that of the general economic conditions, industrial conditions, and national and international developments that may be of importance to the organization.

10. **(b) Purchase research**

    Purchase research includes short and long-range studies of the internal requirements of the company and the external supply market.

11. **(d) All of the above**

    The just-in time purchasing concept was developed by the Japanese. It emphasizes on product quality, delivery performance, schedules, and price. The main objective of the concept is that nothing will be produced until it is needed. That is, according to the just-in-time concept, the materials arrive just-in-time when they are needed.

12. **(d) i, ii, iii, and iv**

    The just-in time purchasing concept emphasizes on product quality, delivery performance, schedules, and price.

13. **(b) Intermittent shipments of huge lots**

    The basic features of JIT purchasing are: high quality components that arrive just when needed, frequent shipments of small lots, a reliable transportation system, closer buyer-seller relationship, commitment to zero defects, and stable production schedule.

14. **(b) Performance specifications**

    In just-in-time purchasing, the buyer relies more on the performance specifications than on product design or any other aspect. Therefore, the supplieris encouraged to be more innovative as it is more responsive to customer needs.

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