

Business Ethics: Case study of Primark

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Business Ethics: Case study of Primark***Introduction***

Business ethics can be defined a set of principles and moral values that guide the behaviour of an organisation and its employees. Business ethics are based on principle moral values that a business and its employees embrace while conducting the business and pursuing business goals and objectives. Most businesses have a code of ethics that is shared throughout the organisation and is followed by both management and employees in conducting business activities and thus become the foundation of corporate culture of the organisation. It is expected from the businesses that they will not compromise ethical objectives while trying to achieve their business objectives primarily profitability (Ferrell and Fraedrich, 2014).

The history of theoretical development in business ethics is rich and following is a comprehensive summary of those developments. *Moral objectivism* refers to the values that distinguish the rights from wrongs in terms of behaviour of a company. The decisions of a company can either morally right or wrong. These moral values differ according to the moral values of the society in which the business is operating in and are dependent on a wide range of factors including religion, culture, and social practices of the society. *Moral Relativism* refers to the general belief that it is wrong to declare one culture superior to another culture. The corporations must acknowledge and respect the moral and cultural values of different culture in which they operate and should not impose one culture of a society on another (Bernstein, 2011).

Consequentialism is described as a philosophy that if the consequence of a certain behaviour or objective is morally correct then any means in achieving that goal are acceptable. Thus regardless of the method the consequence of the behaviour should be morally right (Kreps and

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Monin, 2014). *Deontology* on the other hand stands on the opposite side of the consequentialism and argues that one conduct in achieving a goal must be morally correct and acceptable. It focuses on the moral duties and values of a company. Thus in deontology the rightness or wrongness of the conduct and the character of behaviour are more important than the outcomes (Sacchi, *et al.*, 2014).

Absolute and Relative Ethics

Absolute Ethics refer to the concept that there is only one code of conduct which can be applied to all people generally. This code must be obeyed by everyone and all people should be aware of it and must adhere to it, whereas, Relative Ethics refer to the concept that there is no single moral standard which can be applied to all human being. Relative ethics acknowledges the fact that the moral ideas and belief of different societies may differ from each other and thus no single code or standard can be devised that can be followed and adhered by all human beings. Following table shows the differences between absolute and relative ethics (Singer, 2011)

ABSOLUTE ETHICS

RELATIVE ETHICS

The general belief is that there is a universal moral standard.	Relative ethics say there is no universal moral standard in the world.
There is different between what is right and wrong.	The relatives' ethics says there is no difference between what is right and what is wrong.

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Ethical Issues and Operational Activities

There are a number of ethical considerations that a business must follow while operating in a country. For example the business must obey the laws and regulations as well as cultural values of the society. In addition, the environmental concerns regarding the impact of operational activities of the business on the ecological system of the society have also emerged as a significant ethical consideration in few last decades. Lately the green house impact has been the most debated environmental concern of business world. The impact of ethical concerns was initially treated as additional costs for the business but latest research shows that ethical concerns can in fact be used to increase the profitability of a business. Following are some typical ethical concerns for the management in any organisation (Shaw, Barry, and Panagiotou, 2010)

Employment Law

A company has to follow the employment laws and regulations of the society. Typically employment laws are related to working conditions, minimum wages, and fairness in wages, anti-discriminatory policies, working hours etc. These laws and employment practices differ from country to country and organisation to organisation respectively (Armstrong and Taylor, 2014).

Cultural Concerns

Cultural concerns in a society determine how employees and customers of an organisation as well as other stakeholders determine the fairness in the activities of an organisation. The religion, moral standards, treatment of women, working age, working environment including decoration

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of the office, etc. are some of the cultural concerns that affect the overall productivity of the society. The advertisement and various sales promotion campaigns of the products are often based on the cultural beliefs and events. For example Christmas is celebrated with various discounts and special offers (*Ibid*).

Environmental Concerns

The activities of a business affect the external environment of the society particularly the way resources available in the society are being exploited by the company for example the employees in the company as mentioned earlier. In addition recently the carbon print and the greenhouse effect have gained significant importance in UK and both government and non-governmental organisations have affected how businesses operate in the society (Trevino and Nelson, 2010).

Business Objectives and Ethical Considerations

Traditionally the business objectives of business were to maximise profits, sustainability, and shareholders' value but after the advancement of stakeholder theory there has been a radical shift in the business objectives towards meeting stakeholders' expectations in addition to maximisation of profit. Typical stakeholders of a company except shareholders are customers, suppliers, employees, and suppliers. Today modern business objectives are to meet expectations of stakeholders as much as possible. Corporate social responsibility has emerged as a phenomenon that is born out of stakeholder theory. This phenomenon emphasise that business is

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socially responsible and accountable to the society in which it is operating (Carroll and Buchholtz, 2014).

These concepts have given rise to various ethical behaviours that a business must demonstrate in its operating activities. In case of failure a business faces damages to its brand and reputation and loss of sales and ultimately faces reduction in profits or even financial losses. Consider the example of Tesco's horse meat scandal in which the company had to remove a large number of meat products that were prepared out of horse meat. Thus modern business objectives are not limited to profitability and sustainability but have now extended to corporate social responsibility objectives, environmental objectives, and meeting stakeholders' expectation objectives (*Ibid*).

For Primark business objectives are based on the same concepts. They must be ethical with respect to corporate social responsibility, stakeholders' expectations, and profitability objectives. Primark works with numerous third party suppliers that belong to various parts of the world especially from third world countries. Primark strives to ensure that throughout the supply chain, the goods are being manufactured under best working conditions and the employees are being treated properly. For this Primark provides training and financial aid to its suppliers. In addition it has an Ethical Trade Director, an officer that ensures by leading a team of managers and executives that all Primark goods are ethically sourced. Primark has based its Code of Conduct on the International Labour Organization's (ILO) Code. ILO brings together employers, representatives of governments, and workers to formulate programmes and policies (Primark, 2014 website).

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Implication of Business Ethics for Company and Stakeholders

There are significant implications of ethical considerations on the business as well as for its various stakeholders. There is tremendous amount of research that shows that corporate social responsibilities have direct and positive relationship with the profitability of an organisation. The research shows that corporate social responsibility aspects and environmental activities are being used by the companies in their advertising campaigns to increase their corporate brand and customer loyalty which ultimately increases the profitability. The corporations also improve working conditions for the employees which in turn increase their productivity and reduces employees turnover. For example investing on employees' safety saves the company a significant amount of money in terms of compensation (DesJardins and McCall, 2014).

By ensuring that the supply chain and related suppliers of the company are ethically responsible a company is able to produce high quality and ethical products which they advertise to increase customer loyalty and corporate brand and reputation. On the other hand it has been observed that if company or its employees engage in unethical practices the corporate brand and reputation of the company declines and adversely affects the sales growth and consequently leads to decrease in profit or even financial losses (*Ibid*).

Considering Primark, the ethical practices of the company are based on the following values

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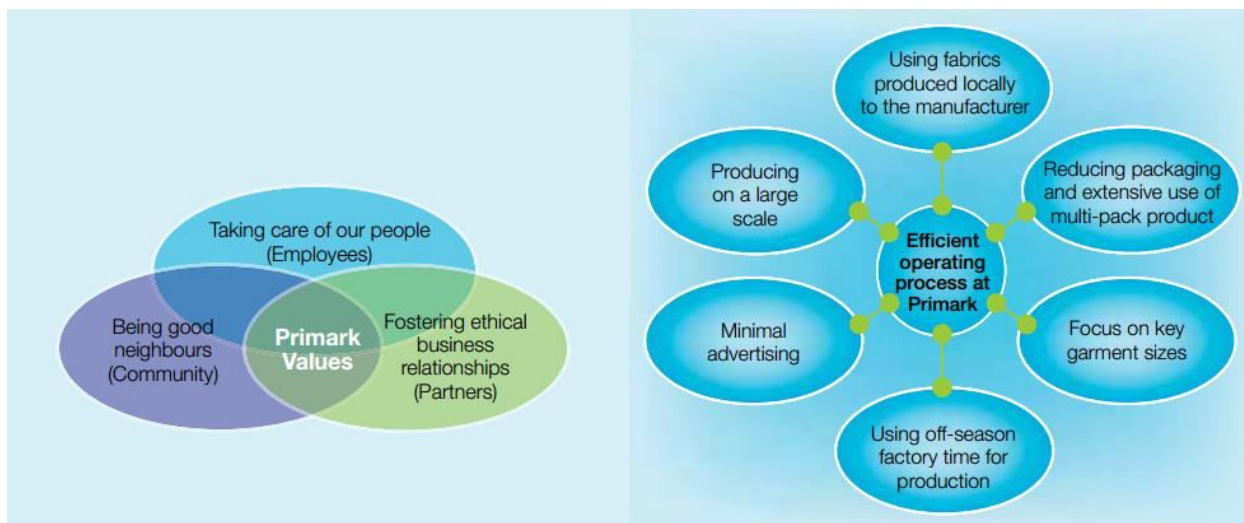


Figure 1: Primark Values **Figure 1: Efficient operating process at Primark** **source: Primark website**
<https://www.primark.com/~media/ourethics/unpacked/primark-edition-15-full.ashx>

These values have implication on all aspects of operations of Primark particularly those shown in the figure above which include, production, manufacturing, packaging, advertising, etc. In addition, Primark conducts regular and thorough audits to make sure that the suppliers are up to required standards. These values in turn bring in competitive advantage for the company and increase customer loyalty and corporate brand and reputation for the company. Thus not only operations of Primark are affected by its ethical values but branding and profitability of the company are also affected by them.

Business as a Moral Agent

A business firm as a moral agent can be discussed under two paradigms namely, the ‘contractual’ and ‘partnership’ paradigms. A business firm can act as a moral agent to the extent that on the internal front that it engages its employees into a project that is more than just an economic enterprise and on the external front it cooperates with different stakeholders in the interest of the

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common good. This is the reason why the notion of contract, however necessary, can only explain the nature of the firm as a moral agent up to a certain extent. Contracts establish rights and obligations. They specify what is “yours” and what is “mine”. But for people to promote something which they share in common, they need to look beyond their individual and group interests, even if they are legitimate, and see what it is that they share in common. The partnership model presupposes that human living is ultimately not merely a matter of “my rights” and “your obligations” and vice versa, but a matter of cooperating for the common good (Newton, 2014).

The contract theory of the firm presupposes a foundational contract in virtue of which a firm is established as a legal entity. The parties are the shareholders who would be considered to own the firm. Ownership entitles the shareholders to extensive power which they exercise essentially through the board of directors. The board of directors is responsible to the shareholders, whose interest essentially lies in securing a profitable return on their capital. This evidently gives overall power to capital holders and, in a sense, priority to profit-making. It is an arrangement that places shareholders, along with their interest in profits, in a dominant position within the firm. This position has been traditionally justified on the basis of ownership rights. More recently, it has been argued that in contrast with other stakeholders, such as workers, consumers and suppliers, whose rights are more or less fixed by work, purchase or sale contracts, shareholders face residual risks, associated with liability claims and possible loss of profits (Gibson, 2011).

The same is true for Primark. For example as a reflection of partnership model Primark provides training and financial aid to its suppliers which is not a contractual obligation on the company but Primark does it for the common good of all stakeholders. Although such efforts become

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significant operating cost for Primark which in turn means lesser profit for its shareholders and less retained earnings for the company as well, yet the organization carries out such activities under the ethical and moral considerations and principles and values that it adheres to during its operations.

Employee Involvement and Employee Empowerment

Employee involvement refers to the practices whereby a company gives its employees some stake in the decision making process and thus in the decisions of the company and directly affects the jobs of the employees. Employee empowerment refers to a corporate structure that facilitates the non-managerial staff and workers in taking autonomous decisions during the course of delivering their responsibilities. Both concepts and practices are different and often are mutually exclusive to each other but interestingly the benefits derived by both are very similar. Some of the most prominent benefits of both employee involvement and employee empowerment are increase in morale of staff, increase in productivity of the employees, development of healthy co-worker relationships, and innovation culture within the operations of the company (Bakker, Albrecht, and Leiter, 2011).

In case of Primark, the company follows a code of ethics and ensures that the same is being followed by all its suppliers throughout its supply chain. In addition the company helps its suppliers and the workers of the suppliers to become more efficient and productive which in turn helps the company to achieve cost efficiency and thus enables the company to supply high quality in competitive prices. Employee engagement and employee empowerment allow Primark to achieve higher efficiency, increase the morale of employees, and their productivity as well as

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an innovation culture. All these factors assist the company to maximise the revenue and minimise the costs and thus maximise the profitability as well as expectations of its various stakeholders.

Ethical Issues affecting Primark

The rise of globalisation and the benefits that it offers particularly low cost of production has forced many industries and specifically the fashion industry to opt for overseas production instead of local production. Globalisation offers these companies maximisation of profits and efficiency in supply chain. Developing countries such as China, India, Turkey, Bangladesh, and Mexico are the most favourite destinations of such companies as they offer lowest cost of outsourcing, cheapest labour, and lowest prices of materials. However, behind such benefits are hidden some very ugly truths that are related to illegal and unethical labour practices. Primark has been facing such issues in the last decade and seems to be struggling every now and then to manage the damages to the brand and sales of the company whenever such an unethical incident is reported.

The problem emerged in 2005 when Primark scored 3.5 out of 20 points on ethical index which is based on workers' rights and oppressive practices in operations. In reaction the company joined Ethical Trading Initiative (ETI) in 2006. The company continued to strive against the criticism raised for unethical suppliers (mirror.co.uk, 2008). Later in 2008, a BBC undercover investigation reported that the working conditions of worker in Indian factories that were supplying clothing to Primark were illegal and unethical. The practices also included child labour which is the worst among all unethical practices. As a reaction Primark explicitly denied

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knowledge of such practices among its suppliers and also ended contracts with three of its suppliers in India. But the company had to face mass boycott and organised protest (BBC, 2008).

Later in December 2008, similar concerns were raised and published regarding the suppliers of Primark in Bangladesh. The women working in those factories were subjected to a variety of unethical labour practices including sexual abuse (BBC, 2006). In 2009 a UK supplier was discovered to be using illegal immigrants as labour and was paying them less than minimum wages and the working conditions were also dangerous. These events severely damaged company's reputation. As a result many consumers resort to either rival products or boycott companies product. This shows that Primark has failed to meet the expectations of its various stakeholders primarily consumers and secondarily its employees, society, and other stakeholders.

Primark's Reaction

In response to the events that questioned Primark's ethical practices and revealed various unethical practices among its suppliers particularly those operating in developing countries such as India and Bangladesh; Primark renewed its vision statement, *“As an international brand with a global supply chain we have a responsibility to act ethically. We embrace this responsibility as an opportunity to be a great force for good. Primark is committed to providing the best possible value for our customers, but not at the expense of the people who make our products.”*

In addition Primark also appointed an Ethical Trade Director who is responsible to conduct regular audits on existing and newly appointed suppliers to ensure that ethical practices are implemented. The Ethical trade Director is also responsible to train supplier factories regarding ethical practices and how to prevent such issues. Although these steps and measures increase the

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costs for the company however, the company is committed to become ethically responsible in order to restore its reputation and achieve better management (Mezzadri, 2012).

Proposed Code

In order to ensure that such scandals do not emerge in future this paper recommends that Primark tries to adhere to following aspects in its code of ethics

- Workers in supplier factories must not face any form of bonded, forced or involuntary labour, neither there should any worker be obliged to submit identity documents or monetary deposit to become a worker.
- Physical, verbal abuse and/or threats must be avoided by the supervisory staff.
- There must be adequate recess between working periods for the workers to rest while avoiding prolonged working hours
- It must be strictly prohibited that any supplier hires a workers under the age of 15, or below the minimum working age according to the legislations of the country. Suppliers must also follow the ‘working hours’ regulations. Suppliers must have explicit and effective policy in practice to prevent any incident of child labour and if such incident is discovered there must be adequate remediation policy
- The working conditions and premises must be hygienic as well as safe for the workers particularly adequate number of fire exits, facility of drinking water and washrooms
- The production process must be free of all and any kind of process that endangers life or limb of a worker. Such aspects include use of unsafe building structure or layout, dangerous machinery, and/or hazardous materials.

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- If the supplier has living accommodation for the workers the buildings must be separate from the working area building and must have adequate safety systems for example fire alarms
- All workers must receive standard pay that adequately meets the regulations of the country
- There must be proper and accurate system for employment records. The system must include pay and working hours calculation. The system must be fair and transparent
- The suppliers must have clean and transparent record of corruption free operations and they must not have any record of unethical competitive advantage strategies.

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