Corporate Social Responsibility: 
Is It a Matter of Ethics?

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Abstract
Recently, there has been an increasing trend of manufacturing organizations adopting the strategy of Corporate Social Responsibility (CSR) and expecting their suppliers, too, to adopt the CSR guidelines developed by them and be accountable. From a supplier’s perspective, it is important to comply with the key customer’s requirements to maintain the business relationships but adopting the customer’s operating principles may not always be feasible and practical. Situations in which disqualifying suppliers who fail to comply with CSR criteria could limit the number of suppliers or create higher dependency relationships on limited number of suppliers adding cost to production. What is ethical to a customer may not necessarily be ethical to its supplier. This is one of such cases, seeking to bring out the ethical dilemma of Mr Kumar, the General Manager of Pack-tech, a medium-sized flexible packaging company based in United Arab Emirates. The questions that are bothering him are as follows: Should he accept and implement the CSR principles of its customers? Should he follow the suggestions of his workers and manipulate the records to show compliance? And, can CSR principles payback the cost of its implementation?

Keywords
Supply chain relationship, CSR, ethics, trust, Pack-tech, flexible packaging

Introduction
Kumar, the General Manager of Pack-tech, a medium-sized flexible packaging material converting company based in United Arab Emirates (UAE), was in a serious dilemma about the issue of Corporate Social Responsibility (CSR) in business relationship. The questions that were bothering him were as follows: Should he accept and implement directives of its key customers that are sourced from their CSR principles? Should he follow the suggestions of his workers and manipulate the records to show compliance? And, can CSR principles payback the cost of its implementation?

Names of individuals and companies are disguised to protect their identities as desired by the company. This case has been developed solely as the basis for class discussion and for education purposes and is not intended to illustrate either effective or ineffective handling of an administrative situation or decision making or represent the views of management about the topic of the case.
Recently, one of his customers, a reputed multinational energy drink company, called ‘Zaapp Beverages’ informed him that they had introduced a Supplier Operating/Guiding Principle as a part of their CSR policy. According to this policy, its suppliers should follow the human right norms such as the following: not engaging its workers on overtime for more than 12 hours a week, providing a compulsory weekly off to all its workers, etc. Pack-tech operates $24 \times 7$ for the entire year with the exception of festival holidays. In UAE, as the workers are not available locally, the companies have to employ workers from countries like India, Pakistan, Bangladesh, Nepal and Sri Lanka, and also, there are restrictions and criteria from the local government on the number of employment visas that are issued to the employment sponsor. Hence, most of the companies in UAE use only the existing workers to complete the production on time by means of overtime and/or by working on weekends. Kumar has also been following the same practice like any other company in UAE. Zaapp Beverages had advised him to stop such practice as it violated their CSR principles. However, Kumar could not follow their advice as this would severely hamper his production schedule. Zaapp Beverages took a serious note of this point as a non-compliance and insisted Pack-tech to comply with their requirements to remain their supplier. Pack-tech got into a situation where it had to choose between losing the customer or add the unreasonable cost to their operations for the purpose of complying with the supplier guiding principles. Kumar was seeking solutions to his dilemma.

**Case Background**

Pack-tech produces and supplies packaging materials such as wrap-around plastic labels on beverages and water bottles for companies such as Coke, Pepsi Kinley, Aquafina, etc., and aluminium peel-off lids for plastic containers for companies such as Amul, Nestle, Cargil, for their products of yoghurt, portion packs of jam, jelly and ice cream. Pack-tech also produces corrugation boxes for dairy and beverages industry’s secondary packaging of filled plastic containers and bottles. Basically, the company’s production process involves printing on 30- to 40-micron thick plastic films and aluminium foil as per the customer’s design in wider widths through flexo graphic and rotogravure printing methods and cut the printed material into individual pieces for fixing as labels and peel-off lids for the food processing and packaging companies. It is a growing company with a total focus on dairy, beverages and water industry. Packaging material business for processed food industry is growing at a rate of 17 per cent per annum. Pack-tech was started in the year 1995 and has grown 10 folds in the last 15 years. The company employs about 100 production workmen. Because of non-availability of local work force, most of the employees recruited at Pack-tech are Asians such as Indian, Pakistani, Sri Lankan, Nepali, etc., and they work almost 350 days a year in two shifts of 12 hours a day. Because of high living cost, the lower level employees cannot afford to bring their families to UAE and usually they live as singles and go back home once in every two years for two months’ vacation. During their stay in UAE, their main objective is to work as many hours as possible to make extra money for savings, and they do not like to remain idle even on the weekend holidays in UAE that are Fridays and Saturdays. Being in service industry and in locations where the weekend holidays fall on Fridays and Saturdays, and when suppliers and customers are closed on Saturdays and Sundays, Pack-tech management also desires to be accessible to its customers even on holidays and weekends. Pack-tech exports almost 70 per cent of its production to various multinational companies (MNCs) in approximately 20 countries and imports its raw materials from five

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different countries. The management practices the concepts of team work, employee empowerment, training and development, health and safety of employees and maintains a stress-free work environment. For its values of commitment to its customers, suppliers and employees, the company has gained the trust of its customers for its quality and service. Zaapp Beverages is one of the long-term key customers of Pack-tech.

Zaapp Beverages is based in UAE and produces carbonated beverages. It has its bottling plants in more than six countries in the Middle East. Being one of the well-known brands in the market, Zaapp Beverages adopted CSR programs in the year 2009 to improve health and safety of its employees, serve the society with medical camps, education plans for poor children of the locality wherever the bottling plants were located and protect the environment with recycling of their packaging material, etc. Having achieved good reputation and results of their campaign, Zaapp Beverages wanted to include its supply chain members in their CSR policy because if any of their suppliers had inconsistencies and bad practices that might indirectly affect the Zaapp Beverages’ efforts. Therefore, in the year 2010, they introduced a system called Suppliers Operating Principles that guided all their suppliers in adopting the workplace policies and practices as per Zaapp Beverages’ organizational policies and local labour laws and legislation. Pak-tech, being one of the key suppliers of Zaapp Beverages, was asked to comply with the following operating principles by 22 August 2010 and get ready for a third party audit by the auditors appointed by Zaapp Beverages (Zaapp Beverages auditors’ e-mail):

1. Stop appointing child labour if any: Comply with minimum age requirement as per local laws and regulations.
2. Stop forced labour and abuse of labour if any. Comply with local law and legislation and avoid appointing forced labour, indentured labour, bonded labour or slavery.
3. Adopt the designated labour hours and wages as per the local law and legislation: Comply fully with working hours, wages, overtime and benefits. Offer opportunities to employees to develop their skills and knowledge, and provide advancement opportunities where possible.
4. Adopt a health and workplace safety policy: Provide a safe and healthy workplace environment. Minimize the risk of accidents, injury and exposure to health risks.
5. Protect the environment: Conduct business in ways that protect and preserve the environment.

Pack-tech acknowledged the audit request and confirmed the audit date.

Case Issue

Stage 1: Zaapp Beverages’ Move

The auditors of Zaapp Beverages found that Pack-tech was adopting the following practices which were unacceptable:

1. The company was holding the passports of the workers. This was noted as practising forced labour.
2. The company was engaging the workers for 12 hours a day (that is, nine hours’ work instead of eight hours and two and half hours compulsory overtime).
3. The company was engaging the employees on most of the weekends, resulting in total overtime hours exceeding to over 90 hours per month.
On the basis of the auditors’ report, Zaapp Beverages served a notice to Pack-tech to implement the following guidelines within three months:

1. Return the passports of all employees.
2. Implement eight hours’ work shift and provide a compulsory weekly off to all the workers.
3. Not to engage the workers for more than 48 hours per week and 60 hours overtime per month.

Stage 1: Pack-tech’s Move

For Pack-tech, Zaapp Beverage was a very valuable customer because it was supplying the packaging materials not only to Zaapp Beverages, UAE, but also to five of their other divisions in the Middle East. Therefore, as suggested by the auditors, Pack-tech returned the passports to the employees. However, regarding reducing the working hours, providing compulsory weekly off and limiting the overtime hours to 60 per month, Kumar, replied to Zaapp Beverages as follows:

1. ‘As per Article 65 of chapter four of the UAE labour law, the maximum normal working hours for adult workers shall be eight hours in the day, 48 hours in the week. They may be increased to nine hours a day in commercial establishments, hotels, cafeterias, security services and such other businesses as may be added by resolution of the Minister of Labour and Social Affairs. The daily working hours may be reduced by resolution of the Minister of Labour and Social Affairs, in the case of arduous or health-hazardous work.’ (UAE Labour Law, 2001, pp. 19–20)

Since we are following the local labour law we may kindly be allowed to continue with nine hours working shift.

2. Regarding reducing the total overtime hours and implementing compulsory weekly off we would like to submit that Pack-tech practices giving a break to the employees after working for two consecutive Fridays to rotate the teams from night shift to day shift. This is as per the UAE Labour Law Article 70 of chapter four. That reads as follows:

‘Friday shall be the normal weekly rest day for all workers except the daily-paid. Where a worker has to be put on duty on that day, he shall be compensated with a substitute rest day or be paid his basic wage for his normal hours of work plus a supplement of at least 50 per cent of that wage.’ (UAE Labour Law, 2001, p. 20)

Further, the customers require the packaging material supplies on a continuous basis Pack-tech cannot afford to stop the plant every weekend because Pack-tech’s competitors also practice running the plant 24×7 throughout the year. If we stop production on every weekend we lose our competitiveness.

3. To comply strictly with your requirements, we need to appoint 25% extra employees who might not be utilized productively during lean period of our business, also there is no scope in UAE to hire skilled workers on temporary employment and further the organizations have limited provision of employment visas. Considering the practical difficulties you may kindly maintain us as your approved supplier.

(Kumar’s e-mail to Zaapp Beverages)

Stage 2: Zaapp Beverages’ Move

Zaapp Beverages replied to Pack-tech mentioning that ‘Since supplier guiding principles is our global endeavour, there can be no exceptions in compliance; therefore we request you to make necessary arrangements to comply with the requirement by January 2011.’
Zaapp Beverages’ auditors conducted a second audit in January 2011. To the surprise of the auditors, Pack-tech had not made any changes in their working system except returning the passports to the workers. Considering Zaapp Beverages’ dependency level on Pack-tech, Zaapp Beverages gave another six months’ time to Pack-tech to comply with their guidelines. Beginning of June 2011, the auditors wrote to Pack-tech to confirm if the policy had been implemented.

**Stage 2: Pack-tech’s Move**

Mr Kumar replied as follows:

We are pleased to inform you that we have reduced the daily working hours from nine to eight per day to comply with 48 hours of working per week, however we regret to inform you that in spite of our earnest efforts to comply with your recommendation regarding compulsory weekly time off, we are unable to implement the guidelines for the following reasons:

1. Our employees are reluctant to take an off every Friday. They look forward to working on holidays to earn an additional income and accumulate compensatory offs and to avoid during their vacation back home, therefore they are not agreeing to this practice.
2. Also, as we are exclusively serving food and beverage to customers, we usually get calls from the customers on Wednesdays or Thursdays of every week providing us their production schedule and demand for the material delivery either on Friday or Saturday. With compulsory off for employees, it is not possible to maintain existing service level. While we are willing to employ additional staff to cope with this issue, we would also like to point out that such an increase in staff would unnecessarily increase our production costs, making us less competitive than other suppliers.
3. Please note that, we are complying with the Article 70 of UAE Labour Law chapter 04, which reads as:

   ‘Friday shall be the normal weekly rest day for all workers except the daily-paid. Where a worker has to be put on duty on that day, he shall be compensated with a substitute rest day or be paid his basic wage for his normal hours of work plus a supplement of at least 50 per cent of that wage.’ (UAE Labour Law, 2001, p. 21)

   And according to Article 71 ‘No worker other than a daily-paid shall be required to work more than two successive Fridays’ (UAE Labour Law, 2001, p. 21).

   We would like to re-iterate here once again that we are not forcing any employee to work against their will. They are entirely free to decide their working hours within the parameters of company policy and government directives. We assure you that there will not be any disruptions to the availability of the product to your factories or labour issues on account of our engagement of employees on weekends.

   Therefore we request you kindly not to worry about possible disruptions of your supplies due to our practice of engaging the workmen on weekends and for excessive overtime hours.

   (Kumar’s e-mail to Zaap Beverages)

**Stage 3: Zaapp Beverages’ Move**

Ignoring the contents of the letter, Zaapp Beverages’ third party auditors replied to Pack-tech requesting for an audit date as they had to close all the audits by end June 2011 and report the progress of compliance to Zaapp Beverages.
**Stage 3: Pack-tech’s Move**

In July 2011, Pack-tech replied, mentioning the following:

> We have no objections to being audited again, but since this issue remains unresolved under the given circumstances, we are not convinced that it will be a meaningful exercise. We await your comments on this to proceed further with this matter. Kindly suggest. (Kumar’s e-mail to Zaapp Beverages)

**Stage 4: Zaapp Beverages’ Move**

In August 2011, Pack-tech received an e-mail from Zaapp Beverages:

> As a company policy we have to implement the CSR program complete in all aspects by end December 2011, our supply chain partners who do not comply with the supplier guiding principles will be disqualified to be supplier. We hope you will understand and extend your cooperation.

**The Dilemma of Mr Kumar**

Having failed in all possible trials of giving compulsory weekly off and reducing overtime hours to its production staff, Kumar called for a worker’s meeting and said the following:

> Seeing the global trend of CSR and human right policies, Pack-tech’s management is pleased to announce that, the company working hours are reduced from nine hours per day to eight hours per day however the employees will get one hour extra over time per day with immediate effect. Further we are planning to stop working on all the Fridays and reduce the overtime hours of workers to not to exceed more than 60 hours per month. This will result in some loss to Pack-tech but we wish to retain our prestigious customers and contribute towards CSR. (Pack-tech’s internal e-mail communication)

The workers were happy for getting one hour extra overtime per day but they were not happy with the idea of taking compulsory weekly off. They unanimously told Mr Kumar that ‘Probably now we need to go back to our home countries or look for new jobs. We are here to earn money not to relax in the rooms.’ They suggested to Kumar that they would like to manipulate the weekend attendance and overtime payment records by keeping a separate set of records of weekend and overtime payments to satisfy the auditors and show that they were complying with their requirement. The workers’ argument was that they would tell the auditor a lie, a ‘white lie’ which would be told in a situation where telling the truth would have served no purpose and would have caused suffering. Their views are summed up:

> While we are dishonest, the motivation behind the deception is the avoidance of loss, rather than the evasion of responsibility. We think, it is not necessary to comply with the Zaapp Beverages regulation of providing compulsory weekly off to us, depriving us of our earnings and management losing the opportunity of running the plant $24 \times 7$ as long as we guarantee Zaapp beverages un-interrupted supplies and that we never stop the work on the issue of engaging us on weekends. Managers must make sure that the costs of the CSR should not lead the organizations into losses of any kind.

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Kumar was in a dilemma of choosing between the options on the grounds of ethical issues and betrayal. Option one is that Pack-tech admit that they cannot comply with Zapp Beverages’ CSR requirements and get disqualified as a supplier. Option two is that Pack-tech continues working on weekends and provides opportunity for his employees to earn extra income and extra annual leave. This would involve manipulating the records and hiding the facts for the sake of business. If Kumar chooses option one, he would make an ethically correct decision, but it would mean substantial loss in business; if he chooses option two, it would be highly unethical on his part to cheat a trusting client.

Mr Kumar is in a dilemma looking for answers to the following questions:

1. Should a firm accept and implement the CSR principles of its customers at any cost?
2. Should Mr Kumar follow the suggestions of his workers and manipulate the records to show compliance of customer’s CSR policy?
3. How ethics and CSR are related?

Reference


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