

Business ethics assignment

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This paper covers the details of the other business scandals Nestle had a linkage to. There were any organizations that joined the boycott against Nestle, which will be discussed and show how they affected the outcome of the boycott. Nestle had to make many changes to their guidelines and plans on marketing to resolve the boycott. With so much focus on the boycott, Nestle's corporate culture and employee relationship were greatly affected. The boycott affected Nestle in many ways, but the major factor is that they are still fighting against the allegations to this day. Nestle is a well-known company, which has seen itself in many business scandals and ethical debates. One of the biggest ethical debates is regarding the boycott of Nestle's infant formula. The boycott against Nestle's infant formula lasted for seven years (Boyd, 2012). There are many things that could have contributed to this intriguing controversy (Boyd, 2012), but what were they? Three names are brought up when regarding this boycott: Ernest Saunders, Arthur Purser, and Tom Ward. How did these three guys contribute to the boycott?

In the past Nestle was faced with many major business scandals, due to defective culture within their senior management level (Boyd, 2012). A few of the major business scandals to be looked at are: the acquisition of Beech-Nut, the apple ice scandal (Boyd, 2012). Infant formula is a common used product now, so why there was a boycott against it that almost lasted a decade? Every day you hear debates on whether you should breastfeed or use infant formula, so what was the real reason behind this boycott? Was the boycott against Nestle in particular or were they the "lucky duck"?

How did the World Health Organization work into the boycott? Did the World Health Organization help extend the boycott? In 1984, Nestle and the International Nestle Boycott Committee found common ground by working out their differences (Ethics and Infant Formula, 1984). We will look at how Nestle and the International Nestle Boycott committee found common ground and what Nestle has agreed on to prevent another boycott, like this one, to happen again. With a boycott lasting for seven years, what was the outcome for the company?

How did the boycott affect the corporate culture and the morale of their employees? All these questions can help us understand the cause and effects of the most intriguing controversy (Boyd, 2012).⁴ On July 7, 1977, a boycott was launched in the United States against the Swiss-based Nestle Corporation (Wakefield, 2013). The boycott lasted for seven years and had expanded into Europe by the early 80s. The boycott was prompted by the “aggressive marketing’ of breast milk substitutes (Wakefield, 2013) created by Ernest Saunders, who joined the company in 1976 (Boyd, 2012).

Ernest Saunders was in charge of the marketing campaigns and encouraged mothers to give up breast feeding and switch to the inferior infant formula (Clark, 2001). By persuading mothers to utilize formula over breast feeding three issues arise: 1 . Infants were unprotected against illnesses, since the formula doesn’t have the essential antibodies breast feeding has. 2. The less economically developed countries do not have sanitary’ water or are not able to boil the water, therefore the Water used to dilute the formula is contaminated, which can lead to severe illnesses or death. . The consumers could not afford the product and would save money by diluting the formula, <https://assignbuster.com/business-ethics-assignment-essay-samples-27/>

which results in malnutrition (Boyd, 2012). The groups, International Baby Food Action Network and Save the Children, claimed that persuading mothers to give up breast feeding and use the infant formula led to health problems and deaths among infants, especially in less economically developed countries (Wakefield, 2013). Ernest was promoting the formula to women in developing countries by distributing free formula samples to hospitals and maternity wards (Wakefield, 2013).

The International Baby Food Action claimed that the formula was no longer free once Nestle left the hospital since its supplementation would interfere with lactation and would result in the family continuously NESTLES ETHICAL BUSINESS STRUGGLES 5 buying formula (Wakefield, 2013). When a mother starts using formula to supply milk to her child and not breast milk, her production of milk will decrease resulting in a cease of milk supply. As long with the International Baby Food Action and Save the Children, Ernest has raised concerns with the World Health Organization.

Nestle , Saunders was assigned the task of countering the criticism raised by the World Health Organization (WHO) against the company's heavy marketing of its powdered milk to the Third World.... Saunders mounted a campaign using public relations and the media in an attempt to swing public opinion. On Nestle " s behalf he sent \$25, 000 to a Washington research centre to finance the commissioning of a Fortune magazine article opposing the WHO campaign. The article was unsuccessful, confirming rather Han allaying suspicions, and engendered more bad publicity (Sets De Varies 1988, p.). Ernest Saunders worked closely with the International Council of Infant Food Industries (CIFS), and was eventually elected to the presidency of <https://assignbuster.com/business-ethics-assignment-essay-samples-27/>

CIFS (Saunders 1989, p. 48). Through the International Council of Infant Food Industries, Nestle was able to negotiate with World's Health Organization which led to the end of the boycott in 1984 (Boyd, 2012). Nestle agreed to follow the International Code of Marketing of Breast-milk Substitutes, which was voted on 18th NESTLES ETHICAL BUSINESS STRUGGLES 6 1 through the World's Health Organization (Connell, 2012).

The code was drawn up in 1981 to promote breast feeding above all other products (Maxine, 2004). The International Code of Marketing of Breast-milk Substitutes prohibits mass media advertising in third world countries and also prohibits promoting before samples of the products (Connell, 2004). The International Code of Marketing of Breast-milk Substitutes is not only for infant formula, but it also for any milk products, foods and beverages.

World's Health Organization's code give the health care workers the responsibility to advise the parents (Wakefield, 2013) on breast feeding and the risks of utilizing infant formula instead. WHO acknowledges that when formula is used properly it can sustain life and promote growth. There are instances where a mother cannot supply her baby with breast milk or there could be medical reasons for utilizing formula over breast milk. Twenty-one countries have either already or will publish this code within their country and thirty-eight more countries are working on implementing the code (Connell, 2004).

Dry. Stephen C. Joseph supports the International Code of Marketing of Breast-milk Substitutes as his research has indicated that one million babies from third world countries die a year due to the effects from bottle feeding

(Connell, 2004). In 1981 it is said that the boycott could have been ended if the Reagan Administration had not voted against the World Health Organization code (Post 1985, p 121 Ernest Saunders left Nestle in 1981, but had almost defeated the boycott before he had left.

Saunders was assisted with the negotiations with World Health Organization by Tom Ward and Arthur Freer. Tom Ward was the legal consultant to Nestle, who continued to work on the negotiation with World Health Organization after Saunders, had left the company NESTLES ETHICAL BUSINESS STRUGGLES 7 (Saunders 1989, p 46). Arthur was a Swiss financial expert and began work with Nestle in 1954. In 1975 he was promoted to Nestles chief executive officer and from 1982 to 1984 he was the chairman of Nestle's board of directors (Here 1991, p. 74). Ernest Saunders first relationship with Tom Ward was when he used him to help protect trademarks and Tom Ward is accused of helping Saunders out in the Baby Milk Scandal (Cochin and Pym, 1987). In 1979 Saunders had acquired the subsidiary Beech-Nut, which became part of the Ernest Saunders' Specialist Nutrition and Infant Product Group (Boyd, 2012). The ownership of Beech-Nut was widely known, but the linkage of Ernest Saunders, Tom Ward, and Arthur Freer was not disclosed (Coachman and Pym, 1987).

Saunders had Nestle spend millions of dollars to revamp the marketing of the items for an aggressive market campaign. Between 1980 and 1981 Beech Nut had lost \$2.5 million in sales. Beech Nut had started buggy apple juice concentrate that was twenty percent cheaper than the major competitors price in 1977 before Nestle had acquired the company. There

had been rumors of the apple juice's purity, but there was never a government test to justify this rumor (Consumer Reports, 1989).

The Director of Research & Development, Jerome J. Alicia, sent a memo to the senior executives regarding the apple juice rumors. At this time Arthur Freer was the chief executive officer for Nestle and would have been one of the senior executives who ignored the memo and never responded. Alicia then set up a meeting with the president, Neil Heavily, who had been appointed by Saunders before he left to join the Guinness in London (Consumer Reports, 1989).

Alicia had thought that Horal would take action, but after there was no action toward the problem Alicia resigned from the company. Alicia was then the whistle-blower to the Food and Drug Administration, who did pursue to look into the situation. After the Food and Drug Administration starting taking action, NESTLES ETHICAL BUSINESS STRUGGLES 8 Neil Heavily stated: "Beech-Nut could have avoided scandal at this point by conceding that its juice was sugared water" (Consumer Reports, 1989).

If Saunders had tested the purity of the apple juice concentrate Beech Nut was buying it could have saved the company from a \$2 million fine, which is six times the sum of the largest previous Food and Drug Administration fine, and also the class-action suit for \$7. Million (Boyd, 2012). We have seen the connection between Nestle and Beech Nut and now we will look at the Guinness and Nestle connection. Saunders started working at Guinness in 1981 by reviving the plunging sales with spending expenditures on sophisticated ads.

Saunders also initiated a strategic approach to acquisition other companies (Boyd, 2012). In 1985 Saunders had acquired Arthur Bell and Sons while looking at also acquiring Distillers. Saunders was not sure about the acquisition of Distiller and asked for help from his friends, including Arthur Freer. During the Distillers takeover Arthur was the Chairman of Nestle and the Chairman of the six-largest Swiss bank, Bank Lee. Ernest Saunders nominated Arthur Freer as the Guinness board of directors in 1984 and nominated Tom Ward on the Guinness board in 1985 (Boyd, 2012).

Once again all three were involved in the Nestle and Beech Nut scandal. The United Kingdom Department of Trade and Industry was tipped off about inconsistencies regarding the Guinness acquisition of Distillers. The United Kingdom Department of Trade and Industry discovered Guinness had orchestrated an underwriting of an international buying campaign that inflated the value of its shares during the battle between Argyle Group for the acquisition of Distillers (Boyd, 2012).

Arthur Freer was the Chairman of Bank Lee, at this time, which had bought about \$185 million worth of Guinness' share during the takeover of the Distillers Company (A. P. , 1987). On January 15, 1987 Guinness P. L. C. Dismissed its chairman, Ernest Saunders, and demanded the NESTLES ETHICAL BUSINESS STRUGGLES 9 resignation of two directors, Tom Ward and Arthur Purer, during the British Governments investigation of the brewing company (Lour, 1987). Guinness' quest for these resignations was the company's first formal admission that its management had acted improperly during the acquisition of the Distillers Company.

The Guinness scandal was Britain's worst corporate scandal in years by bringing down one of the country's highest-paid executives, tarnished the reputation of a British enterprise, was front page news for weeks in the nation's newspapers and stirred up public debates over practices and regulation in London's financial district (Lour, 1987). Bank Lee is Switzerland's sixth-largest bank, which was involved with the Guinness scandal. When reading on the Bank Lee connection with Nestle, once again Arthur Freer is brought up as he was the Chairman of Bank Lee.

Bank Lee was accused of being involved with the insider trading scandal with Guinness while fighting for control of the Distillers Company. Guinness and Bank Lee had agreed on an illegal stock purchase of the Guinness brewing company. They were the key role in the trading strategy of the shares that would increase Guinness' stock price during the Distiller takeover (Vise, 1997). Bank Lee has agreed to buy Guinness stock shares during the takeover fight and Guinness would then buy the shares back at a later time (Vise, 1997).

The stock price of Guinness increased with Bank Lee purchasing the shares, which helped Guinness acquire control of the Distillers Company. Bank Lee had also received \$75 million in time deposit from Guinness to compensate the bank if losses on the sale of shares occurred (Eleventh, 1987). Under Swiss laws Bank Lee had not violated any, but they had violated British laws. British laws prohibit a company from secretly supporting its stock price through such arrangements (Vise, 1997). Arthur Purser resigned from Bank Lee and was assured he was not responsible for any wrongdoing in this scandal (Vise, 1997).

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Arthur Farers resignation was voluntary and Doll Branded, a director at Bank Lee, stated “ the board has never had any doubt about his (Purser’s) integrity” (G. P. , 1987). After the disclosure of the insider trading scandal with Guinness, Bank Lee had sold the Guinness shares and returned the \$75 million payment. Bank Lee has said that Arthur Freer didn’t arrange the transactions and that he nor the bank was aware of their possible illegality in Britain (G. P. , 1987). Nestle was a victim of a well-organized Scott campaign that was seen as a dispute over generic bad practices rather than a focused attacked (Boyd, 2012).

The boycott was impersonal and Nestle happened to be the evil collective corporate entity. The boycott was not said to be targeted just towards Nestle, but to all the infant formula providing companies. Nestle was the largest company whom supplied infant formula, so was the target of the boycott. Even though Nestle may not have been targeted individually, but they did have a defective culture at the senior level of management, which included Ernest Saunders (Boyd, 2012). The reporter culture of Nestle has been directly affected with the ten years of conflict and seven year product boycott.

Nestles’ employee turnover and morale were greatly affected with these conflicts. There was so much attention on the boycott that it had cost the company in other business need and decisions (Boyd, 2012). In 1982, Nestle issued its guidelines for complying with the voluntary international code from the World’s Health Organization, which discourages formula and encourages breast milk (Hinds, 1982). Nestle also developed an “ ethics audit

committee” which members from the clergy and the medical profession (Hinds, 1982).

Nestle has made it a requirement for doctors or NESTLES ETHICAL BUSINESS STRUGGLES 11 qualified medical professionals to request samples of infant formulas for mothers. Nestle also rewrote and redrew all the printed educational materials and product labels to conform to the International Code of Marketing of Breast-Milk substitutes (Wakefield, 2013). In 1984, Nestle adopted the Resolution HAW. 22 which includes the International Code of Marketing of Breast-Milk Substitutes (Wakefield, 2013).

Under this code Nestle is required to train its marketing personnel to understand “ the importance of protecting and promoting breast-feeding” and the staffs responsibilities with regard to Nestle??’s measures for implementing the WHO code (Orchid, 1989). While the boycott ended in 1984, it was resumed in October 1988 when Action for Corporate Accountability charged Nestle with lying about compliance with the WHO code. The Action for Corporate Accountability also said that Nestle did not have plans to bring its marketing practices into line (Orchid, 1989).