



Exploring the Necessity and Benefits of Ethical Business Practices

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Abstract. This paper explores how business can play an active role as an important group player in society through the dynamics of current social developments and calls for ethical initiatives. Taking Unilever as an example, layers of in-depth exploration are conducted around this topic. Unilever's business model and corresponding initiatives are analyzed to assess and discuss the effectiveness of the current approach from preliminary academic theories on sustainability, triple social bottom line, and corporate social responsibility (CSR). Ultimately, some innovative suggestions for future practice are provided in the final presentation.

Keywords: Sustainability · Corporation social responsibility · Ethical business practices · Business performance

1 Introduction

This paper starts with the demand for ethical business in today's world and from both internal and external perspectives of the corporate level. Secondly, we will combine Unilever and ethical business theories for a critical analysis. Then, information about Unilever's practices and the impacts will be discussed. The following sections will highlight Unilever's relevant stakeholders and its innovation capabilities by proposing some specific measurements. Finally, this paper will summarize the challenges faced by the company and make recommendations.

2 Background and Scenario

2.1 What Happened to the World

According to the United Nations report [1]: due to climate change, the average annual global economic loss is up to \$300 billion. In addition, the increase of resource consumption and the decrease of influence, triggered the crisis of further life. Increasing pollution has caused serious damage to our planet, such as the reduction of freshwater and marine biodiversity due to water pollution. At the same time, globalization is increasing, which means that "a slight change in one part can affect the whole situation" can have a big impact from small to large. The Earth, where people live and businesses thrive, so individuals and groups should think about their roles and responsibilities in society.

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2.2 The Need for Ethical Business

As essential groups of society, enterprises need to actively play a social role and make certain contributions while benefiting the macro environment. Hoffman and Schwartz [2] also support this view from the perspective of group capacity. That is, enterprises are made up of individuals with a strong ability to contribute more economically and consciously than groups. However, Fernando [3] argues that enterprises' selfish pursuit of economic benefits has led to harm to our planet and society, so it is mandatory for them to be ethical. Although the former and the latter have different views on the nature of corporate social responsibility, both believe that ethical behavior needs to be taken into account in organizational development. What's more, the company's development will benefit from its ethical strategies. From an internal perspective, the goal of moralizing contributes to positive company culture, for example, mutual respect among colleagues increases motivation and efficiency in a pleasant working atmosphere. From an external perspective, customers generally believe that products from companies with excellent moral reputations are more trustworthy and worth buying [4]. Therefore, society needs ethical enterprises. Enterprises themselves need ethical strategies to form a positive and interactive cycle with sustainability.

2.3 Overview of Unilever and Theories

Unilever was ranked first in a recent "Sustainability Experts" survey conducted by the consulting firm GlobeScan [5]. Unilever is a global leader in the FMCG industry with an international influence. They have over 400 brands with high recognition and visibility, and their businesses can radiate to two billion people every day through their products and activities. As the company's CEO Paul Polman [6] said, he is committed to making Unilever an outstanding representative of "responsible capitalism." He set up a team to run Unilever's sustainable living plan, which he operated it daily and evaluated performance at the end of the year.

It can be said that, first of all, Unilever clearly understands the importance of sustainability and is committed to building a sustainable business image. Sustainable development takes into account the relationship between the present and the future, exploring to meet the needs of the present without compromising the ability of future generations to meet their needs [7]. Sustainability requires companies to develop a framework for long-term decisions, such as reducing CO₂ emissions and using fewer resources. However, this contradicts the company's short-term profitability goals. In addition, in order to better meet future demands, innovations with high-cost and sophisticated technology are often required, which is another challenge for companies to apply sustainable development theory. Therefore, in the real market, the government or the state must use the long-term perspective to formulate policies and standardize the behaviour of enterprises in pursuing sustainable development. For Unilever, taking a long-term view is not limited to the current progress of the company itself, which is sought after and loved by customers. However, some journalists have also pointed out sharply that Unilever has not done an excellent job of implementing this long-term goal at the level of mere fantasy [8].

The theoretical framework of the triple bottom line developed by John Elkington [9] in 1994 is widely used by Unilever in its annual reports to assess corporate performance. Above all, the triple bottom revolutionized the relationship between society, the environment and the economy, and further break it down into people, the planet and profit respectively at the company level, aiming to gauge a corporation's level of commitment to corporate social responsibility and its impact on the environment over time. TBL provides a very thorough and advantageous analytical perspective on the total cost of doing business by incorporating three important and independent factors. But by contrast, the biggest challenge is how to measure the profitability of a company is inherently quantitatively measurable. In contrast, it can be challenging to quantify and somewhat subjective to determine how much a corporation contributes to society and the environment. Nevertheless, Savitz [10] criticizes that to balance the allocation of other resources, like as money and human capital, to these three bottom lines without abandoning one of them may be difficult for certain businesses.

It is important to note that the theories are also interrelated rather than independent. The ultimate goal of TBL is to achieve sustainable business development, while sustainable development also considers social, economic, and environmental perspectives. Moreover, corporate social responsibility is regarded as a measure to visualize corporate ethics [11]. Through CSR programs and volunteer efforts, enterprises can enhance their brands and benefit society at the same time. CSR is significant to both consumers to learn more about companies and companies to attain a good reputation. Unilever regularly conducts CSR projects based on social issues. However, organizing and promoting CSR programs is time consuming and costly. As a result, large enterprises like Unilever are more inclined to engage in such activities, while small and medium-sized enterprises are reluctant. Another drawback is that, according to Yuan and Yu [12], sustainable development and TBL could be considered as a whole, while CSR only focuses on specific business-to-society practices. This is also the difference between these three theories.

3 Ethical Underpinning

As macro factors, environment and society affect the development of enterprises, while the performance and decision making of enterprises also affect environment and society.

3.1 Impacts on Business Performance and Decision

Unilever's unethical production practices, such as "mercury pollution production," have posed severe social and environmental hazards. Unilever has had many instances of positive impacts. However, these become overshadowed when one negative impact occurs. In 2001, a scandal at Unilever thermometer factory in India was accused of dumping hazardous mercury waste directly behind factories and even into lakes without timely disposal. This not only to the environment, but also to people's life and health poses a considerable threat. In this environment, air and water-borne mercury emissions have contaminated large areas of Kodaikanal and surrounding forests. The damaged situation is also difficult to repair, which is a long-term trauma for our planet. As for social

impacts, employees and nearby residents suffer from prolonged inhalation and ingestion of harmful substances, which damage their health. As Goldberg [13] said, while a scandal can bring a company a temporary reputation and sudden attention from the media and consumers, the adverse effects on the business' growth are seen as a non-negligible strain in the long term. At the same time, the optimistic view of exposing Unilever's scandal is not only that Unilever itself has made institutional changes, but also that it has sent a warning to the rest of the market. Furthermore, it enables companies to be more aware of their social responsibility and to pursue utilitarianism maximizing benefits. The scandal is a window into the new ideas being put forward by Rhodes [14]. By regularly and timely gathering feedback from the perspective of external stakeholders, firms may continue to learn about the present unethical behaviour of the company or sub-brand. This would be an effective strategy to demonstrate how highly the company values its stakeholders and to gain promotion through feedback until sustainability.

Unilever has also established a "Small Actions, Big Differences Fund" to support cost-saving and innovative ideas from business units that are highly ethical and environmentally friendly. Since 2008, Unilever's global manufacturing methods have cut greenhouse gas emissions by a total of 1 million tonnes, resulting in a 20% reduction in energy usage at about 40 factories and a 244-million-euro cost savings for the business [15]. Moreover, the energy and water consumed per ton of product are reduced by 37% and 32% respectively, significantly contributing to the environment. Compared to its competitor P&G [16], which uses about 460,000 tons of palm oil products annually to make shampoo, detergent, skincare products, etc. The Greenpeace investigation found that P&G's palm oil supply chain is rapidly encroaching on Indonesia's primary forests [17]. Unilever has shown in its actions that it is closing the gap on its 2020 targets through an active and ethical corporate role.

3.2 CSR Application

Unilever's CSR programs are widely appreciated. Combined with the operational level of the enterprise and a specific CSR program, for the promotion of its flagship soap brand Lifebuoy in rural areas and some developing countries, the company has chosen to incorporate free primary school hand-washing classes as CSR project. Because brand managers notice that nearly 2 million children worldwide die from diarrhea and pneumonia every year, which can be avoided by changing hygiene habits. That's why this 21-day education program was created. As a large company, Unilever has the personnel and finances to ensure the implementation of the project. Through the trickle-down effect [18], the company hopes to gradually expand the radiation of child-centered knowledge by learning common-sense hygiene in the classroom and then teaching it to their families when they return home. Setting In the early stages of a CSR project, SMART objectives [19] were set to facilitate comparison with the results at the end of the project allows for effective analysis of gaps as a basis for measurement. Reflection on old projects is to improve the development of new projects [20], and this method of continuous reflection contributes to the formation of a positive circle in the development of corporate projects with the ultimate aim of achieving more ethical behaviour and sustainable development.

4 The Role of Stakeholders and Proposed Solutions

4.1 Stakeholder Theory and the Application in Unilever

People that have a close relationship with a firm are called stakeholders, while the stakeholder theory ties into social responsibilities which focuses on each participant and aims to maintain ethical and economic consistency while achieving corporate goals [21]. Accurately, businesses should act in a stakeholder-friendly way, which means they must take stakeholders' interests into mind rather than exploit them in the long run. Stakeholders have a direct impact on how a business operates. Unilever divided its stakeholders into six groups which are Consumers, Our people (staff), Society, Planet, Customers and Shareholders [22]. Without any of these groups, a business cannot be successful. However, some formulations of stakeholder theory raise concerns that various groups can interact antagonistically, which makes it difficult to handle in an all-encompassing and unduly utopian way [23].

Unilever believes that stakeholders are at the heart of their strategy and business model. Engage with stakeholders can help them to understand evolving needs and informs their strategic decision-making [24]. Based on the degree of influence on Unilever's decisions and involvement in the company's ethical strategy, their six stakeholders could be divided into three tiers. Firstly, consumers and customers are more interested and influential in the development of the company. For one thing, consumers demand is critical to long-term corporate success of a business as the ultimate user of Unilever's products. Unilever's decisions, especially concerning its products, are heavily influenced by the direct influence through consumer care lines. They had over three million interactions by calls, emails and social media to consult with consumers and update recommendations based on consumer insights. Additionally, the results of customer surveys assist Unilever in defining and honing the distinctive purpose of their brands. For another, customers as the channels that directly affect corporate revenue, Unilever focuses on their needs and has designed products appropriate for each channel in 2019, which will help customers differentiate themselves. Changes in the firm, such as Dolphin's new fruity scrubs to cater to the female market, will be determined by the attitudes and tastes of consumers and customers in B2B and B2C. Secondly, society and the planet as second-order stakeholders have a macro influence on companies.

Unilever has set up an advisory system to select outside talent from different fields on behalf of society and the planet in meetings and take advice. However, despite the company's participation in UN development, Unilever has not achieved much due to the limitations of the company's capabilities and its egoism in pursuit of corporate turnover. In addition, according to the 2019 performance report, Unilever received a high response rate from 82% of employees in UniVoice's annual survey. The ability of employees to influence other stakeholders, however, is still limited. Mayer [25] criticized this approach in which "employees get tired of doing these formalistic questionnaires or spend less time just filling out one-sided good feedback". As an organization with a high management hierarchy and a large number of junior staff, it is unrealistic for the top management team of Unilever to spend time looking at so much employee feedback. Employees are on the third tier because of their low impact. Shareholders are rarely involved in the management of the company but are there for peace of mind at final-tier. As a steadily

growing company in the FMCG industry, Unilever's shareholders need only to consider individual dividends and investments.

4.2 Innovation in Practices

Unilever took a strategic, creative move in 2009 to redesign the upstream industrial supply chain. Unilever believes that to achieve higher goals, it is necessary to go beyond the bottlenecks of a company's environmental practices [26]. Specifically, it is not the FMCG industry companies themselves that cause pollution and waste, but the upper end of the supply chain. Unilever told farmers supplying palm oil, soy, tea, cocoa and tomatoes to accept sustainability certification or lose their orders. Of course, this is a risky and expensive undertaking, and Unilever's higher bargaining power is a key factor in its success. The outcome is impressive, with 14% of Unilever's agricultural supply in 2010 coming from sustainable sources.

Not only at the upstream level, but also at the downstream customer, the company is working on innovations of changing consumer habits, such as the One Rinse which is a gold spun product that reduces water consumption in the laundry, launched in the Asian market and rapidly gaining popularity. Polman said he believes that in this day and age, people will be reluctant to buy the products from companies that they consider irresponsible, thus striving to promote the long-term responsible development of the entire enterprise radiation spectrum [27].

5 The Resolution

Overall, Unilever's path to ethical development still remains challenging. Firstly, although Unilever has set up a vision to become an ethical company. Due to the numerous and unmanageable problems of its brands, there are sometimes scandals and quality omissions in product details, which affect the company's reputation and long-term development. Therefore, in terms of organizational structure, companies need to further segment and change the original management model with a brand-orientation. At the same time, it is possible to adhere to the TBL evaluation method within the enterprise and use this theory to evaluate the performance of different brands at the end of the year, so that the development of brands and healthy competition between brands can be required with higher brand ethics.

The second challenge is the lack of participation and responsibility of the company's employees, which can quickly bring about a crisis that disintegrates from within the company. The company's CEO, Paul Polman, as a person with a strong sense of social responsibility, could serve as a KOL leader to encourage their staff. Additionally, training is yet another successful strategy for raising employees' ethical awareness and understanding. In the end, Unilever could put its employees into the practice of different CSR projects to enhance the ethical behaviour by the most practical way, thereby continuously maintaining and building the vision of Unilever's sustainable development.

6 Conclusion

In conclusion, this essay provides a more thorough analysis of theoretical and real-world situations. In addition, Unilever's historical operational initiatives as a key case study show the company's high level of interest and action at the social level. At the same time, to achieve more successful long-term development, it is also necessary to further pinpoint the development issues in light of the changing business environment and the uniqueness of the company.

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