



## PROFITABILITY AT ANY COST? : A MINI CASE STUDY ON BUSINESS ETHICS

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**Abstract-** The purpose of this case study is to show that entrepreneurs face ethical dilemmas and these dilemmas can be resolved using various ethical models. Mr. Saran Prasad is in the business of manufacturing washing soap and edible mustard oil. Can we reduce the quality of oil for better profitability? and avoid paying taxes for reducing the cash flows? When majority of the units are doing this practice, how to stay ethical and profitable at the same time is the question looming in his mind. This case study was applied in the class room situation and the author found active participation by the management students in India. The teaching notes accompanied by the case study indicates the issues and possible means of dealing with those issues. The case study illustrates that it is possible to stay ethical and profitable at the same time and these two need not be mutually exclusive objectives for an organization.

**Keywords-** Profitability, Ethics, Entrepreneurs, Ethical dilemma, quality

### Introduction

The purpose of this case study is to show that entrepreneurs face ethical dilemmas and these dilemmas can be resolved using various ethical models. Mr. Saran Prasad\* is a resident of Punjab, India. He is in the business of manufacturing washing soap and edible mustard oil. Both are sold in the market through their own retail stores and through distributor network. Their products are well known in the market for their quality. Their retail stores was started by his grandfather. Subsequently his father also managed the same business which is now 30 years old. The brand name of washing soap is "Bright". Washing soap business is doing well. There are two brands in mustard oil viz., "Krishna" and "Rama". Krishna brand is more popular as compared to Rama. It is in the mustard oil busi-

ness, Mr. Prasad is facing an ethical dilemma.

Mr. Prasad produces oil from the mustard seeds as shown in [Fig-1] below. The local seeds this year are yielding greenish / blackish oil, resulting in loss of demand from the market. Procurement of mustard oil seeds from states like Rajasthan and processing them is a costlier option. The production is affected by the power situation. Production capacity of the unit is 15 tins / day but due to power shedding it is reduced to even 5 to 7 tins sometimes. Production is proving to be costlier than trading. The brands produced by them do not have egg mark. The tins in local market are sold for \$30 with egg mark and \$25 without egg mark. Entire production is consumed within district and customers also come to unit to purchase loose oil.

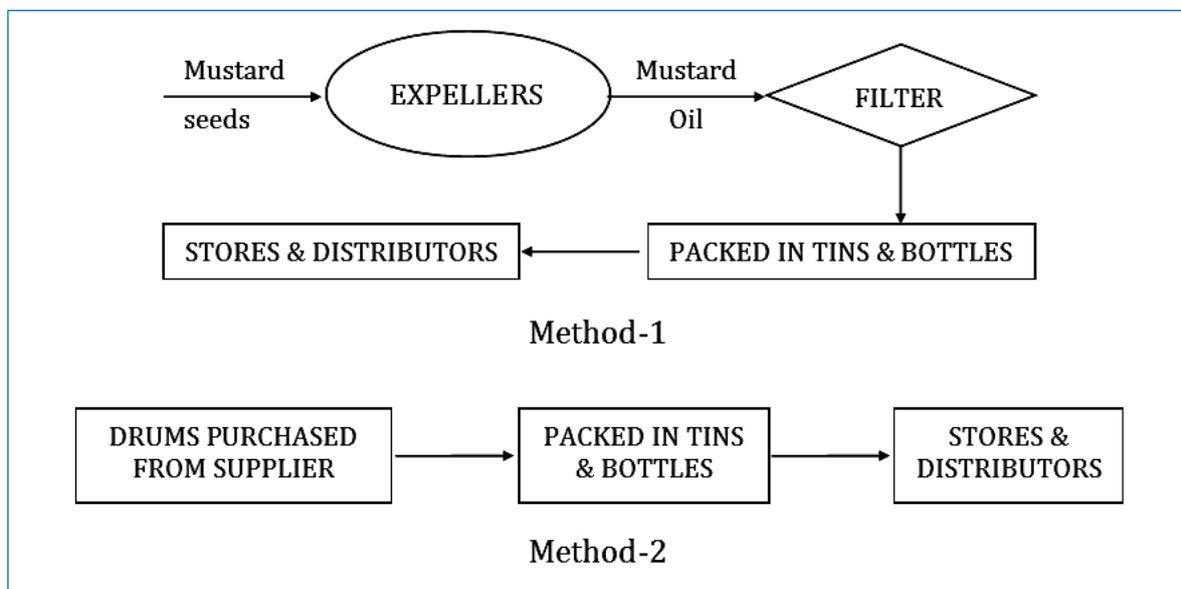


Fig. 1- Two Methods in Mustard oil Sales

The oil from tankers (30 drums / 5 tons) is tested manually by the supplier. In the absence of laboratory the testing of oil from tanker is not done again. The nearest oil testing facility is 140 kilometers away. Lately, the margins are increasing on the sale of oil from tankers than their own production facility.

How to increase profitability? There are many manufacturing units of Mustard oil in that district. They all blend mustard oil to reduce cost. The soybean oil from USA which is yellow and odor less is imported and is mixed with mustard oil. All the units in that area are following this practice. This blending of oils reduces the production cost. Some units also do not do billing properly. This results in avoidance of VAT. The dilemma faced by Mr. Saran Prasad is whether he also should stop billing and start blending mustard oil like everybody else?

### Materials and Method

This case study was developed for academic discussion only and not for criticizing effective or ineffective handling of a situation by an entrepreneur. The case study was developed through interview method using open ended questions. A transcript is created from the responses and key issues were identified. The responses by the entrepreneur are transcript.

### Result

The development of this case study was done with two results in mind. Firstly, the identification of ethical dilemma for the entrepreneur and possible solutions for him. Secondly, the management students should be able to identify the issue and practical difficulties being faced by the entrepreneur and possible steps he needs to take to deal with these situations. It is a challenge for an entrepreneur to be ethical and profitable. The focus is on obtaining that result.

### Discussion

The discussion contains, pedagogical objectives, suggested questions, opportunities for student analysis, suggested answers for questions and suggested class room teaching plan as given below.

### Pedagogical Objectives

- Understand the concept of ethical dilemma.
- Identify factors leading to ethical dilemma.
- Generate various options for dealing with the ethical dilemma faced by the entrepreneur in this situation.

### Suggested Questions

- What is "Ethical Dilemma"?
- Identify the factors leading to ethical dilemma in this case.
- Give advice to Mr. Prasad so that he may run the business ethically & profitably in the long term.

### Opportunities for student analysis

- Students may be formed into teams. Each team may first brainstorm. A team representative may present group views and other team representatives may join the discussion.
- Faculty can ask questions and lead the student interactions. Focus can be on identification of issues and generation of alternatives.

### Suggested Answers for Questions

#### Concept of "Ethical Dilemma"

Ethics are the inner guiding moral principles, values and beliefs that people use to analyze or interpret a situation and then decide what is the right and appropriate way to behave. They also indicate what appropriate behaviour is and how to avoid harming another person. A dilemma arises when a person has to decide between two different courses of action. Choosing a course of action results in harm to one group or individual while it may benefit another [1].

People dispute whether actions are ethical or unethical based on their own guiding value system comprising of attitudes, beliefs, culture etc. Ethical beliefs alter and change as time passes. Problem arises when owners try to maximize their wealth at the cost of their stakeholders. In this case the stakeholders are customers and community as whole. In a society there are laws to control this kind of behaviour. But if the punishment is not severe and if the perception is that the chances of getting caught are less, business feel that they may get away with this kind of behaviour. Also the societal awareness has to increase to a level where laws are made more stringent and recognition is given to ethical practices. Till such point of time, business with moderate value system continue to have ethical dilemmas between quality and profitability.

#### Factors Leading to Ethical Dilemma

- Mr. Prasad is losing margins on production. Cost of production increasing continuously without any substantial increase in the price of product.
- The quality of raw material cost procured within state is lower and the cost of raw material procured outside state is higher.
- Other manufacturing units in the district are blending imported corn oil to increase profit margins. So there is a temptation to follow others to make profits.
- The awareness in the district towards adulteration is low. May be the belief is that corn oil does not affect health of the customers.
- Mr. Prasad has moderately strong value system resulting in the present dilemma. Otherwise, he would have been carried out either way, either totally blending or totally sticking to his moral principles.
- The Sources of Ethics model indicates that apart from Individual and societal ethics, occupational ethics also effect ethical decisions. If there is an association of mustard oil producers with a set of guiding principles and practices, this situation would not have raised.

#### Sustainable Practices for Ethical and Profitable Business

- Mr. Saran Prasad should continue billing practices as before. It is not only unethical but also the chances of authorities catching up also high. Proper billing gives better picture of cash flow situation and make business sense. The taxes paid also contribute to the societal development.
- The unique selling proposition (USP) of Mr. Prasad's unit appears to be quality. He should not do any blending of corn oil with mustard oil. This practice is not only unethical but also illegal. He should rather educate customers about his unique quality proposition. This practice and education together create customer trust and brand loyalty.

- Having a lab in premises and appointment of even part time technician will help the unit in establishing its credibility. Testing samples regularly and keeping a record of the same for years to come will help in long term. Also there should be at least one brand with egg mark. This should improve the margins also. Tanker oil may also be tested for edibility.
- He may also identify alternate sources of raw material supply. Need to ensure continuous supply of quality raw material from within state.

### Suggested Classroom Teaching Plan

| Activity                                    | Time          |
|---|---------------|
| Reading case and discussion intra teams     | 20 min        |
| Discussion among inter team representatives |               |
| Q1  | 15 min        |
| Q2  | 15 min        |
| Q3  | 15 min        |
| Summing up                                  | 10 min        |
| <b>Total</b>                                | <b>75 min</b> |

### Conclusion

Entrepreneurs face ethical dilemmas due to conflicting interests. Some actions are profitable to self but may be harming to the society. Some actions benefit the society but may not be profitable. So how to ensure profitability and societal benefit by offering the right quality products at reasonable price is the question. Through this case study the author has attempted to highlight this important dilemmas and various methods of dealing with the dilemma as applicable in this case. It forms a good class discussion and ethics enhancing exercise for students. The paper by Inna Popil [2] supports the view that case study method is a superior method for ethical education and for developing critical thinking in students.

**Note :** Entrepreneur's name is altered to protect his identity.

### References

- [1] Jones G.R. & George J.M. (2006) *Contemporary Management*, 4th ed., McGraw Hill Irwin, New York, 115-140.
- [2] Popil I. (2011) *Nurse Education Today*, 31(2), 204-207.