

Tobacco industry; ethics vs. profits

Executive summary

The assignment aims to identify and analyze the business environment of a selected company i.e. Imperial Tobacco based in UK. A formal report aims to outlines the corporate governance activities adopted by the company in relation to key issues and theories in comparison to tobacco competitors based in UK. In addition, the assignment also aims to highlights what are the factors that tend to contributes competitive edge in the business activities of Imperial tobacco and makes them truly different from other types of business in comparison to its competitors. The assignment findings reflects that the, business practices of Imperial tobacco can be categorized as ethical practices as company tend to focuses on ethical consideration as well as overall profitability of the company to benefits shareholders in terms of return obtained on invested capital. In addition, the recommendation for future business strategies has also been provided in the current report.

Table of Contents

Executive summary..... 2
Introduction..... 4
Company’s overview 4
Corporate governance and Supply chain risk 4
Conclusion 11
References..... 13

Introduction

The assignment aims to identify and analyze the business environment of a selected company i.e. Imperial Tobacco based in UK. A formal report tends to outlines the corporate governance activities adopted by the company in relation to key issues and theories in comparison to tobacco competitors based in UK. The assignment also tends to highlights what are the factors that tend to contributes competitive edge in the business activities of Imperial tobacco and makes them truly different from other types of business in comparison to its competitors.

Company's overview

In the view of Imperial-Tobacco (2015b), Imperial Tobacco PLC is a multinational tobacco company based in UK. The company ranked as the fourth largest cigarette manufacturing company in comparison to its competitors such as British American tobacco, Japan tobacco and Philip Morris International operates in tobacco industry. In relation to its operating activities, the company produces over 350 billion cigarettes in a year. The company has 51 factories globally and tends to trade in over 160 countries. The company trade with the band name of Davidoff, West, Golden Virginia and Montecito. As stated by Imperial-Tobacco (2015a), the company mainly focuses on customer engagement, innovation and portfolio management to create value for the customers.

Corporate governance and Supply chain risk

According to Klapper and Love (2004), corporate governance refers to the process, mechanism and policies adopted by a company and through which organizational activities are being controlled and directed. It involves the process through which company's objectives and purposes are perused in the social, regulatory and overall market environment of a firm. As stated by Brown and Caylor (2006), the mechanism includes the monitoring of actions, policies, and decision taken by the corporation to in attempt to the interest of stakeholders. In relation to corporate governance theories and supply chain risk, the corporate governance practices adopted by a company has been mentioned in the below figure.

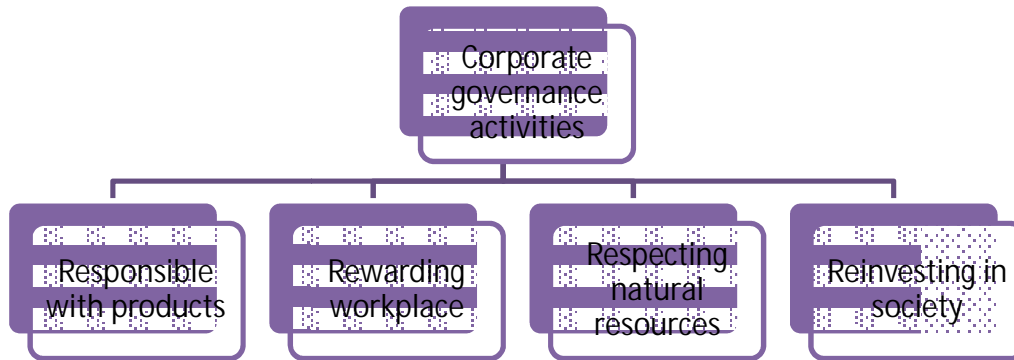


Figure 1: Corporate governance practices

The aforementioned figure depicts the corporate governance activities of Imperial tobacco in relation to peruse business goals to benefits company's stakeholders. In relation to global business environment, the company is mainly responsible to support its business sales strategy and business long-term sustainability through various business activities, which has been discussed below. The above mentioned activities has been discussed in the light of various corporate governance theories such as stakeholder theory, stewardship theory and overall behavioral knowledge based theories in the relation to practices adopted by the company.

Being responsible with products

In the view of Imperial-Tobacco (2015a), the corporate governance practice in terms of being responsible with the products, the company tends to become responsible to manufacture market and sell tobacco products that tend to charge higher prices but also provides enjoyment to the consumer every day. The company tends to support consumers to enjoy quality tobacco products even the higher prices. In such consideration, the steps taken by the company in relation to responsible with products standards includes

- ***Product standard***

According to Imperial-Tobacco (2015a), the Imperial tobacco Plc follows a systemic approach for the purpose of testing and analyzing the products. The range of cigarette manufactured by the

company involves high approach of testing, to engage consumers with the quality products. In such consideration, in the light of stakeholder theory, as stated by Huse (2005), the key issue identified in the products standard of the company is company is manufacturing and selling those products that tend to effects personal life of a consumer. Despite of maintaining and testing product quality, company is supporting those products that are not sufficient for an individual customer and overall environmental regulation of a country.

- ***Engaging with regulators***

In the view of Imperial-Tobacco (2015a), the company is also responsible for ongoing activities about tobacco regulation. The operating activities of the company depicts that company have extensive knowledge and experience to contribute their own interests to gain profit and those of our stakeholders. In such consideration, as stated by Imperial-Tobacco (2015a), the product quality regulators followed by the company includes World Health Organization (WHO), the Framework Convention on Tobacco Control (FTC), the Food and Drug Administration in the USA, the European Union Tobacco Products Directive and lastly, the European Commission.

In consideration to stakeholders theory, issue highlights in the above discussion is the operating activities of the company tend to support and benefit the share holders who has invested in the company operation in terms of providing return on the investment (Freeman, Wicks and Parmar, 2004). However, the company fails to support environmental activities in terms of providing sufficient healthy products to the consumers and fails to control environmental pollution in the country that has been spread through offered products. In comparison to ethical practices, the company tends to focus of business profits and sales volume instead of providing sufficient products to the consumers.

- ***Strong retailer relationship***

As stated by Imperial-Tobacco (2015a), the Imperial tobacco depicts the long-standing partnerships with retailers around the world, in relation to superstores to small independent shops. The companies policies depicts that the company's focus on retailer engagement tend to supports business sales strategy and responsibility framework adopted by the company. From the operating activities of the company, it is clear that company sales products for adults, which tend to prevent children to use tobacco in relation to strong retailer relationship.

In the consideration to the theories of corporate governance, the stakeholder theory in the view of Agrawal and Chadha (2005), depicts that company tend to put efforts to build and maintain

strong partnership in collaboration to retailer and wholesaler. The company has a tendency to take such actions that prevent tobacco products from the children and tend to enhance environmental activities of a country. In the view of Caers, Bois, Jegers, Gieter, Schepers and Pepermans (2006), the stewardship also support this unethical practices adopted by the company as the operating activities of the company depicts the self interest of shareholders and reduces the overall benefits in the attempt to whole society.

Creating a rewarding workplace

The second corporate governance activity that has been adopted by a company, which is also mentioned in above figure, is creating a rewarding work place for the employees working in the company, which is also the key aspect of stakeholder theory. In the view of Imperial-Tobacco (2015a), the rewarding workplace that has been followed by a company tend to inspires people to excel at what employees do and the company tend to provide a pleasant and safe environment that tend to increase overall employees talents. The company tends to promote diversity, encourage development and contributes employee involvement in the overall business activities. In the light of stakeholder theory, the employees have been categorized as an internal stakeholder of a company. In such consideration, the corporate governance practices of a company related to rewarding workplace in relation to theoretical implication has been discussed as

- ***Developing people***

In order to create rewarding environment for employees, company tend to focus on developing people for the purpose of encouraging to achieve company's overall business goals which includes to boost sales volume for the year. In the view of Letza, Sun and Kirkbride (2004), the factors that have been considered by the company includes face to face, e-learning, training courses and other actions to broaden company's code of conduct and also tend to support overall development of employees working in the organization. In addition, as stated by Vallejo (2009), company tends to achieve its business goals through annual performance management in relation to online appraisal system adopted by a company.

In relation to tobacco sector, the company merely focuses on developing employees to retain employees by providing various benefits to the high performers. The aspect of developing people also supports the components of stakeholder's theory in relation to providing various opportunities to enhance demanding roles globally.

- ***Engaging a diverse workforce***

In the context of creating rewarding workplace, the second activity related to corporate governance practices includes engaging a diverse workforce in an organization. In the view of Imperial-Tobacco (2015a), the company tend to benefit enormously from our diverse workforce, promotes different culture and backgrounds, providing an energetic working environment that thrives on new ideas and fresh thinking. In such consideration, the stewardship theory as stated by Agrawal and Chadha (2005), depicts that company tend to highlights the essential component of diverse workforce in terms of diversity, equality, and non discrimination among operating activities that has been performed by internal stakeholders of a company.

In addition, in the view of Letza, Sun and Kirkbride (2004), the stakeholder's theory supports existing operating activity i.e. engaging in a diverse portfolio in terms of reducing gender inequality, reducing discrimination and contributes in the increase in employment level, which is entirely beneficial for the company and depicts an ethical practice for the company.

- ***Employee health and safety***

In the context of creating rewarding workplace, the last activity corporate governance practices includes actions taken by the company to support employee health and safety in the workplace. In the view of Imperial-Tobacco (2015a), the company main goal is to keep employees safe that tend to reduce the time incurred in the injuries while performing business activities. The existing activity supports the key purpose of stakeholder theory while providing road safety and focuses on enhancing overall training for the drivers used in the business activities. The ethical practices adopted by the company in relation to gaining profits from business activities is focus on safety, quality, environmental improvement and product knowledge which is entirely essential in the case of tobacco industry.

In the view of Dutta, Lawson, and Marcinko (2012), the stewardship theory supports employee health and safety, in terms of working and focusing on business strategies that tend to contribute profits for the overall society and results in environmental improvement for the country. The health and safety actions taken by the company categorized as ethical practices and results in overall increase in company's cost for the period.

Respecting natural resources

In the view of Imperial-Tobacco (2015b), the activities of corporate governance tend to benefits the whole society in relation to process, procedure, strategies and mechanism adopted by the

company. The activities related to respecting natural resources is essential for ensuring a sustainable supply of materials required in business process and company tend to committed to eliminate their environmental impact, reduces waste and improving energy efficiency according to business expectation. The action of respecting natural resources for the company contributes in the strategic alignment for the company in relation to cost optimization and operational excellence.

In relation to stakeholder theory, as stated by Maon, Lindgreen and Swaen (2009), the business sector supports environmental and society improvement by taking such actions to reduces waste, improve energy efficiency and ensuring overall sustainability of business activities in relation to achieve business goals of increasing sales for the year

- ***Resource efficiency***

The ethical practice related to resource efficiency tend to focus on reduces, re use and recycle strategy for the business activities. The company uses environmental improvement systems in relation to ISO 14001 to improve global productivity in relation to target of 10% reduction in waste by 2020 to supports business activities ethically. The focus on core values helps company to benefit society, employees and shareholders, which is the key aspect of the stakeholder theory.

- ***Water management***

In the view of Imperial-Tobacco (2015b), the company tends to support environment by further reducing the company's water consumption by 5 per cent in the next year and aims to create good progress over the business activities throughout the process. As stated by Cooper and Owen (2007), it supports stakeholder theory by supporting external stakeholders such as society and consumers to save water for their personal usage. The company tends to support ethical business practices by reducing water usage, as tobacco is an agricultural product. In order to improve supply chain practices the management system adopted by the company results in better efficiency of business activities.

Reinvesting in society

In the view of Imperial-Tobacco (2015b), the Imperial tobacco is an international cigarette manufacturing business in relation to different communities around the world. The activities adopted by the company have been discussed as:

- ***Human rights***

The ethical practice related to reinvesting in society has been highlighted through actions taken by the company in relation to support human rights. In the view of Imperial-Tobacco (2015b), the company tends to focus on external attention in consideration to support business role and human society. In relation to stakeholder's theory, the company is committed to performing the things in the right way and has been reflected in the values and code of conduct adopted by the company. The increasing focus on business roles in relation to societal practices help company to achieve competitive edge in the tobacco sector and also results in overall performance of the company.

In addition, as stated by Craig and Dibrell (2006), the business activity related to human rights also supports the basic components of stewardship theory in relation to respect for human rights that has been reflected from the high standard suppliers and employment practices as mentioned in figure 2.

- ***Supporting community livelihoods***

In the view of Juttner (2005), in order to reduce supply chain risk, the deliverance of final products through quality suppliers plays an important role to eliminate risk in relation to delivering risk to adults only. The company makes a positive economic contribution through wealth development and employment opportunities throughout our supply chain activities.

The ethical practices of supporting community livelihoods tend to promote stakeholder theory in terms of providing wider range of community initiatives that supports local market as well as foreign market of the product industry. The tobacco industry, in relation to stewardship theory supports community practices in relation to preventing cigarettes from children while focusing on quality suppliers hired by a company.



Figure 2: Business model

(Source: Imperial-Tobacco, 2015a)

Based on the above discussion in relation to corporate governance activities, the company tends to achieve competitive edge in the tobacco industry through focusing on company's values and code of conduct. In relation to business strategies, company merely focuses on four components, which includes positive societal contribution, reducing environmental impact, supporting legitimate markets and consumers, and tends to create a great workplace for employees. All these strategies reflect the ethical business practice of Imperial tobacco in relation to other sector and contribute a competitive edge in the comparison of competitors. Based on the discussion, the recommendation for future strategies includes

- To focus on sustainable growth in tobacco business by focusing on product quality instead of increasing sales volume for the year
- To enhance product portfolio by including various related products to increase the revenue growth of the company
- To focus on effective cost and quality management system that support environmental improvement and also affects the return to shareholder over the years

Conclusion

Based on the discussion of corporate governance activities and supply chain risk system adopted by the company, the assignment highlights that in comparison to its competitors in tobacco industry, the Imperial tobacco is growing rapidly. The assignment reflects the business practices of Imperial tobacco can be categorized as ethical practices as company tend to focus on ethical

consideration as well as overall profitability of the company to benefits shareholders in terms of return obtained on invested capital. The case material related to Imperial tobacco reflects a positive indication in the company's growth in relation to overall policies formulated by the company.

References

- Agrawal, A. and Chadha, S. (2005). Corporate governance and accounting scandals. *Journal of law and economics*, 48(2): Pp. 371-406.
- Brown, L. D., and Caylor, M. L. (2006). Corporate governance and firm valuation. *Journal of Accounting and Public Policy*, 25(4): pp. 409-434.
- Caers, R., Bois, C. D., Jegers, M., Gieter, S. D., Schepers, C. and Pepermans, R. (2006). Principal-agent relationships on the stewardship-agency axis. *Nonprofit Management and Leadership*, 17(1): pp. 25-47.
- Cooper, S. M. and Owen, D. L. (2007). Corporate social reporting and stakeholder accountability: The missing link. *Accounting, Organizations and Society*, 32(7): pp. 649-667.
- Craig, J. and Dibrell, C. (2006). The natural environment, innovation, and firm performance: A comparative study. *Family Business Review*, 19(4): Pp. 275-288.
- Dutta, S., Lawson, R. and Marcinko, D. (2012). Paradigms for sustainable development: Implications of management theory. *Corporate social responsibility and environmental management*, 19(1): Pp. 1-10.
- Freeman, R. E., Wicks, A. C. and Parmar, B. (2004). Stakeholder theory and “the corporate objective revisited”. *Organization science*, 15(3): pp. 364-369.
- Huse, M. (2005). Accountability and creating accountability: A framework for exploring behavioral perspectives of corporate governance. *British Journal of Management*, 16(s1): pp. S65-S79.
- Imperial-Tobacco (2015a). Our responsibility. [Online]. Available at <<http://www.imperial-tobacco.com/index.asp?page=5>>[accessed on 6th January 2015].
- Imperial-Tobacco (2015b). Annual report. [Online]. Available at <http://www.imperial-tobacco.com/files/financial/reports/ar2013/files/pdf/annual_report_2013.pdf>[accessed on 6th January 2015].
- Juttner, U. (2005). Supply chain risk management: understanding the business requirements from a practitioner perspective. *International Journal of Logistics Management, The*, 16(1): pp.120-141.
- Klapper, L. F. and Love, I. (2004). Corporate governance, investor protection, and performance in emerging markets. *Journal of corporate Finance*, 10(5): Pp. 703-728.

- Letza, S., Sun, X. and Kirkbride, J. (2004). Shareholding versus stakeholding: a critical review of corporate governance. *Corporate Governance: An International Review*, 12(3): pp. 242-262.
- Maon, F., Lindgreen, A. and Swaen, V. (2009). Designing and implementing corporate social responsibility: an integrative framework grounded in theory and practice. *Journal of Business Ethics*, 87(1): Pp. 71-89.
- Vallejo, M. C. (2009). The effects of commitment of non-family employees of family firms from the perspective of stewardship theory. *Journal of Business Ethics*, 87(3): Pp. 379-390.