

FACULTY OF MANAGEMENT STUDIES

UNIVERSITY OF DELHI

Semester Examination 2016

Name of the Examination: MBA – Full Time II Year (October- November 2016)

Paper Name: Business Ethics & Corporate Social Responsibility

Paper No.: 6301

Time Allowed: 3 Hours

Max Marks: 50

Instructions to candidates: There are two sections in this Paper. Section A is compulsory. Attempt any three questions from Section B.

Section A (20 Marks)

- 1 Read the following case and answer the questions that follow:

H. B. Fuller and the Street Children of Central America

The article was one of many published on street children in Latin American cities during the early 1990s. The issue on which it focused was one that children's advocates had brought to the attention of H. B. Fuller Company repeatedly over many years. The article read:

On a sidewalk in San Pedro Sula, Honduras ... a lanky, dark-haired boy [is] sitting with arms curled around his folded legs, staring at the passing traffic. The boy, a nineteen year-old named Marvin, has been sniffing glue for ten years. Once the leader of a gang of street kids, he now has slurred speech and vacant eyes. A year ago, Marvin began to lose feeling in his legs. Now he can no longer walk. He slides on his butt, spiderlike, through gutters, across streets, and along the sidewalks. Still loyal to their chief, the younger kids in his gang bring Marvin food, carry him to a news stand to spend the night, and make sure he has enough glue to stay high. ... Doctors offer no hope that Marvin will ever walk again. Toluene, the solvent in the glue he sniffs, is a neurotoxin known to cause irreparable nerve damage. ... In Honduras, the drug of choice for children is H. B. Fuller's Resistol, a common shoe-glue made with toluene. Toluene creates the high the children come to crave ... Sniffing the glue is so common ... that the common name for street kids is Resistoleros.

Marvin was not the only casualty of the toluene-based glue. Toluene, a sweet-smelling chemical used as a solvent for the ingredients in adhesives, destroys the thin layers of fat that surround nerves, causing them to die. Occasional inhalation will produce nosebleeds

and rashes while habitual use produces numerous disorders including: severe neurological dysfunction, brain atrophy, loss of liver and kidney functions, loss of sight and hearing, leukemia, and muscle atrophy. Prolonged use can result in eventual death. For over a decade, thousands of homeless children throughout Latin America, but most visibly in Guatemala and Honduras, had become addicted to inhaling the glue. Many of them were thought to have died while many more were now severely disabled by blindness, diminished brain functioning and crippling muscle atrophy.

H. B. Fuller had total revenues of \$1.243 billion in 1995, up from \$1.097 billion in 1994. Profits had totaled \$392 million in 1995 and \$354 million in 1994. Founded in 1887, the company was now a global manufacturer of adhesives, sealants, and other specialty chemicals, and had operations in over 40 countries in North America, Europe, Asia, and Latin America. While 15 percent of its sales revenues came from its Latin American operations, those operations accounted for 27 percent of its profits, indicative of the fact that its Latin American operations were much more lucrative than its operations elsewhere around the world. According to the company, it has profits of about \$450,000 a year from glue sales in Central America.

The company's adhesive products are made and distributed in Central America by H. B. Fuller S.A., a subsidiary of Kativo Chemical Industries, which itself is a wholly owned subsidiary of H. B. Fuller Company of St. Paul, Minnesota. "Resistol" is a brand name that H. B. Fuller puts on over a dozen of the adhesives it manufactures in Latin America including its toluene-based glues. These toluene-based adhesives have qualities that water-based adhesives cannot duplicate: they set very rapidly, they adhere strongly, and they are resistant to water. The glues are widely used throughout Latin America by shoe manufacturers, leather workers, carpenters, furniture makers, and small shoe repair shops. Both Honduras and Guatemala, two countries where Fuller markets its glue products and the two countries where Resistol abuse is most pronounced, are mired in poverty. In 1993 Honduras had a per capita gross domestic product (GDP) of only \$1950, and unemployment of approximately 20 percent. Guatemala was doing slightly better with a per capita GDP of \$3000 and an unemployment rate of about 15 percent. More than a third of the population of each country is below poverty. For several years both countries have had large deficit budgets, forcing them to take on an ever larger debt burden and to sharply curtail all social services. Migration from the countryside into the major cities had exacerbated urban crowding and had created large impoverished populations in every large city. In these impoverished, insecure, and stressful conditions, family life often became unstable: husbands abandoned their wives, and both abandoned the children they were too poor or too sickly to care for. The countless children that roamed city streets begging for handouts, for the most part, had been abandoned by their families, although a good number were runaways from what they felt was an intolerable home life.

For years H. B. Fuller had been pressured by child advocate groups in Central America and the United States who were concerned about the rising use of the company's glues by homeless children in Latin America. A number of child advocates and social workers argued that Fuller should follow the lead of Testors, a company which makes and markets glues in the United States. Criticized in the late 1960s for marketing glues that American teenagers had started sniffing, the company ran a number of tests and decided that a safe way of keeping kids from sniffing its glues was by adding minute amounts of mustard seed oil (allyl isothiocyanate,) a common food additive. Inhaling glue containing the mustard-seed additive produced tearing and gagging that discouraged inhalation. Testors reported that the use of mustard-seed oil had virtually eliminated abuse of its glues and that it had never had reports of any kind of injury deriving from the addition of the oil from users nor from employees in its plants.

In response to the urging of Honduran social workers, the legislature of Honduras in March 1989 passed Decree 36-89 which banned importing or manufacturing solvent-based adhesives that did not contain mustard-seed oil. However, the general manager and other executives from the local H. B. Fuller subsidiary lobbied the government to have the law revoked. "Possibly," observers noted, "because it might reduce the glue's effectiveness, possibly because the smell would be irritating to legitimate users." Company officials in Fuller's Honduras subsidiary argued that they had data showing that mustard seed oil had a short shelf life and that studies on rats in the United States had shown that the substance was potentially carcinogenic. They urged that instead of requiring additives, the government should attempt to control distribution of the glue by prohibiting its sale to children, and should educate street kids on the dangers of inhaling it. In November 1989, a Honduran government commission recommended that the new law be scrapped and that the government should concentrate on controlling distribution of the glue and providing education on the dangers of inhaling glue. Two years later, a journalist investigating the incident reported, however, that "there is no official study" showing a decline in the effectiveness of mustard-seed oil in adhesives as they sat on store shelves and that, far from being carcinogenic, "the Food and Drug Administration lists the additive on its 'Generally Regarded as Safe' list" and it is consumed daily in products such as horseradish and pickles.

Honduran law already prohibited sale of toluene-based products to children, although the law was rarely enforced. To reduce the availability of the glue to children, the company now discontinued selling the glue in small jars. Fuller also began paying for the support of several social workers to work with street children. And the company began providing information to distributors warning of the dangers of Resistol addiction.

Children's advocates, however, who had worked with street children for several years did not feel the programs were working. The terrible economic conditions afflicting the country that led parents to abandon their children, also made life on the streets a painful unceasing nightmare for a child from which the only available escape was the cheap intoxication offered by inhaling glue. Casa Alianza, the Latin American wing of Covenant House, an international Catholic charity based in New York would later release a report on Central American street children stating that "Living on the edge of survival they are often swept in an undertow of beatings, illegal detention, torture, sexual abuse, rape, and murder." The report detailed numerous cases of children detained and beaten by police for sniffing glue. In one case the mutilated bodies of four street boys were found in 1990, their eyes burned out, ears and tongues severed, some had had boiling liquid poured over their bodies, and all were shot in the head, some with bullets that were later traced to a government-issued gun. In such conditions, the lure of the hallucinogenic glue was irresistible. Said one social worker about an abandoned child who habitually sniffed glue, "When he inhales Resistol, he hallucinates about his mother caressing him."

Although criticisms of the company continued, the company argued that the problem did not lie with its glue, but with the "social conditions" that led children to misuse it, particularly the terrible economic conditions afflicting the countries. The company insisted that it was not responsible for the way its glues were being misused and that if it were to remove Resistol from the market, the street children would merely begin to use one of the toluene-based products of the other companies selling glues in the region. The company insisted, in fact, that by continuing to sell its glue in Central America, it was helping to improve the economic conditions that were at the root of the problem. Commenting on its reasons for staying, a company spokesperson stated that "We believe those little [shoe] businesses need to survive. They provide employment, help relieve the issue of poverty, and we're willing to do whatever we can."

On July 16, 1992, however, the company's board of directors met and voted unanimously to "Stop Selling ... Resistol adhesives" in Central America. According to the company's 1992 annual report: "Faced with the realization that a suitable replacement product would not be available in the near future and that the illegitimate distribution was continuing, the Board of Directors decided that our Central American operations should stop selling those solvent-based Resistol adhesives that were commonly being abused by children."

The company sent press releases announcing its decision to newspapers around the country and the decision of the board was widely publicized and highly praised. However, in September 1993 the company revealed that although it had stopped selling its glue to retailers it had continued to sell the glue to industrial customers who were willing to buy it in large tubs and barrels.

The new controls restricting distribution of the product into retail markets, however, did not take it off the streets. Large quantities of the glue still continued to flow into the hands of street children, presumably from the supplies of Fuller's industrial customers.

In 1994 the company decided to change the chemical formula of its glue to make it less attractive to children. The toluene in the glue was replaced with the chemical cyclohexane which smells less sweet and is less volatile than toluene, although like toluene it too produces an intoxicating high and has similar toxic effects on the body. However, because it does not evaporate as quickly as toluene, it takes much longer for cyclohexane to produce similar concentrations of fumes. The company also announced that it would increase the price of its glue by 30 percent to price it further out of the reach of children. Both of these moves, the company said, would discourage use of its glues among street children. However, Dr. Tim Rohrig, a toxicologist, said that he doubted the formula change had led children to stop sniffing Resistol: "I doubt the kids are that sophisticated that they can differentiate by odor. If it can get them high, then they will use it. ... They may have to take more sniffs with cyclohexane than they would with toluene but they still can get the desired intoxication."

In 1995 the company issued a statement claiming that in reality it "neither manufactured nor sold Resistol." Instead, the company asserted, it was a subsidiary of a subsidiary of the company in Central America that had actually made and sold Resistol, and claims that the company was responsible for the deaths of children "are nothing more than an attempt to hold Fuller liable for acts and omissions of its second-tier Guatemalan subsidiary."

QUESTIONS

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| a. | Is H. B. Fuller responsible for the addiction of street children to its Resistol products? In your judgment did H. B. Fuller conduct itself in an ethically appropriate manner? Explain your answer. | 7 |
| b. | What is the nature of problem which HB Fuller is facing in Honduras? Elaborate if the problem is related to ethical business practices or concerned with corporate social responsibility to which the company is committed? | 7 |
| c. | Suggest a course of action that is implementable in a developing economy like Honduras, which will make good business sense to HB Fuller and also not tarnish the image of company which has a commitment to corporate social responsibility. | 6 |