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α) The Hungry Spirit: Beyond Capitalism.– A quest for Purpose in the Modern World, by Charles Handy, Hutcinson.
£14,99 E-mail richard.donkin@ft.com

b). Defining Moments, when managers must choose between right and right, by Joseph L. Badaracco Jr.
Harvard Business School Press, £19.95.

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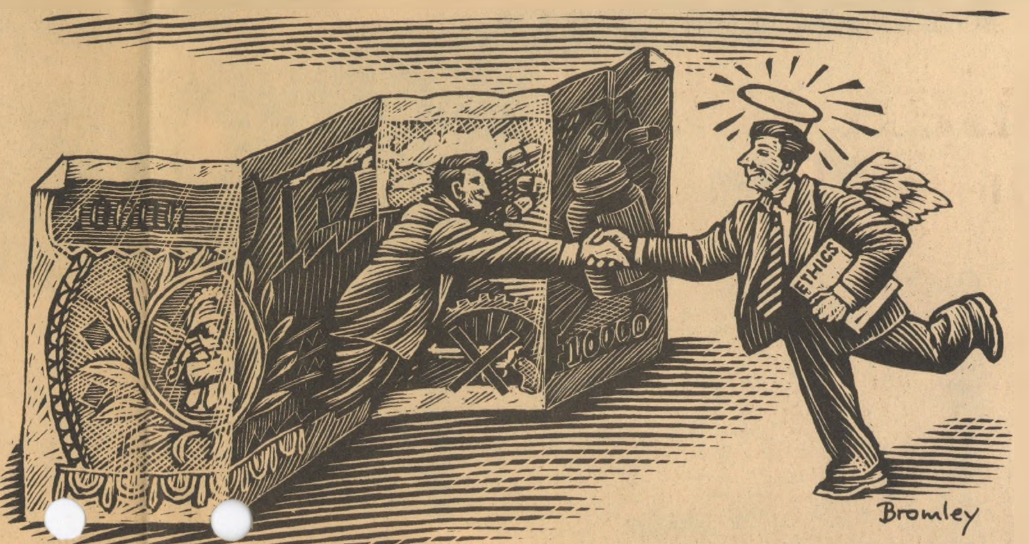
Book Review · **Tony Jackson**

Two rights don't make a wrong

How to launch an abortion drug, deal with being a token black, and other ethical dilemmas



Consider the following managerial nightmare. The company you run has developed a drug that safely induces abortion. Your biggest shareholder is a foreign company run by a devout Catholic, opposed to abortion on principle. The next biggest is your government, which supports the drug on grounds of healthcare savings and women's rights.

Profits from the drug are likely to be small, and anti-abortion groups threaten international boycott if you go ahead. You are a physician, and strongly believe the drug is beneficial. But your employees are divided, and the issue is consuming management time. What do you do?

Since this is partly an ethical question, you might refer to the corporate mission statement. Your company – in fact, the French drug maker Roussel-Uclaf – is committed to "placing our energy, our ideas, and our dedication in the service of Life". What does that mean in this context?

Or you might check with outside authorities. The free market economist Milton Friedman says a company's main responsibility is "to make as much money as possible while conforming to the basic rules of society, both those embodied in law and those embodied in ethical customs". But which strategy will make most profit here? And which basic rules and ethical customs apply?

It is in cases like these, Joseph Badaracco* argues, that managerial ethics are put to the test. Codes of conduct – and 60 per cent of US companies have them – deal with the easy bits: do not steal or bribe, do not be racist, do not sexually harass. We can all distinguish right from wrong. The hard bit is choosing between right and right.

This applies up and down the management scale. Mr Badaracco tells of an ambitious young analyst at a New York investment bank, who was asked to help make a pitch to a prospective client. Since the analyst only had a year's experience, he was surprised as well as gratified. He then found out the client's top man, like himself, was African American. The bank was using him as a token black. Torn between ambition and principle, how should he respond?

As professor of business ethics at the Harvard Business School, Mr Badaracco aims to place these issues in their intellectual context. In particular, he leans heavily on the unlikely trinity of Aristotle, Machiavelli and Nietzsche. The result sometimes reads like a beginner's guide to philosophy: but Mr Badaracco has a light touch, and sticks to his argument.

Many people, he observes, resort in such cases to the "sleep test". When your mind is confused, follow your feelings: and if you then sleep soundly, you have made the right choice.

But as Aristotle would point out, a lot depends on who is doing the sleeping. A psychopath can commit mass murder and sleep like a baby. An ethically sensitive person, having made the right choice in difficult circumstances, can still lie awake over the consequences.

This, Mr Badaracco says, does not mean you should abandon intuition. But before using it, you should think through the ethical aspects very carefully. You should also recall that your decisions help to determine the kind of person you are. In addition, they send signals to your colleagues and subordinates, and thus affect the ethical character of the company as a whole.

Perhaps the most interesting part of Mr Badaracco's argument comes from Machiavelli. Once you have decided what to do, you often need low cunning to achieve it. As a manager, you have responsibilities not only to yourself, but to fellow-workers and shareholders. Making a noble stand on principle is all very well. It is no use to them if it gets you fired.

Let us go back to the Roussel-Uclaf case. Edouard Sakiz, its chairman, wanted to save the drug. To do so, he also had to protect his own position.

His tactics bear recounting. First, he called a surprise vote at the company's managing committee on whether to drop the drug. He voted to do so, and the majority followed him. He then announced that the drug was being dropped because of pressure from anti-abortion groups, especially in the US. "We have a responsibility in managing a company," he told the press. "But if I were a lone scientist, I would have acted differently."

Three days later, the French government told him that if he did not resume distribution, it would take it away from him and give it to someone else – which, under French intellectual property law, it was entitled to do in the national interest. Mr Sakiz agreed to distribute it after all.

On Mr Badaracco's interpretation, this was very fancy footwork. Mr Sakiz achieved the result he believed to be ethically right. He also left responsibility for the decision with the French government, thus neutralising the hostile forces ranged against him and his company.

Not all ethical dilemmas are so easily resolved. Mr Badaracco also quotes Chester Barnard, a one-time president of the Bell telephone system in New Jersey, who in 1938 published the fruits of his experience in a book, *The Functions of the Executive*.

"It seems to me inevitable," Mr Barnard wrote, "that the struggle to maintain co-operation among men should as surely destroy some men morally as battle destroys them physically." It is a bleak and striking conclusion, and one which Mr Badaracco's book should help to soften.

**Defining Moments, when managers must choose between right and right, by Joseph L. Badaracco Jr. Published next week by Harvard Business School Press, $19.95. Available from FT Bookshop by ringing FreeCall 0500 500 635 (UK) or +44 181 324 5511.*

India's supermarket sweep

Mark Nicholson finds out how one company went about inventing a market

Pristine tiled floors, trolleys, piped music, checkouts with infra-red scanners, cheerful sales staff, shelves neatly stacked with everything from food to toiletries: there is nothing extraordinary about FoodWorld supermarket, except that it is in Bangalore, south India – where it represents a retailing revolution.

Supermarkets do not otherwise exist in India. Food shopping is done at roadside markets – usually collections of cramped stores or simple stalls heaped with fruit, vegetables, tins and packets.

FoodWorld in Bangalore is one of nine supermarkets run by RPG, one of India's biggest family conglomerates. The chain, just over a year old, has already outstripped RPG's revenue projections.

The Bangalore store turns over about $650 per sq ft per year, which is lower than the largest European supermarkets but extraordinary for India, where food prices and wages are much lower.

Small wonder that Dutch and British food retailers have recently been sniffing around for opportunities.

RPG, based in Calcutta, is already talking about opening 100 stores in the next five or so years. It has begun a smaller chain of chemists, and is contemplating setting up cash and carry stores outside big city centres. It is even thinking of establishing India's first music megastore.

RPG expects its supermarket chain to achieve a turnover of $500m a year in five years. The conglomerate currently turns over $1.5bn, with interests ranging from power generation and tyres to financial services and telecommunications.

The move into food retailing started with the purchase in 1989 of Madras-based Spencer's, a quality but lossmaking retailer that made its name supplying imported luxuries to the sahibs and memsahibs of the Raj. RPG bought Spencer's primarily for its properties – it had 50 branches across India – and at first considered closing it down.

However, the board was persuaded to modernise one Spencer's store in Bangalore. "In the first month turnover went up four times," says Pradipta Mohapatra, president of RPG's retail group. "That really got us thinking."

Over the next two years, RPG experimented with various store formats. Meanwhile, a review of corporate strategy by McKinsey & Company, the consultants, suggested that retailing in India, with its emergent middle class, offered a tempting sector. RPG took Dairy Farm on as technical advisers. The Hong Kong-based retail giant with interests from the UK to New Zealand has the option of taking a 50 per cent stake in the company.

> **New stores open with a treasure hunt, where free items are hidden across the shop**

Dairy Farm advised RPG on which merchandise to select, which lines to establish as the store's central items, and which international retailing benchmarks to apply to India. But even with Dairy Farm's Asian experience, says Mr Mohapatra, almost every aspect of establishing the business had to be considered from scratch.

There was also the question of how to persuade Indian shoppers to desert their trusted family stores and take to western-style supermarket shopping. All previous attempts to set up supermarket chains in India had failed dismally.

RPG decided that while thrifty Indian shoppers might be deterred by the ritziness of a western-standard supermarket, the company would nevertheless insist on creating a "highly differentiated" store, but place effort on persuading shoppers that FoodWorld prices were as cheap as anywhere.

To get shoppers into the store, RPG cooked up a series of marketing gimmicks. New stores open with a treasure hunt, where specially marked and free items are hidden across the shop. Stores also offer two-minute "shopping frenzies", where after paying Rs300 ($8.20), customers are free to stuff anything they want into their trolleys.

Meanwhile, the store has also introduced its own brands for bulk goods like flour, sugar and spices – another innovation in India. The aim is to give RPG greater control over prices and more clout with its suppliers.

"In some areas we are beginning to build volumes, and when we do, we have a chance to crack the supply chain. Where Spencers' used to sell 2m tonnes of rice a month, for instance, FoodWorld is already selling 100m tonnes," says Mr Mohapatra.

By purchasing direct from the miller, RPG estimates it has raised its margin on rice from 10-30 per cent, half of which is passed on to the shopper.

The company had to recruit and train staff – there is no pool of shopworkers in India. It created the National Institute of Retailing, with a curriculum in store maintenance, use of cash registers, presentation and customer services.

With nine stores open, and a tenth on the way within weeks (each is around 5,000 sq ft and requires an average investment of some Rs10m), FoodWorld is already turning over Rs600m a year. The group says it is hitting average margins of 18 per cent, which it had not expected to reach until the fourth year. "Overall, we're getting into a viable position only 15 months after opening our first store. We expected this would take three years," says Mr Mohapatra.

RECRUITMENT

Charles Handy's new book offers managers some moral guidance, says **Richard Donkin**

Search for a social conscience

A week or two before its publication, Charles Handy, the management writer, was worrying about how his latest book would be received.* He feared managers would dismiss the book's message that companies must take on a broader social responsibility.

Milton Friedman, the economist, maintains that the only social responsibility of business is to increase profits so long as companies are engaged in open competition within the law. This is in line with Adam Smith's dictum that the pursuit of self-interest benefits others through what he referred to as the "invisible hand".

Mr Handy's concern about a lack of boardroom interest was one reason why he projected the book at a wider audience. His assumption seemed reasonable given the tendency for directors to reward themselves for savings achieved through downsizing with big pay rises and share bonuses.

In the event the book appeared in a week like no other – when people's attention was wrenched away from their personal concerns. The "me" society of the 1980s had been subsumed, for a short while at least, in an outpouring of grief at the death of Diana, Princess of Wales.

Many companies which, according to Mr Friedman, had no other business than making profits, closed their doors on the day of her funeral as a mark of respect. If anyone were in any doubt that businesses are the people that work in them, here was proof that some events transcend shareholder interest.

So it seems fitting, as society tries to understand the meaning of recent events, that Mr Handy's book should be offering business some moral guidance. It is an area which is attracting other management writers. Watts Wacker, the US business consultant, has said that in the long term a company's beliefs are more relevant than its products.

Others have tried to make greater sense of business beyond that of creating wealth. It was Sir Montague Burton, the tailor, who said that a business must have a conscience as well as a counting house.

But there has been little evidence of this conscience in recent years. To some extent those businesses which have engaged outplacement services to deal with their redundant employees have been salving their consciences.

But Mr Handy says that the persistence with downsizing beyond the needs of re-engineering suggests that some companies have become too focused on the mechanism of capitalism at the expense of any wider consideration for the welfare of their employees.

There is a business case for social responsibility within companies. Anita Roddick, the managing director of Body Shop, is fond of stressing the business benefits. "Being good is good business," she says. But Mr Handy recognises that in a democratic society people are capable of demanding changes.

This was evident in the government's gun controls in response to public outrage at the killings of 16 small children and their teacher in Dunblane. It was also evident last week in the way the prime minister and the royal family were forced to respond to public feeling over funeral preparations for the princess.

What might be described as people power is also felt by companies as consumer power, investor power and, to a lesser extent, employee power. It might be useful to quantify the whole as "stakeholder" power. The influence of stakeholders has been developed to sophisticated levels in the US. Looking at ethical investment web sites on the internet last week, I found an item on Bell Canada, the telephone company. In July, it said, the company announced that it was laying off 2,200 employees in response to a loss of market share.

This came on top of a downsizing programme aimed at reducing its workforce by a fifth – 10,000 employees. The job cuts are occurring at a time of rising profits. A small investor who held shares in the parent, BCE, wrote in the Toronto-based Globe and Mail last month: "I am offended and incensed that CEO Lynton [Red] Wilson does not believe a 10.2 per cent rate of return is adequate, so 2,200 jobs will be cut in the next three months. This is bottom line gone mad.

"Certainly a company needs to be profitable, but does Mr Wilson have any idea of the personal and family devastation that occurs with such job losses? To cut jobs when a company is losing money is one thing. To cut jobs when a company is profitable is a peculiar form of ethical behaviour."

This was one letter by one investor about one company but it illustrates the feelings of many people about the way companies have pursued efficiencies.

Such comments reflect frustration with the executive, be it of a company or, indeed, a country. The call this week by the UK's Trades Union Congress at its annual conference in Brighton for a legal right for employees to have a trade union recognised by their company to negotiate their pay and conditions is a symptom of the way so many employees feel powerless in their relationship with their employer.

This need not be the case. The TUC points out that only three of the UK's 45 largest companies do not have trade union recognition agreements. It is perhaps significant that two of those – Marks and Spencer and John Lewis – have long traditions of providing impressive employee benefits in addition to wages that are higher than their sector average. The others have learned to live with the unions.

Mr Handy outlines several examples where companies and their employees are at ease with each other, such as employee share ownership and high levels of mutual trust and business understanding.

Bertelsmann, the German media conglomerate, is a case in point. The majority of its equity has been passed over by the Bertelsmann and Mohn families to the Bertelsmann foundation which has a written constitution and by-laws. The company has a profit-sharing scheme for employees. The stated objectives of the company include one which says it should be making "the maximum contribution possible to society". Another says: "self-fulfilment of all persons working in the company must be made possible on the job". This is what Mr Handy calls "corporate citizenship made real".

If Bertelsmann can concentrate on the moral imperative, other companies can do so also. At a time that the UK, as a nation, is examining its collective values it would seem opportune for top management to consider values other than those of the shareholder.

This is not to deride the goal of profit. As Sir Arthur Bryant, the historian, once wrote when berating companies for having no conscience: "It is not the profit motive which is to blame. Free men have at all times sought profit from their labour. It is its enthronement to the exclusion of other motives far more important."

*The Hungry Spirit: Beyond Capitalism – A Quest for Purpose in the Modern World, *by Charles Handy, Hutchinson, £14.99*

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