The evolution from an implicit Christian corporate culture to the structured implementation of business ethics in a French retailing company

The evolution from an implicit Christian corporate culture to the structured implementation of business ethics in a French retailing company. A case-study.

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(second draft, all comments welcome, do not quote without permission)

1. Introduction

This paper is based on a ten year experience as an external ‘expert' in the ethics committee of the French retailer company Auchan.[1] Auchan is a multinational company, established in 12 countries, but the paper focuses of the home branch of the company. The aim of the paper is not so much to evaluate the whole process of different decisions that were made and implemented in order to make the company meet high ethical standards, but rather to focus on three issues and on how they relate to each other. (1) the shift from a communitarian Christian set of values to a broader secular framework of basic principles, (2) the gap between standard philosophical reflections and the way in which business people in a retailing company cope with issues that seem ethically troublesome, and (3) a typology of the different levels of responsibility that we can reasonably attribute to retailers according to the kind of problem at stake. The three issues together illustrate how a company which took the business ethics question head-on got step by step into a quite astonishing ongoing collective learning process.
Section 2 presents shortly the company and sketches how it undertook steps to implement a business ethics strategy. Section 3 presents the way in which the ethics company of the firm functions and argues. Different levels of responsibility and ways of coping with them are distinguished in section 4. Section 5 concludes.

2. From implicit values to an explicit ethical code

Auchan was created in 1961 as a single supermarket. Now the company is running supermarkets and shopping malls in 12 countries with a business turnover of 35 billion euro (2006) and 170 000 employees, 110 000 of them being shareholders (in 8 countries), holding

[1] Beside the participation to the ethics committee, I also participated at training sessions which focused on business ethics and had numerous discussions with the people in charge of ethical issues in the company.

13.5% of the shares. The other shares are still owned by the (now hundreds) members of the founding family.[2]

From the start Auchan had a strong reputation of social responsibility. Moreover, it developed a management style which motivates strongly employees by giving them objectives and responsibilities and by giving them the possibility to become shareholders and to take advantage of the growth of the company. In the first years this policy reflected the commitment of the shareholder family to different aspects of Catholic social teaching. Private property is morally correct if that property is used in a socially responsible way. Making profit is an aim as well as a constraint, but it has to be done properly. Employees are considered as persons in the first place, and if a society based on private property is morally defensible, this principle also applies to these persons, hence the possibility given to them to become owners as well.

The catholic background of this family company goes back to the parents and grandparents of the current family members. Most of them are descendants of the families who owned the once quite important textile industry of the Lille area. These families were deeply influenced by the more ‘progressive’ – at least about social matters - catholic movement inspired by the *Rerum Novarum* encyclical. As a consequence, the set of Christian values and of catholic social teaching the normative background formed the implicit background of the ‘culture’ of the company.

When the company grew quickly, it became one of the worries of the shareholder families to preserve the ‘values’; but then in a more secular and open minded way. Not that there is any taboo on evoking this Christian background: the ideological history of the shareholder family was, until recently, evoked during training sessions on business ethics. But the need for a broader ethical framework became obvious in a growing company with more and more employees from different backgrounds in a quickly evolving French society. Some 15 years ago, a project in this sense was initiated by the CEO, who was also the most important shareholder.

Some worries of current executives of Auchan still reflect the Catholic background, sometimes positively, but sometimes also in a more questionable way. Positively, there are

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[2] Detailed information about financial results is to be found on http://www.groupe-auchan.com. The website also provides detailed information about Auchan’s CSR and environmental policies. The yearly social and environmental report of the company is downloadable. For details about the shareholder family one may consult Gobin & d’Herblin (2007), but the reliability if this source is, according to echoes I caught in interviews, not totally safe.

aspects of the practices that found their justification in CST that are broadly copied by others. An example is the already mentioned employee share ownership has been developed in the seventies at Auchan. In this area the company has always been a precursor. Auchan is exemplary in this domain and was referred to during the political debates preparing the recent law which stimulates employee savings and investment in stock.[3]

But sometimes, the old times are cropping up again badly. For example, the 2001? bestseller "The sexual life of Catherine M" by Catherine Millet, was not exposed on the shelves of Auchan stores. Of course, you could buy it, because Auchan had no right to prohibit or limit the sale of the book: the customer had to ask explicitly for it. However, following the debate engendered by this episode, Auchan has adopted a little less paternalistic policy regarding erotic literature. Millet’s ‘masterpiece’ would be exposed nowadays, with the only restriction that it should be carefully exposed out of children’s reach.

Formally, we could say that the ethics of this company was born out of what is known as *shareholder activism*. The shareholder activism became popular in the United States in the 80s. The "activists" bought a few shares to go disturb the general meeting of shareholders. For instance, they bought shares of companies that had subsidiaries in South Africa and they bothered them to such an extent that they eventually sold their subsidiaries, just to be freed of those embarrassing shareholders. What happened at Auchan is structurally somewhat similar: the ethical approach comes from the shareholder. Except that here it is not a minority shareholder, but the majority shareholder family who wanted to take ethical considerations into account in its businesses. It is an approach that is top-down, from the side of the shareholder.

However, the process has now been taken over by the executives of the company. Starting from 1992, the leaders of Auchan have developed their own approach to ethics. Initially there were two steps: the first consisted in the development of a code of ethics. The ethics code Auchan is clearly based on the stakeholder model. The people who wrote it never heard of Edward Freeman but based their text on the idea that Auchan as a company some responsibility (beyond legal constraints) with respect to shareholders, employees, suppliers, customers and so on. Compared to each stakeholder, the commitments of Auchan are clearly defined in a dozen fundamental principles that employees should comply with.

The second step was the establishment of an ethics committee which would supervise

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[3] Ref.

compliance with the code. Initially, the operation of the ethics committee was very unclear. For example, the relationship between management and the ethics committee was not clear. But nowadays things are clarified: if a question is addressed to the ethics committee, the committee discusses seriously and very openly, and then it makes a recommendation that is being returned to those who have decision-making power within the company. Later, the committee in informed about any decisions that were taken at that level. The chief executive of Auchan France is a member of the committee.[4] This has the enormous advantage that recommendations are followed up. On the other hand, it is obvious that this could be a handicap for the independency of the committee. At this stage, the chief executive is, luckily, someone who really wants to be confronted with critical remarks and appreciates when people, during the sessions, express frankly what they think about worrisome issues. Still, it is a weak point that is somehow compensated by the fact that two out of the ten members are external to the company.

Questions arrive at the committee in different ways. One source is the mail that is sent to the company on an ethical issue, by customers of by NGOs. But the committee also receives questions about the practices of sales, marketing, etc. coming from employees, whether executives or sales managers.

The stakeholder approach perfectly fits in with the range and variety of issues that were submitted to the committee. The variety of the issues that were discussed is as such interesting. The following sample gives an idea:

1. Hostile reactions from customers about the fact that the supermarkets were open on a national holiday (8th of May, commemoration of WW2)
2. Sexist discrimination among the employees (whether or not such discrimination existed and if so, what to do about it)
3. Which rules to adopt to avoid customers to become over indebted?
4. How to treat correctly truck drivers from supplier companies waiting to deliver their products?
5. How to distinguish erotic literature (which is sold) from pornography (which is not sold) and how to display it in the shops?
6. Which videogames should not be sold (violence, racist allusions …)?
7. Which social standards should be imposed on textile suppliers in Asia, and what to do if

[4] Other members include one director of a shopping mall, a lawyer, someone from the supply branch, and a person in charge of external communication.

infringements are observed?

8. Which profit margins should be applied to ‘fair trade’ products, if clients are willing to pay more than for equivalent standard products?

9. The amount of wasted fresh food, because of expired dates, and waste in general.

10. How to treat suppliers fairly in a reversed auction procedure?

3. Incoherent peacemaking philosophy

The various debates on these and many other issues were very interesting and I think I may honestly say that most of the decisions of the committee were morally defensible. However, although the conclusions were all right, I would rather make some remarks about the argumentation and about the philosopher’s frustrations in this respect.

A standard way of doing in moral philosophy is to start with a set of principles. These principles are applied to some particular issue and if they lead to shocking consequences, you should either bite the bullet - and accept the surprising consequences, thereby abandoning your former opinions -, or you should conclude that something has to be changed to your initial set of principles. Good arguments are supposed to let you draw sharp conclusions, and we therefore push arguments up to the point where they allow us to reject obviously either wrong conclusions or wrong starting principles. The aim is to find the point at which competing theories part company. In a recent book, James Sterba proposes an alternative way of doing which he calls ‘peacemaking philosophy’. We should start with the most acceptable, charitable interpretation of principles or theories, and then try to reconcile them with the most acceptable and least controversial interpretation of opposite theories. Doing so allows, so Sterba argues, to resolve many ethically controversial issues: if, e.g. utilitarianism and Kantianism are interpreted in a not too radical way, they are more likely to point in the same direction.[5]

Business people in ethics committees are definitely practicing peacemaking philosophy. The aim of the discussion is never to point out where the principles that are invoked to justify a decision would lead us if some surrealistic scenario which philosophers usually are so fond of would take place.

But moreover, business people practice a quite ‘incoherent’ kind of peacemaking philosophy.

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[5] Threoretical level – Parfit’s new book.

This observation of mine should absolutely not be read as some negative judgment. I only want to stress the different perspectives: whereas philosophers are keen to point out underlying deep paradoxes and conceptual complications, business people are happy to base their decisions on a strong consensus, notwithstanding the fact that this consensus is based on intrinsically contradictory principles.

For example, during one of the meetings, the discussion was about how to treat respectfully the ‘elderly’ among the employees. It should be noticed in passing that the issue is about *voluntary* commitments beyond legal obligations: legally, people are declared ‘able’ or ‘unable’ by the *Médicine du Travail* (the national service which controls employees’ health). Sometimes officially ‘able’ persons are physically less fit for some jobs then the younger people. Arguments that ware advanced in the discussion were first radically Kantian: ‘what if you would see your father suffering on the work floor?’ But then the discussion switches quickly to the absurdity of the seniority principle, which makes older people relatively expensive. Now we can certainly discuss the seniority principle (Cf. Gosseries 2004), but not necessarily on Kantian grounds. In other words, the committee usually switches without bothering from a deontological to a consequentialist framework.[6] The principles of both approaches are weakened so that an acceptable compromise becomes possible. For example, it was argued that shops could be opened on a religious holiday if the employees who worked did it in a ‘voluntary’ base (religious convictions ought to be respected). At the same time, voluntariness is stimulated by some extra pay, which implies that people’s convictions are not totally respected: they have a price.

In general, discussions tend to defend positions that seem acceptable, but it is far from certain that each of the principles that are supposed to underlie the positions would, ultimately, support them.

4. Objectives and degrees of responsibility

The primary motivation to try to implement ethical standards in the way of doing business is obviously the reputation of the company, that is, well-understood self-interest. For example, Auchan does not want to be "singled out" as a company that exploits children in Indonesia.

Underlying this motivation, there is a quite optimistic gamble: it is believed that customers

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[6] Takala & Uusital 1995 make similar observations about people in retailing companies.

would change their consumer behavior according to the reputation of the company. The challenge is, of course, based on an optimistic economic picture: to the extent that the purchasing power increases, the share of the income spent on food will decrease and consequently, people will less focus on the mere price of products. They will take into account other aspects to some extent, social and environmental ones. As a result, the company has an interest in preserving his reputation.

But sometimes the ethical motivation clearly exceeds the concern for the reputation in the long run. It is important to spell this out. The complex motivational structure is easier to understand if one distinguished different levels of responsibility that the ethics committee now, after many years of experience, readily accepts. Let me distinguish 6 scenarios with different levels of responsibility and, consequently, different ways of responding adequately to ethical challenges.

We can consider responsibility from several perspectives. The first one is whether the company is somehow causally responsible for the issue at stake. For instance, if a company would be strongly polluting (but not above legally admitted levels), and pollution would be the issue at stake, than it is obvious that the company’s activities are at the origin of the problem. On the other hand, if the issue at stake is, for example in a retailer company, the fact that some consumers have too many debts, than it is obvious that the retailer is not directly causally responsible for these debts. A second perspective is to ask which level of responsibility may be attributed to a company with respect to possible solutions for ethical questions, notwithstanding whether or not the company is causally responsible for the issue at stake. For example, if it would be the case that some minority group are more unemployed than others in general (a discrimination problem for which the company cannot be held responsible), then we may ask whether a company, as a relative important economic agent, should be held responsible for its proactive or lack or proactive employment policy in favor of the discriminated minority group. The latter question is about which level of social or environmental responsibility stakeholders can attribute to the company, beyond what it is legally constrained to.[7] The following typology focuses in this particular perspective on responsibility.

First scenario: an ethical issue can be dealt with, creatively, in a way which benefits (almost)

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[7] Cf. CSR definition proposed by the EU.

all stakeholders, certainly in the long run, sometimes in the short run.

An example is the way in which Auchan deals with a problem related to fair trade. A couple of years ago, it became clear that the demand for fair trade coffee was growing rapidly (500 % growth in one year in 2004). However, a close analysis of the price structure showed that the coffee farmers indeed more than doubled their income with respect the 'non fair trade' commercial circuit, but that the consumers paid more than twice as much as they paid for ordinary coffee. The largest part of the surplus the consumers paid went to obviously rather inefficient logistics of the 'fair trade' suppliers as well as to the organization which controls the fair trade label (i.e. Max Havelaar). Auchan, as the retailer, did not benefit from the higher price because it had decided to downsize radically margins on fair trade products. The argument was: is the consumer is willing to make some effort, the retailer should do so as well. For reasons of confidentiality I cannot reveal the exact price structure of these products, but it was quite shocking to see how little of what consumers pay extra for fair trade products finally goes to the producers. The solution to this problem Auchan developed with success is to propose a fair trade coffee of its own brand. At the production level, the fair trade quality is, like all other brands, controlled and labeled by Max Havelaar, but thanks to the much more efficient logistics of the usual supply channels of Auchan, - and to the fact that Auchan takes a much smaller margin than it takes on 'non fair' coffee -, the coffee can be sold at the price barely higher than the one of ordinary coffee. The result is a huge increase of the volume of business in fair trade coffee.

Second scenario: an ethical issue can be dealt with, but there is some cost – and it is totally unclear whether or not this cost will be compensated for, even in the very long run. Nevertheless, the firm decides to accept the ethical constraint and to face the loss it causes. There are numerous examples of such decisions. For lack of space, I just mention the following one. During a particular ethics committee some years ago, we discussed on the sale of violent video games.[8] Some employees spent a lot of watching video games (it takes more than 50 hours to watch all variations) in order to analyze them. Some extremely violent games (with racist allusions) had been showed to the ethics committee which recommended not to sell that stuff. The usual market share of Auchan for videogames is known. Later the total number of these games on the French market (sold in 2003-2004 by competitors like Leclerc and the specialized Micromania) was known and the shortfall could be calculated. But

[8] Since then, a much stricter European regulation has made things easier for retailers.

Auchan followed the recommendation of the ethics committee and did not come back on its decision.

Third scenario: The company faces a huge social problem, which it is not responsible for. However, the company is aware its potential role as a 'big player' in the social field and decides to act in a responsible way, although the outcome in financial terms is unclear.[9]

An example here is the way in which several big companies in France (among which Auchan) signed a 'code of diversity' which committed them to be extremely cautious about mechanisms of implicit discrimination - explicit discrimination is forbidden by the law of course - that may unknowingly be at work in human resources policies. Auchan decided to collaborate with an NGO and a theater group (Théâtre à la carte) to find out about its own situation. During 2006, 4000 people from human resources management were trained, and made aware of their unconscious prejudices by way of small theater demonstrations of ordinary scenes of recruitment, etc. The ambition of the whole initiative is to show that it is possible change radically mentalities if the big players show the good example.

Fourth scenario: the cost is too high for the company, but there is something to be done, and more can be done indirectly, by lobbying. The following two examples illustrate this case.

First, sometimes the company lacks the power in a not sufficiently regulated context. For example, in relation to letters protesting the opening of shops on May 8, or on Easter Monday, the position of the ethics committee was simply that the situation would be much easier if the State prohibited the opening of the store on some particular days, and if the rules were the same for everybody. The problem is that if competitors open their shops and if the State let them do, we get stuck in a kind of spiral, and all shops are obliged to follow.

Another example concerns the unacceptable working condition in suppliers firms in Asia. When some competitors buy in unacceptable conditions, there is inevitably a loss of competitiveness for the company which refrains from such practices. The answer lies here in close cooperation among competitors. With other major retailers, Auchan collaborates in this field with competitors (a collective data base of social audits is established in the Federation of Trade and Distribution) and even at the European level. That is the only solution because no company has enough power to impose its rules in this context. Nevertheless, Auchan developed a commercial code with ethical requirements (and sanction) in this area. Auchan has also increased the number of audits, and especially the firms who produce the products

[9] DomInec Mele calls this the political interpretation of CSR. Ref.

which are sold under Auchan's own brand name are systematically auditioned.[10]

Fifth scenario: the company observes market trends that are regrettable, but that even the leaders of retailing cannot combat without committing commercial suicide. Thus, a few years ago, Auchan had refused to sell mixed drinks or energy drinks, i.e. alcoholic drinks which are ambiguous because presented as soft drinks. However, there is a new trend of cocktails of fruit juice and alcohol. This time it Auchan sells them, but a number of precautions have been taken, such as clearly isolated shelves so that no confusion is possible. It seems that the retailer could not escape this trend, which is much stronger than before.

Another example is the recent rage of beauty products for very young girls, the so-called 'lolita' products. Those who are responsible for the cosmetics department deplore that this kind of market is growing, but at the same time they ask: what should a retailer do to that?

The sixth scenario consists in a radical contradiction between the mission of a retailer, even as ethically conceived as possible, and the ethical challenge at stake.

An example of this limit was a recent discussion focused on what to do with respect to overindebted customers (the discussion was related to the use of the shop-specific credit card). The discussion was frank but behind this type of question is another almost subversive question is lurking: "Why should we push economically fragile people to buy consumption goods?" This question is totally contrary to the purpose of the company. Here, there is therefore a fundamental limit of the realm of ethical questions that the ethics committee can deal with. Such questions have to be resolved at a more general, social and political level. A retailer cannot be blamed for his commercial ambition, no more than the owner of a gas station can be blamed for global warming.

The paradox is at its sharpest is one hears the members of the shareholder's family preach, on religious grounds, in favor of frugality. The idea that we could, in a humble way, 'do with less', sounds surrealistic in a retailing company.

The proposed typology of six possible scenarios certainly has some weaknesses. For one, it is not always clear which scenario applies to a new question. For another, it might be argued that it is too easy to state that problems that follow scenario 6 are beyond the company's responsibility, or, at the other opposite, that scenario 1 is absolutely not problematic in any

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[10] Over the years several ways of evaluating suppliers have been discussed. SA8000 turnes out to be inapplicable as such. In practice Auchan imposes the ILO norms: no child labor, no forced labor, acceptable conditions of safety and hygiene; only the ILO norms about unions is left beside. See also Graafland (2002) who mentions similar problems met by C&A, and exactly the same solution adopted by C&A.

respect and is therefore beyond the scope of ethical considerations. However, my point is to propose a gradual scheme of growing conflict between the company's interest and fundamental ethical values. The level of conflict is of course: the less conflict there is, the more a company is to be blamed for not respecting the value. As the conflict is growing, the responsibility share attributed to the company decreases, and the way in which the questions have to be dealt with becomes more 'political', i.e. depends more on cooperation with other partners such as competitors and regulating authorities. At some point (scenario 6) the conflict is so deep that company has no longer the possibility to contribute to the respect of the ethical value at stake, and, consequentially, no moral responsibility. This implies that solutions for such problems have to be sought at the political level in the first place. In these cases, it is only if we change the rules at the political level that business's responsibility may come in the picture again.

5. Conclusion

The implicit ethical standards of the founders of the company, anchored in their Christian value system were sufficient in a context in which the firm was small. It is important, in the interest of your business, but also as such, to know that you should not cheat the client, tha t you should be respectful towards suppliers, even if one wants to downsize commercial relations with them, etc. These topics remain important if a company grows of course, and they constituted therefore the main issues discussed in the first years the ethics committee of Auchan existed. However, the important economic and social weight of big companies demands clearly a more explicit normative background and set of rules. What we have learned from the Auchan experience is that the creation of a forum in which these issues can be openly discussed is as such a crucial step. The importance of such a forum is not immediately related to what is decided in it, but its mere existence creates a dynamic process in which the company slowly but surely becomes aware of the specific responsibilities that may be attributed to big players in the market system. Voluntary steps to confront its human resources practices with quite militant theater makers, and the readiness to listen to people from out of the company were certainly not obvious from the start. Business people who become used to ethical debates about their activities learn how to face them in an open and uncomplexed way. Critical questions are is no longer qualified, suspiciously, as perhaps covert leftish militant talk, but rather challenges one should think about, even if the only reasonable answer to some challenges is simply to point out that they are indeed ethically interesting, but beyond the responsibility of the retailer.

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