

ETHICAL RESPONSIBILITY OF MULTINATIONAL COMPANIES: WHAT WENT WRONG WITH MAGGI BRAND OF NESTLE INDIA?

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ABSTRACT

Ethical responsibility is depicted as one of the four layers of CSR pyramid which deals with the standards, norms or expectations of all stakeholders' moral rights (Carroll, 1991). It is expected that all multinational companies (MNCs) should equally focus on all responsibilities of CSR. However, it has been observed that the MNCs focus preferably on economic, legal and philanthropic activities by neglecting ethical responsibilities which are equally important. This negligence sometimes results in tragic effects on the society. The Coca Cola, Cadbury, Enron, Bhopal gas tragedy are few of the examples of negligence of MNCs with regards to ethical responsibilities. This paper deals with the recent issue of Nestle Maggi in India with reference to ethical responsibilities and associated implications.

Keywords: Corporate Social Responsibility, Multinational Companies, Ethical Responsibility, Nestle India.

Introduction:

In twenty first century, Corporate Social Responsibility (CSR) is being given priority by multinational companies while framing their business strategies as it has been universally accepted fact that business needs to be socially responsible for sustainable development. Recently, Company's Act brought into force from 2013 (clause 135) has made CSR mandatory for listed companies in India.

Corporate Social Responsibility (CSR), being a comprehensive concept, it is difficult to define it concisely. However, few accepted definitions are as under.

“the responsibility of enterprises for - their impacts on society.....should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders” - European Commission

(2011). ‘CSR includes four kinds of responsibilities or dimensions: economic, legal, ethical, and philanthropic’ Carroll (1991).

Ethical responsibility is depicted as one of the four layers of CSR pyramid which deals with the standards, norms or expectations of all stakeholders' moral rights (Carroll, 1991). It is expected that all multinational companies (MNCs) should equally focus on all responsibilities of CSR. However, it has been observed that the MNCs focus preferably on economic, legal and philanthropic activities by neglecting ethical responsibilities which are equally important. This negligence sometimes results in tragic effects on the society. The Coca Cola, Cadbury, Enron, Bhopal gas tragedy are few of the examples of negligence of MNCs with regards to ethical responsibilities. This paper deals with the recent issue of Nestle Maggi in India with reference to ethical responsibilities and associated implications.

Background:

Nestlé group established in 1866, in Switzerland and currently spread over 130 countries with over 509 factories has produced beverages, milk products, processed foods, cooking aids, bakery products, chocolates, confectioneries, and pharmaceutical products. Nestlé S A was the world leader in many product categories like coffee, mineral water, snack foods, beverages, and chocolates.

Nestle India established in India way back in 1962, is one of the leading MNCs working with the motto of 'Good Food, Good Life' produces several food products (table 1). After starting the milk and coffee producing factory in Punjab, Nestle India set up another factory at Cherambadi in Tamil Nadu, for manufacturing infant food and coffee. The company launched its first noodle product in 1982 under the brand 'maggi' (with slogan – Two minutes) which became most popular brand soon after.

Table 1: Nestle Product Profile

Category	Brand
Milk Products	Milk maid, ceralac, lactogen, nestogen, dairy mate, dairy whitener
Beverages	Milo, Nescafe, Nestea, Choc Cafe
Prepared Dish and cooking aids	Maggi range
Chocolate and confectionery	Kitkat, Barone, crunch, Munch, polo, Eclairs

Source: IBS centre for management research

In late 1997, Nestlé India (Nestlé) launched a 'new, improved,' formulation of its noodles brand, Maggi (a snack food cooked in water along with a flavoring agent called the 'tastemaker.'). After repeatedly stagnation in the sales during 1997, Nestle India had to face with stiff competition with the contemporary brands. In the same year, Unilever subsidiary Hindustan Lever Ltd's (HLL) Kissan brand had almost reached Maggi's market share figures. Other products under the Maggi umbrella -instant food mixes, seasoning cubes, and pickles -were also faring poorly with limited sales scattered in different regions of the country (Table. 2).

Table 2: Maggi Brand Profile

Category	Variants
Noodles	Masala, Chicken, tomato, curry, sweet and sour, capsicum, sweet, soup style
Ketchup	Tomato, Hot and Sweet, Chilli Garlic, Masala chilli, tamarind
Soups	Tomato, Chicken, Sweet corn, mushroom
Pickles	Mango Panjabi, mixed
Macaroni	Tomato, Chicken, Masala
Instant mix	Dosa, vada
Coconut milk	-

Source: IBS centre for management research

Around the same time, Maggi Macaroni, launched in mid-1997 with an Rs 10 million ads spend, was also faring badly. Against a target of 1000 tonnes, it managed to sell only 300 tonnes for the year 1997. Reportedly, many shops had stopped carrying the product. To add to the company's woes, Maggi lost its leadership status in the soup segment to a new entrant, Knorr, in the same year. Knorr cornered a 55% market share of the 425 tonne soup market -around 75% of which came by eating into the customer base of Maggi soups. Competition had intensified in the ketchup segment as well.

After many ups and downs, by 2001, Nestle India emerged as the third largest food processing company of India. This success was mainly due to Nestle India's brand building initiatives. Therefore, very soon maggi become Nestles' focussed marketing brand. Presently, Nestle India has 5 production units of Maggi employing over 7000 people throughout the country. Nestle's Maggi has been sold in 130 countries around the world. Instant food market over the world is 4000 Cr. Nestle's share in this market is around 70%.

The issue:

Nestle has been under fire in India since one regional regulator said in May 2015 that it had found evidence of excess lead and monosodium glutamate (MSG) in some packets of Maggi instant noodles, a cheap and hugely popular snack.

In May 2015, Food Safety Regulators from the Barabanki, Uttar Pradesh, India found that samples of Nestle's leading noodles Maggi had upto 17 times beyond permissible safe limits of lead in addition to monosodium glutamate. The initial tests found only a discrepancy between what was labeled on the food packaging (no MSG added) and the presence thereof. Rather than paying an estimated fine of Rs. 8000-1000, Nestle decided to contest the lab results by demanding a secondary inspection from the Central Food Laboratory in Kolkata. It was here that the traces of high lead levels were detected for the first time.

On 3 June 2015, New Delhi Government banned the sale of Maggi in New Delhi stores for 15 days because it found lead and monosodium glutamate in the eatable beyond permissible limit. The Gujarat FDA on June 4, 2015 banned the noodles for 30 days after 27 out of 39 samples were detected with objectionable levels of metallic lead, among other things. Some of India's biggest retailers like Future Group, Big Bazaar, Easyday and Nilgiris have imposed a nationwide ban on Maggi. Thereafter multiple state authorities in India found unacceptable amount of lead and it has been banned in more than 5 other states in India. On June 5, 2015, Food Safety and Standards Authority of India (FSSAI) orders banned all nine approved variants of Maggi instant noodles from India, terming them "**unsafe and**

hazardous" for human consumption. In June 2015 Nepal indefinitely banned Maggi over concerns about lead levels in the product. On the same day Food Safety Agency, United Kingdom has launched an investigation to find levels of lead in Maggi. On June 3, 2015, Nestlé India's shares fell down 11% due to the incident. Continuously on the second day, Nestle's share fell down by 3% over concerns related to its safety standards.

On April 30, 2015 the local authorities in Lucknow, Uttar Pradesh asked Nestle India to recall one batch of MAGGI Noodles (around 200,000 packs) which were manufactured in February 2014 and had already reached the 'Best Before date' in November 2014. Nestle was asked to recall one batch of Maggi noodles after tests showed it contained seven times higher levels of lead than permissible and traces of the controversial ingredient Monosodium glutamate (MSG). However, Nestlé India in its official website claims confidence that these packs are no longer in the market.

Several health issues are associated with over consumption of Lead and Monosodium Glutamate. The prescribed maximum limit of lead is 2.5 ppm. Higher contents of the chemical can cause lead poisoning. It can cause anaemia, abdominal pain and heart palpitation. Long term toxicity can affect all organs, including kidney and liver. Monosodium Glutamate (MSG) can cause serious health issues in pregnant women and newborns.

Comparison of the expenditures on Advertisements and Quality standards (Did they had any concern about their consumers?)

Table 3: Comparison of expenditure

Year	Advertisement	Quality assessment
2014	445 Cr.	19 Cr.
2010	302 Cr.	13 Cr.

Source: Times of India, Mumbai, June,8, 2015

Consumer is an important stakeholder of any company. It is the responsibility of companies especially those associated with food products to follow the quality standards for the safety of consumers. It would be interested to know whether these companies are serious enough to take care of this fact. The facts given in table 3 reveals that the amount spent on quality assessment by Nestle India in 2014 was just 4.26% of the amount spent for advertising the product. This clearly indicates that the company is more interested in making profit at the cost of people's health.

Economic impact on Nestle India:

Immediately after this issue, the Nestle India's share value fell down drastically. It was felt important to study the trend of share values of Nestle India over the

period and the trends after this issue. For this the share values for Nestle India have been obtained from BSE India and trends are observed (fig.1). The trends clearly depict that after the incident on 25th May 2015, the share values suddenly dropped down close to INR 5569 from the highest value of INR 7408 on 18th March 2015.

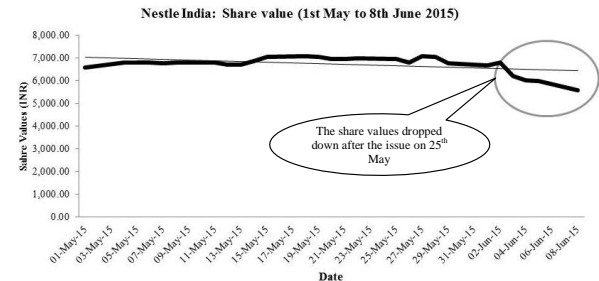


Figure 1: Nestle India Share values (trends after the issue)

India's government has filed for damages from food group Nestle after a food scare involving reports of excess lead in Maggi noodles forced a nationwide recall. The fall of share value after this incident not only affected the economy of the company but also the shareholders and employees of the company. One of the most important losses to the company is the damage to company's reputation and loss even for other product line. Moreover, the sales of noodle products of other competitive brands have also been affected adversely.

Conclusions:

The issue of maggi brand discussed in the preceding sections is an eye opening incident for all stakeholders associated with food products. It is the prime responsibility of every industry to be cautious about the potential impacts of food products on health of consumers which definitely is the part of ethical responsibility. To ensure good quality food products without much use of toxic material input is important, failing which can result in serious consequences.

It is therefore the high time to incorporate the product quality parameters in production planning not only to adhere the quality standards but also to be ethically and socially responsible business. Consideration of social and ethical responsibilities throughout the journey of any food product can definitely lead a company towards sustainable economic development. In today's scenario what is the power of media can be observed and in future too media can play an active role in market mechanism.

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