UNIT 8 ETHICAL PRACTICES IN MANAGING DISTRIBUTION

Structure

8.0 OBJECTIVES

After studying this unit, you will be able to:

- Explain distribution modelling and ethical practices
- Identify the companies'responsibilities regrading ethical distribution practices
- Identify the company's social responsibilities
- Explain the ethical practices in inventory management
- Discuss the ethical practices in transportation and warehousing

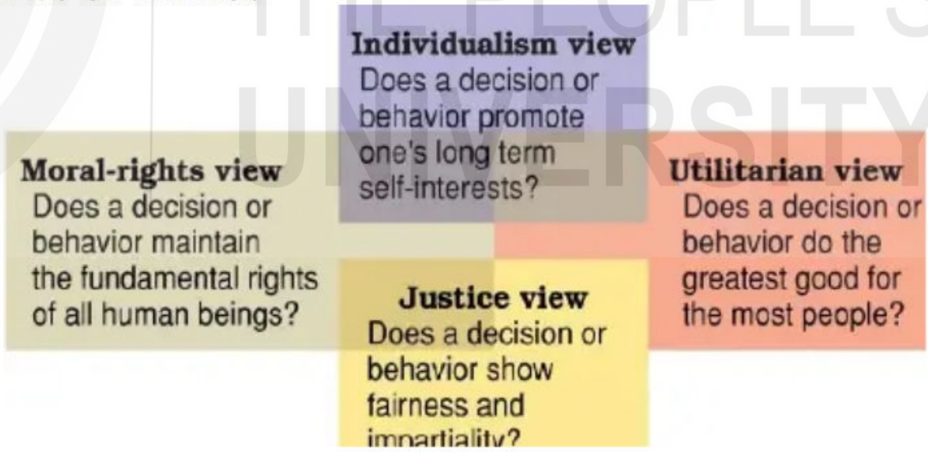
8.1 INTRODUCTION

Ethical practices in distribution are crucial to build company's reputation in the industry and with customers as well. Companies spend millions of rupees on building brand reputations. They never forget to build trust through an ethical distribution model, which could perhaps build trust with the distribution partner as well as with the direct customers. There should be fair pricing for the product, and the distribution model should never be biased based on caste, creed, color, religion, nationality, or gender. The distribution business model with the partners must be very transparent and supportive. Partners should be encouraged to play a fair game in the market to build customer trust and the reputation of the company. Substandard products should be avoided, and companies should try to detect counterfeit products on the market. In this unit, we will discuss the ethical distribution model by focusing on key, crucial elements needed to build the model. The company's ethical distribution model must try to take the right action with full responsibility in the case of conflicting situations with business partners and customers. The company must support the distribution partners in such situations so that they work with 100% satisfaction. Companies may be very transparent in having intellectual property-related compliances. The trademark and patents must be applied for and legitimately acquired. Comply with the data protection privacy policy for both distributors and customers. While acquiring business through distributors or directly, companies should never bribe to build the business on merit. Continuously focus on improving the service level with the distribution partners and reply to their queries on a timely basis with full satisfaction.

8.2 IMPORTANCE OF ETHICAL PRACTICES IN DISTRIBUTION

Ethical practices in distribution are of immense importance as they impact businesses, customers, and society. It is linked to each one of us as we consume various goods bought daily from the market. We all, as consumers, expect the right place to buy products and company support through retailers, wholesalers, distributors, etc.

FOUR VIEWS OF ETHICS



Source: scribd.com

Let us understand the importance of having ethical practices in distribution.

- **Building and Maintaining Strong Trust in the Market**: Repeat businesses with the customers and distribution always come when a fair play in the market is followed by the company in the form of product replacement policies like warranty, etc. Distribution is also given a policy to deal with customers in case of faulty products, replacements of the products, or manufacturing defects. These days, companies have their own call-centres and service centres; hence, it is easy for the distributors to divert queries of the customers to the company.

Builds Brand Image in the Market: Unethical practices are never going to have a long life in the market. Companies just vanish in a few months; hence, it makes it very important to have good ethical practices as it builds brand image in the market, which in turn leads to good reputation in the market, companies achieve higher sales as well in the market.

- **Complying with Statutory Compliances**: It has been seen that companies with unethical distribution models always find themselves in legal battles related to trademarks, IPR, or patents with other companies. Companies should never do any copying of any brand on the packaging side or have their own brand name registered. Sometimes companies never build strong legal compliances or compliances with regulatory laws, etc. In that situation, they struggle to build trust with customers and distribution channels in the market.

- **Long-Term Business Growth:** We have seen in many good companies the same old channel continuing, and they always participate with the company on new initiatives, participating in new channel plans, etc. It means that the distribution model is being managed fairly, and in return, these distribution models build a strong relationship with their customers.

- **Builds Strong Customer Loyalty:** What is loyalty? It is nothing but a trust that a customer or distribution model builds over a period of time with the fair policies in the market. Customer value management is achieved through loyal customers and loyal distribution partners.

- **Strong Risk Mitigation:** Companies having right and fair practices in the market within the distribution model always help in controlling counterfeit products, and competition is restricted as a loyal distribution model will keep competitors away in some sense.

- **Establishing Social Responsibility**: Social responsibility is a key aspect for a company. When a company is ethically working on all aspects of the business, it is managing the business ethically. All the stakeholders, like the distribution channel and all other stakeholders, including investors, customers, etc. feel motivated because of transparency. It will build a strong brand image from a social responsibility standpoint.

- **Retention of Potential Employees**: Employees always work with stable organizations. It attracts good, talented professionals. Employees do not work for money alone; they work for recognition, fair practices, and transparency within the organization, including the distribution model as well. These fair practices lead to potential employees to stay with the company for a long period of time.

Competitive Advantage: The market is always cluttered with a lot of brands and products. Any company making their presence felt will always achieve this objective through their ethical practices, for example, in the distribution mode, like timely payments and account reconciliations, clearing their stuck-up stocks through marketing, a fair credit period, replacement of products, market-led gross margins, strong customer policies, fair warranty clauses this builds long term substance which is needed 100% to stay in business for a long period of time.

- **International Expansion of Business:** Companies with righteous ethics that are fair and transparent in nature are generally attracted by international players, as they always would like to work with honest organizations that are known for their fair play in the market.

8.3 VENDOR SELECTION AND DUE DILIGENCE

The major activity of a company is mobilizing the right vendors and the selection process. Why is the vendor selection process so important? While selecting vendors from a logistical standpoint, the following points must be carefully investigated:

53% Plan for dual source of vendors	47% increase inventory of critical products	40% plan nearshoring and expansion of supplier base
38% Plan to regionalize supply chain	30% Plan to reduce number of SKUs in product portfolios	

Source: Mckensy 2020

Due Diligence of vendors is an important and needed part of any business. The focus point is to check whether a vendor has the capability to supply products based on demand and can produce quality products based on company specifications. How many companies is he supplying? What is the reputation of the vendor in the market?

There are many reasons for companies to go for a stringent vendor selection process.

- To protect the brand from bad quality of products due to poor quality supplies of the products.
- It is to protect the company from substandard products.
- To check the fraudulent practices of the vendor, if any, also check whether the vendor follows the compliances or not.
- To reduce the risk associated with an unlicensed, unregistered vendor and mitigate future liabilities.
- To overall reduce the financial liabilities

What are the key points checked in the vendor due diligence process?

If the company is registered, check the following:

1. **Validity of Licenses and Registrations:** Does the vendor have the required licenses and registrations to conduct the business?

2. **Insurance Coverage:** Is the factory, employees, and machinery covered by insurance to restart business supplies quickly? If all the liabilities of the vendor are covered, then it is good for the company.

3. **Bank Account Details:** Does a vendor operate as a company with a current account or not?

4. **GST Number and Promptness with Filings:** Vendor vendor who is GST-compliant is good to get input credit on supplies. It provides the authentic approach of a vendor in conducting this business.

5. **Annual General Report and Financials:** Is a vendor filing his income tax return regularly? Does he have past-year income tax returns? Does he do the MCA filing of all reports every year? This makes them highly compliant.

6. **Complaint History:** How is the market reputation of the vendor? How their clients perceive them and the quality of the product.

7. **Customer Feedback:** Do they have a customer service department? How is the customer feedback, whether direct clients or direct customers?

8. **Product Warranty Policy:** Check their product replacement policies or warranty policies. Is it fair, transparent, or supportive to customers?

9. **Terms and Conditions:** What are the terms and conditions under which they deal with their customers? Do they have enough cash flow to meet emergencies in the business? What is the credit period during which they work? How timely they full-fill their orders, etc.

10. **Privacy Policy:** It has more to do with online business. The privacy policies available on the internet make the customer confident in dealing with the company. Does it carry all the terms and conditions with clarity? Does it cover customer data privacy, etc., with clarity?

11. **Cancellation/Return Policy:** In case any customer cancels the order, how will they deal with the client or customers? Do they have a strong customer management process to deal with customers? Do they have written processes to deal with the customers as per laid-down customer-friendly service management?

12. **Misuse of Trade Secrets:** Companies do share a lot of secret formulas with the vendors to produce the products for them. Trade secrets compliance, whether a vendor can follow or not.

13. **Violation of IPR (Intellectual Property Rights):** Vendors with IPR legal cases reflect poorly on vendors. Companies must check for these violations.

14. **Non-Compliance with International Laws and Regulations:** Being compliant with international laws protects not only the vendor but also the company dealing with them. International companies must do a full check on the international compliance documents as part of their due diligence.

15. **Failure to Provide Product Ingredients:** A good vendor will always provide information about the product ingredients. It shows how a vendor is involved in the process of conducting business internally.

Source: (VendorSuppliers checklist (https://signalx.ai/)

8.4 ETHICAL PRACTICES IN INVENTORY MANAGEMENT

Inventory management and ethical practices in managing inventory go together, ideally. To do business in the market in any industry, companies buy raw materials, store them, and then convert them into finished goods. In many cases, after producing the products, they go to different warehouses to supply in the market to business partners for selling. Ethical practices in inventory management need transparency in storing inventory, fairness of decision making using the supply chain.

There are some key ethical considerations as discussed below:

- **Avoid Misleading Reporting:** Maintaining books of accounts and reporting inventories to investors, the CEO, managing director, and owner accurately is a key aspect. Wrong reporting destroys the company in the long run. The leadership or management team must be fair and transparent in reporting inventory accurately, for example, stock in progress and stock in hand for all the products that the company is keeping in their inventory.

- **Fairly Treating Suppliers and Building Long-Term Relationships**: Companies must treat their suppliers fairly by sticking to the credit time for payments to them against their supplies. Treat them fairly while returning any damaged goods to them. There must be a laid-down process that every supplier must be aware of. Companies should not use unethical practices to use themselves in monopoly situations. This is called exploitation in the market. Long-term relationships with the vendors are a base for growth in company sales exponentially with higher speed.

- **Companies Environmental Responsibility**: Companies that are sensitive towards emission control to protect the environment always produce products with a higher level of safety to reduce emissions and contribute toward environmental responsibility. Using sustainable methods is key here.

- **Fight Against Counterfeit Products:** Companies ensure that their genuine product dispatches do not include counterfeit products due to supply chain issues. Companies making genuine attempts to protect their market through riads of legal actions against counterfeit products will always protect them.

- **Fair Labour Policies**: Companies must avoid child labour, have a decent working condition that maintains the health of workers, provide medical facilities to all workers, pay as per laid-down wages, and follow all the labour-related guidelines of the company. Protect people in the supply chain from the risk of injury, danger, failure, error, harm, and/or loss of life.

- **No Supplies of the Damaged or Expired Goods:** Especially in the food industry, companies making products to eat must make serious efforts to control the quality of the raw materials, process the raw materials, and then ensure products are packed in safe and sustainable packaging.

- **Transparency in Communication:** Companies must always treat their customers, stakeholders, and employees with full fairness and transparency. All the required information must be laid down that may empower the employees to take decisions as per processes.It will help the company implement transparency in the long run.

- **Inventory Procurement**: Companies must implement procurement policies for employees. They buy multiple products for inventory (raw materials) or for other usages; hence, it makes sense that employees buying or sourcing such products must comply with the policies. Examples include conflict of interest, anti-bribery policies, not taking gifts, the availability of multiple vendor options, and not always sourcing from one vendor. Buy as per the pricing and quality of the vendor. Conduct all financial business dealings and decision-making with integrity.

- **Hire the Right Employees**: We have seen companies not checking the integrity of employees while hiring for special and sensitive positions suffer a lot. They buy the wrong raw materials or substandard products. Their vendor base does not follow the right accounting system as per the laws. They do illegal business or do not comply with the laws laid down by the government. Companies must take the utmost care and check while hiring employees who can follow the company's processes with honesty and a high level of integrity. Also, employees keep confidential information always confidential.

Check Your Progress A

1. What is meant by ethical practices in distribution.
2. List four views of ethics.
3. List any four ethical practices in inventory management.
4. List any four important points while selecting the vendor .
5. Which of the following statements are **True** or **False**?

   (i) The distribution model should be biased by caste and creed.

   (ii) Unethical practices never sustain for long in the market.

   (iii) There are four views on ethics.

   (iv) Wrong reporting destroys the company in the long run.

   (v) Companies can hire child labour.

8.5 ETHICAL PRACTICES IN TRANSPORTATION

Ethical practices in transportation are important to protect the environment. It is a social responsibility. Apart from being socially responsible to reduce carbon emissions, it is paramount that the vehicles used for transportation be in good condition and well serviced regularly. Drivers hired must be highly trained to carry heavy vehicles with full safety for pedestrians, follow transport rules, and use technology to enhance safety measures. Environment sustainability is key to building systems for reducing carbon emissions. To reduce carbon emissions, companies must use electric vehicles, CNG vehicles, and hybrid vehicles. This will enable the company to control air pollution, noise pollution, and greenhouse gas emissions. Ethical transportation-enabled companies always prioritize fair wages, reasonable working hours, and safe working conditions for their employees. This applies to drivers, maintenance staff, and all other personnel involved in the industry. These days, a lot of customer booking is happening through the websites. The companies doing so always have a threat to data security. Companies must implement data security measures to protect customer data. Large companies operating in a region always have the social responsibility of engaging with local communities. They can hire local drivers and maintenance staff from the nearby communities. While dealing with customers, companies must be transparent on pricing, terms and conditions, breakage rules, delay rules, and any traffic violation rules that impact customers, if any. Companies must build a contingency plan in case of an emergency. Where exactly can a driver contact a medical emergency and then contact details of a nearby police station or hospital in his route? He should be provided with company contacts to deal with in case of any emergency when needed.

By implementing these ethical considerations into transportation best practices, the industry can contribute to a safer, more sustainable, and more socially responsible future.

Source: https://www.axestrack.com/

8.6 ETHICAL PRACTICES IN WAREHOUSING

Warehousing is needed by every company that deals with products and customers. What does it mean to store, handle, and distribute goods to a channel or to direct customers? Ethical practices in warehousing are needed by a responsible company. There are many elements needed in the warehousing processas discussed below:

- Implement fair wages as per law and reasonable working hours as per labour rules guidelines for warehouse employees.
- Prevent workplace accidents by implementing safety protocols and processes within the warehouse.
- Regular machine handling training is required in the factory and warehouse to prevent accidents.
- Promote a workplace culture in the warehouse that values diversity and inclusion.
- Ensure without being biased with non-discriminatory hiring and promotion practices. Right HR practices make the whole difference in building the right culture mix.
- Build a process to create equal opportunities for training and professional development. It builds the right skill set with employees for higher productivity within the warehouse.
- Companies must follow the laws of labor of the country strictly comply within the company.
- Having children in the company for any work is a crime as per law. Companies should avoid 100% usage of child labour.
- Companies must implement eco-friendly practices, such as energy-efficient lighting and heating systems.
- Companies implement recycling packaging programs and minimize the use of packaging as much as possible.
- Work with suppliers supplying inventory must adhere to ethical business practices. Their mindset must be positive to follow ethical practices in all aspects of the business.
- Companies avoid exploitative relationships with suppliers, workers, and local relationships. They should be fair and transparent in dealing with the customers.
- Companies must be transparent in the supply chain by providing information on the origin and production of goods.
- Companies must implement processes to regularly audit vendors to ensure they meet ethical and environmental standards.
- Companies try to work on cybersecurity policies to protect customer data pertaining to inventory, customers, and suppliers.
- Work with local communities to promote employment, build corporate social responsibility, address concerns, and contribute

positively to communities around the warehouse or manufacturing unit. Always try to give back to the community positively and promote the local communities.

- Source goods and materials responsibly, considering the environmental and social impact of the production process. Souring goods and raw materials must be done with responsibility; check the credentials of suppliers and vendors, their backgrounds, and their policies pertaining to carbon emissions norms. Is it being followed by suppliers or vendors or not? Also check the labour laws followed by vendors or suppliers.

- Develop and regularly update emergency response plans to ensure the safety and well-being of warehouse staff in the event of disasters or crises.

- By incorporating these ethical practices into warehousing operations, companies can contribute to a more responsible and sustainable supply chain while fostering positive relationships with employees, suppliers, and the broader community.

8.7 ETHICAL PRACTICES IN MANAGING PERISHABLE PRODUCTS

Let us first understand what perishable products are. Perishable foods are those that are likely to be spoiled, decay, or become unsafe to consume if not kept refrigerated at 20 °C or below or frozen at 0 °C or below. Examples of foods that must be kept refrigerated for safety include fruits and vegetables, meat, poultry, fish, and dairy products.

Ethically managing the distribution and supply chain is extremely important to build trust with customers. Speed in buying, storing, and supplying for customers is an important process and is extremely important.

1. Companies must register with the FSSAI (Food Safety and Standards Authority of India). They must acquire the license and follow all the guidelines for storage and quality checks while buying and supplying to the customers. They must store such products in cold storage, depending on product requirements.

2. Companies must provide transparency on the source of goods, date of sourcing, and shelf life of the products. Companies implement traceability systems to find out the supply chain route, vendor, and source dates.

3. Companies must provide fair wages to their workers as per laid-down labour standards. These workers must use complete hygiene on the floor to protect the freshness of the products. The companies must not follow exploitative policies to make more profits, provide with weekly off's, national holiday leaves, overtime wages, etc.

4. These products are sourced directly from the farmers, mandi's, and imported from different countries. As per the laid-down quality norms, the sourcing should be done by following strict parameters. The farmers must be encouraged and trained to produce eco-friendly or organic products. If needed, get them low-interest loans or funds directly from the company to support them.

5. Cold chain implementation will be key here. By doing so, companies can buy in non-season and sell in season. This will allow them to control wastage in the market, and farmers will also be protected and supported efficiently. The warehouses must work with cold storage to store the products, maintain freshness, and provide supplies in a fresh state to the customers.

6. Community engagement in the vicinity of the company warehouse or processing plant. Do recruitment locally for the work in the warehouse, etc. Educate them with the right processes to maintain freshness. Encourage local literacy campaigns to help communities.

7. Be consistent with the technology, use new technology to reduce carbon emissions, and leverage technology efficiently through technological intervention.

Check Your Progress B

1. What do you mean by ethical practices in transportation?
2. List four practices necessary to be followed for ethical transportation.
3 List any four important actions for the ethical practices in warehousing.
4 What are the ethical practices for managing perishable products?
5. Which of the following statements are **True** or **False**?
   (i) Companies must register with FSSAI.
   (ii) Companies must use electric vehicle to increase carbon emissions.
   (iii) The vehicles used for transportation of the products must be serviced regularly.
   (iv) Warehousing is needed by every company in the world.
   (v) Perishable products must be stored at low temperatures.

8.8 LET US SUM UP

Ethical practices in managing distribution must be an activity that companies in today's era must follow, and the leadership of the company must be sensitive to this fact. Building processes within the organization is a key aspect. If it flows down from the top-down process, then it will be implemented with full efficiency. Interest in follow-up by the management team plays a crucial role. The promoter of the company must give clear direction to all senior management teams to be sensitive to following ethical practices within the company and in the distribution channel, as well as covering product, price, vendor, supplier, and customer. Indian companies dealing with so many vendors and special good organizations follow a high level of ethics even with suppliers, vendors, employees, etc. Continuously working on improving the distribution process using technological advancement within the company to leverage the efficiency level is always a key element for the company. Ethical practice means the application of ethical values to how an organization behaves. It applies in all aspects of organizational conduct, for example conduct, corporate governance, employment practices, sales techniques, stakeholder relations, accounting practices, and issues of product and corporate responsibility.

8.9 KEY WORDS

Brand image	:	Reputation of the trademark
Competitive advantage	:	Gaining in comparison to others
Due diligence	:	Sufficient hard work
Intellectual Property Rights (IPR)	:	The rights given to persons over the creations of their minds. They usually give the creator an exclusive right over the use of his/her creation, such as books and other writings, musical compositions, paintings, sculpture, computer programs and films.
Play a fair game	:	To work honestly
Risk Mitigation	:	Lowering the chances of damage or loss.
Statutory compliances	:	Regulatory provisions
Substandard products	:	The products of the quality inferior to the desired one.

8.10 ANSWERS TO CHECK YOUR PROGRESS

A 5. (i) False; (ii) True; (iii) True; (iv) True; (v) False

B 5. (i) True; (ii) False; (iii) True; (iv) False; (v) True

8.11 TERMINAL QUESTIONS

1. Discuss the touch points of ethics in distribution.

2. "Due Diligence of vendors is an important and needed part of any business." Elaborate.

3. Highlight the importance of ethics in the management of inventory.

4. Discuss ethical practices in the transportation.
5. Describe different aspects of ethics in warehousing.
6. Giving suitable examples, highlight the importance of ethical practices in managing distribution of perishable productss.

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