

## **Assessing Distributive Justice in Business Contexts :A Methodological Approach**

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### **Abstract**

*Though Distributive Justice (DJ) has been widely recognized as an ethical theory for ensuring sustainable businesses, there is little work to assess the extent of DJ in business contexts, and more specifically, in marketing context. In this study, the authors have examined the methodological problems in measurement of Distributive Justice (DJ) in business contexts and propose a multidimensional methodology for measuring the extent of DJ in a given business context. A methodology for computation of DJ Index is proposed based on the dimensions of Economic, Environmental and Social categories with indicators for each of the category. With the simplicity of having one indicator, which in a nutshell indicates the extent of implementation of DJ, the DJ Index will be appreciated by business executives, investors, employees, community and other stakeholders. These days business organizations all over the world are reporting on Corporate Sustainability*

*efforts and this work which attempts at providing a methodological approach to assessing the extent of DJ in business contexts is expected to contribute positively to such a Corporate Social Responsibility related sustainability reporting initiatives.*

**Keywords:** *Distributive Justice, Methodological Issues in measuring Distributive Justice, Distributive Justice Index, Global Reporting Initiative Sustainability Reporting Guidelines.*

## **Introduction**

The assessment of business performance is increasingly moving beyond the conventionally accepted measures of shareholder value and profits per share. Businesses, across industries and markets, are being evaluated on their sustainability on triple dimensions of economic prosperity, environmental quality and social justice (Elkington, 1999), (Kambewa, Ingenbleek, & Tilburg, 2008), (Cokins, 2009), (Sahoo, 2013). Equity and inclusion have become equally important consideration for sustainability along with profit and environmental quality. 35% of the companies registered with BSE / NSE voluntarily report on sustainability based on Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (Sahoo, 2013).

As stated in the Human Development Report 2011, sustainability is inextricably linked to basic questions of equity – that is of fairness of social justice and of greater access to a better quality of life (Klugman, 2011). DJ has its

tenet of fair distribution of benefits and burdens amongst the stakeholders and is therefore an ethical principle supporting sustainability. DJ as applied to macromarketing deals with access to better quality of life to all. DJ has an ethical component which embraces people and planet and thus becomes an important principle in pursuing sustainable growth of industry and is an important component of macromarketing (Sharma & Kumar, Growth, Sustainability and Distributive Justice – Role of MSMEs, 2012). In marketing scholarship, it is, therefore, necessary to focus on macromarketing concepts while dealing with DJ. Macromarketing is a multi-dimensional construct and refers to the study of the impact and consequences of marketing systems on society and the impact of society on marketing systems (Hunt, 1981). This macromarketing approach is distinct from the micromarketing approach which focusses on the firm's profitability. Marketing as a societal process is concerned with equitable distribution of burdens and benefits to all stakeholders of the marketing process. This is the concept of DJ as applied to marketing. Thus, there is a relationship between macromarketing and DJ in marketing (Sharma & Kumar, The Nexus between Macromarketing and Distributive Justice - A study of Small and Medium Enterprises in India, 2013).

The question of determining whether DJ has been attained in a specific business situation is neither simplistic nor uncontroversial. There have been works concerning DJ in Organizational Behavior literature (Javad & Premarajan, 2011) but they are concerned with effect of DJ on pay and job satisfaction. There have been a few works

carried out on the issue of assessing DJ in Marketing adopting Benefit-Cost Approach such as the work by Thomas Klein (2008) but to our knowledge there is no work especially concerned with arriving at DJ Index in a given business context.

This conceptual paper attempts to fill the research gap and is organized as follows: Firstly, Distributive Justice (DJ) as an important component of Macromarketing is established. The problems of assessing the degree of DJ in any business situation are discussed and a methodology for measuring the extent of DJ in a business situation is then proposed. A methodological approach for arriving at DJ Index for a given business situation is proposed. The paper concludes with recommendation for further research.

### **Objectives of the Study**

The purpose of the study is to arrive at a methodology for arriving at DJ Index which measures the extent of implementation of DJ in a business context. This study has been planned with the following objectives:

1. To undertake a conceptual study of DJ in the context of macromarketing
2. Develop a methodological approach for determining the extent of existence of DJ in a business context
3. Examine the problems associated with the measurement of the extent to which DJ is exists in a business context
4. Suggest a methodology for arriving at a “Distributive Justice Index” in a given business context

As the first step towards achieving the objectives, a literature survey is undertaken.

## **Literature Survey**

### ***Distributive Justice (DJ)***

An ideal marketing system would be one that is fair (Ferrel & Ferrel, 2008) to all its stakeholders. Firms, in the process of producing goods and services, generate both benefits and burdens amongst all its stakeholders such as investors, employees, customers and society at large. Therefore, when the effectiveness of the business is determined, it is necessary that the impact of business activity on the various stakeholders is considered.

Search for justice is a natural instinct in all human beings. In the marketing context, what is justice for the customer (best product at the lowest price) may not be justice for the supplier. But human beings as a civilized form of living beings, look for equitable distribution of burdens and benefits and this is the origin of the idea of distributive justice. In business contexts, as in any other social transactions, justice has been understood as fairness (Rawls, 2011). This requires examination as to how the marketing system, in terms of structure, policies, or practices, fairly appropriates rewards and penalties among the various parties affected by the market exchange process. This is addressed by the concept of Distributive Justice (DJ) which has been consistently defined as

addressing how a community treats its members in terms of the assignment of benefits and burdens according to some standard of fairness (Laczniak & Murphy, 2008).

Discussion about DJ centres on the question of “fairness”. What is fairness, then? There are several stakeholders to any marketing transaction, namely, the seller, the consumer, the producer, retailer and society at large. Whose idea of fairness should be given greater weight than the other stakeholders? For example, retailers such as WalMart may be fair to the customers as customers are able to get the best of the product at the lowest price but then, the supplier may be pressured and the profit margin reduced to unsustainable level to achieve the result. For illustration, Liberty Shoes, a Delhi-based shoe manufacturing company and vendor to WalMart, learnt the perils of being a vendor to a giant retailer the hard way. Liberty had been doing fairly good business before its tie-up with WalMart. For years, the Indian shoemaker had been supplying the world’s largest retailer with sports shoes. In order to feed the ever increasing demand, Liberty Shoes went full steam ahead and cranked up production from 50,000 shoes a day to 100,000 in 2006. But in 2007, WalMart dumped Liberty Shoes in favour of cheaper suppliers from China and Vietnam. Even though the profits were wafer thin, Liberty had been supplying and upping its production based on volume but was dropped once WalMart found a supplier who could supply it cheaper (Dey, 2009). As an example to the contrary, “No Nasties” is an organic T-Shirt brand that is ensuring that farmers growing cotton in Vidharbha, Maharashtra, India are getting a fair price. Most T-shirts in the “No Nasties”

portfolio range from Rs 599 to Rs 1199, making these garments more expensive than what is found in the market. But then, as Apoorva Kothari, founder, “No Nasties”, says, “If you buy T-shirts for Rs 100 to 200, think about the margins the farmers producing cotton for that garment must be getting. By buying cheap products, people unknowingly oppress some poor worker at the other end of the spectrum. We want people to vote with their wallets”. On an average, farmers associated with “No Nasties” get 30-40% more for their cotton output than the market price (Pillay, 2013).

In defining fairness in a business situation, whose concept of fairness should be utilised to settle competing marketing claims? Some could argue that paying 30-40% higher price to the producers of cotton is being unfair to the consumers. In fact, one could pragmatically argue that the “invisible hand” of market place should decide the economic outcomes subject only to existing legal regulation (in this case, “minimum support price”). But recognising that there have been farmer suicides under distress, is the society in general and marketers in particular, obliged to “tilt the scale” in favour of the farmers? Harris and Carman identified “fair distribution of wealth and income” as one of the nine conditions of market success” and, “maldistribution of income and wealth” as a form of market failure (Klein, 2008). Thus, justice is a marketing performance criterion and fairness is incorporated as one of the values by the American Marketing Association (American Marketing Association, 2013).

Theoretical possibilities for fair apportioning of the desserts might include: 1) Outcomes should be equal for all, (egalitarianism) 2) rewards should be divided based on effort expended (capitalism), and 3) awards should be divvied up according to merit (meritocracy) (Laczniak & Murphy, 2008). Egalitarianism principle, though the simplest, fails to provide an impetus for people to put in more efforts. Capitalism, in its raw form, is devoid of compassion. Meritocracy is questioned on the basis that merit is often a product of luck (“What did you do to be born to rich parents who could afford better education for you?”). One needs to look for a system subject to prudent and thoughtful ethical justification. Search for such an ethical rules leads us to the monumental works of Late Prof. John Rawls and in particular, his work “A Theory of Justice”. The concept is described briefly in the subsequent paragraphs.

John Rawls in his celebrated work, “A Theory of Justice”, offers a scheme of justice which addresses the short comings of the extreme viewpoints of socialism and capitalism. Using a thought experiment referred to as “the original position”, Rawls contends that if individuals did not know in advance their station in society (such as being a farmer driven to suicide as in the case of Vidharbha farmers cited above, or the consumers reaping benefits of cheaper product), they would, under this “veil of ignorance” chose a set of guidelines that would allow built-in social impetus to recover from uncontrollable personal and financial setbacks of various kinds. Thus, the rational persons would be “minimaxers” who would ensure that the systems are built

to the favour of most disadvantaged in the system. Thus, rational persons would arrive at two supreme moral principles of “liberty” compatible with similar liberties for others and “difference principle” that allows inequalities that are formulated in such a manner so that greatest benefit accrues to the least advantaged (Rawls, 2011). Difference principle allows for unequal distribution of deserts if it works to the advantage of the most disadvantaged. For example, a higher compensation to CEO of a company satisfies the tenets of DJ if it allows for greater productivity (because of greater incentive to CEO to work) and the profits are distributed fairly to all the employees including the last employee (Sharma & Kumar, Distributive Justice and the Ethics of Executive Compensation: Role of Small of Small and Medium Enterprises vis-a-vis Large Organization, 2012). Thus, Rawlsian formulation takes care of fair distribution with impetus for members of the society to put in their best efforts.

Critics of Rawl point out that the concept of “original position” is imaginary and that choice of minimax is conservative and rational people do not necessarily choose conservative options. Despite this criticism, Rawlsian analysis is popular as it takes into account the equal interests of everyone which is essence of morality (Velasquez M. G., 2010)

In this work, we are adopting a normative approach (“what ought to be”) rather than the positive approach (“What is”) to the business contexts and thus adopt the Rawlsian concept of DJ.

## **Measurement of DJ**

With the understanding that DJ is desirable in business situations, it will be necessary to ensure that DJ is implemented in business. For DJ to be implemented, it is imperative to measure the extent of implementation of DJ in any business situation. But scholars agree that “Despite definitional stability (of DJ), ...the situation does not mean that arriving at a consensus about whether DJ has been achieved in specific business situation is simplistic or uncontroversial. Indeed, ...quite the opposite seems to be the case” (Laczniak & Murphy, 2008).

Thomas A Klein in his paper on “Assessing Distributive Justice in Marketing: A Benefit-Cost Approach” has described an benefit-cost approach to assess DJ in marketing and suggests a method of assessing the impact based on a form of scaling that includes ranked weighting of stakeholders based on expected population size and a simplified form of Churchman’s scaling of impact, which recognises only positive, neutral or negative effects, with a potential option of rating a greater or lesser degree of magnitude when facts call for such an adjustment (Klein, 2008). This approach is elegant by the virtue of its simplicity, but , it is susceptible to manipulation as an analyst can choose a way to structure the problem to achieve a certain outcome.

## **Identification of Research Gap**

Literature survey indicates that there is extensive work carried out on DJ. However, to our knowledge, there is little

work relating to assessment of DJ in a given business situation, especially in marketing. The present work develops on the work of Klein (2008) to assess DJ in a given business context, especially marketing.

### **Proposal for Measuring DJ in a Business Situation**

The central theme of sustainability based on triple Ps is that if a company intends to increase the profit by increased sales, it will improve on the Profit dimension but may compromise on the planet dimension and people dimensions. For illustration, if a certain automobile company increases its sales volume, the profitability may go up but the amount of Co<sub>2</sub> pumped to the atmosphere increases proportionately. Though on the face of it, this appears to be a win-loss situation, there is a way out. Suppose the automobile company increases the number of cars based on Range Extended Electric Vehicle (REEV) concept, the Co<sub>2</sub> emission could be limited (Tata Motors, 2012). On a macro scale, the government can intervene and introduce and popularise mass transit systems which will then reduce the carbon foot print. Companies can then be migrating to produce products suited for such a transport system. “Ecomagination” by General Electric is a good example of such an effort.

As stated earlier, sustainability is to be reckoned on triple basis of Profit, Planet and the People. Thus, we propose in this paper that DJ be measured on the triple dimensions of Profit, Planet and the People.

Sustainable development involves the simultaneous pursuit of economic prosperity (identified as “Profit” or “P”),

environmental quality (identified as “Planet” or “P”), and social equity (identified as “People” or “P”). This approach is termed the “Triple Bottom Line” (TBL) (3 Ps) and differs significantly from the traditional approach of assessing a firm as an entity for maximising the profit to its investors. Companies aiming for sustainability need to perform not against a single, financial bottom line, but against the triple bottom line (Elkington, 1999). The phrase “Triple Bottom Line” was coined by John Elkington in 1997 in the book “Cannibals with forks – The triple Bottom Line of 21<sup>st</sup> Century Business” and order in which the three Ps were mentioned was economic prosperity (Profit), environmental quality (Planet) and social justice (People) and we follow the same sequence in this paper, though one would find different orders being adopted in subsequent works. For example, Gary Cokins in his paper “Measuring the New ‘Triple’ Bottom Line” prefers the order of People, Profits and the Planet (Cokins, 2009). The sequence of Profit, Planet and People does not imply any higher priority being given to profit over planet or the people.

### **Problems in Measurement of the 3 Ps**

The 3 Ps do not have a common unit of measure. Profits are measured in Rs or \$. What is the social capital or, people capital measured with? What is the parameter with which environmental quality is measured with? (Subsequently, we will see parameters for each of these dimensions but the point being made here is that units are different and that the measurement is complex).

Some advocate monetising all the dimensions, including social welfare and environmental damage / benefit. But putting a dollar value on wetlands or endangered species is objected to strictly on philosophical grounds. Even if one would agree on monetising wetlands, question arises as to finding right price for lost wetland or endangered species.

Another approach would be to calculate the TBL in terms of an index. Some of the commonly adopted measurement systems are SustainAbility, developed by an international consulting firm, the Global Reporting Initiative (GRI) developed by United Nations affiliate organisation, and the Environmental Sustainability Index developed by the World Economic Forum (Hubbard, Measuring Organisational Performance: Beyond the Triple Bottom Line, 2009).

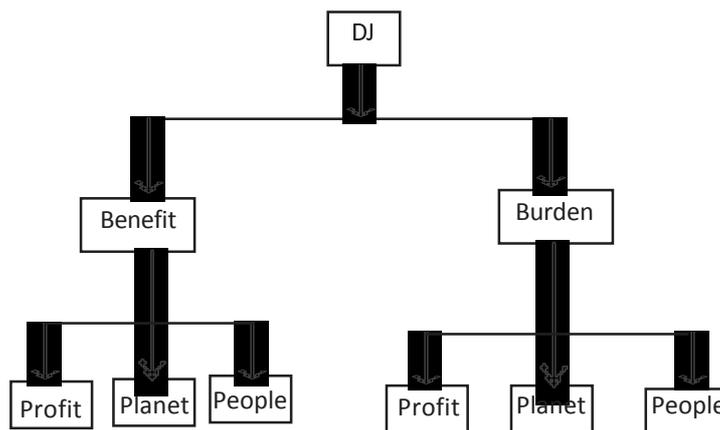
Yet another option would be to do away with use of dollars or index but treating each sustainability measure as standalone. Profits would be measured in dollars, Environment with respect to, as an illustration, wetlands in acres and people with, say, relative poverty. Progress could then be gauged in terms of acres of wetland creation or decrease in relative poverty. This may lead to proliferation of metrics and a TBL user may get metric fatigued (Slaper & Hall, 2011, Spring)

In determining the extent of DJ in any business situation, it is proposed to identify the benefits and burdens under the Triple Bottom Line (TBL), namely, Profit, Planet, and People based on the works of Stein and Ahmad (Stein & Ahmad, 2009) and develop on works of (Elkington, 1999) and (Cokins, 2009).

## Methodology

Based on the considerations discussed above, we propose an Index of DJ based on the following criteria:

- DJ is a measure of how burdens and benefits are apportioned amongst the various stakeholders
- Burdens and benefits could both be classified under People, Profit, and Planet as described in Figure 1:



*Figure 1: Construction of DJ Index in terms of “Triple Ps”*

Adopted from: Stein & Ahmad, 2009

The above criteria will be delineated following the Global Reporting Initiative’s G4 guidelines (Global Reporting Initiative, 2013). The process of arriving at the DJ Index will be illustrated with help of a hypothetical business scenario of a hypothetical company “X” as follows. Consider, for the

purpose of illustration that the percentage of population of each of the stakeholder and therefore the weights is as given in Table 1 given below:

*Table 1: Computation of Weights*

<b>Stakeholder</b>	<b>Percentage of population</b>	<b>Weight</b>
Investors	01	0.01
Employees	15	0.15
Consumers	30	0.30
Producers	05	0.05
Community (other than above)	49	0.49
Total	100	1.00

There can be objections to this method of giving weights based on population. For example, some may argue that even though investors represent a small percentage of population, their relative importance is higher and, therefore, should be given a higher weight; authors have no objection to any other criteria for arriving at weights for the various stakeholders. In fact, difference principle of the Rawlsian DJ allows for it *provided* it can be demonstrated that this higher weight to investors works to the advantage of the least disadvantaged. Kelin (2008) argues that this criterion of considering the percentage population for

arriving at weights is suitable for providing weights to various stakeholders but limits the weights to ranked weights, that is, 1, 2, 3.... The authors have preferred to retain computed weights such that the sum of weights of all the stakeholders is one. Further, the authors believe in Jeremy Bentham's maxim that "Everybody counts for one, nobody for more than one" (Velasquez M. , 2000).

### **Global Reporting Initiative Sustainability Reporting Guidelines**

Global Reporting Initiative (GRI) is an international not-for-profit organisation promoting the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development. GRI was founded in Boston in 1997 and its roots lie in the US non-profit organization the Coalition of Environmentally Responsible Economies. The framework of GRI includes Reporting Guidelines, Sector Guidelines and Other Resources. The first set of Guidelines was launched in 2000 and the second generation of Guidelines, known as G2, was unveiled in 2002. The third generation of Guidelines, G3, was launched in 2006. In March 2013, GRI launched the fourth generation of its Guidelines, G4, (Global Reporting Initiative, 2013) and the present work draws on the G4 Guidelines.

The method proposed for computation of DJ in a given business situation derives from the Global Reporting

Initiative G4 Sustainability Reporting Guidelines. It is necessary to determine whether a particular category, that is, “economic”, “environmental” or “social” is material to determining sustainability. For example, if in a situation, the biodiversity is not material then the company need not report on biodiversity but put in efforts on other aspects. The word “Aspect” is used in the guidelines to refer to the list of subjects covered by the Guidelines and the word “Topic” is referred to any possible sustainability subject (Global Reporting Initiative, 2013).

Aspect “Market Presence” can be misleading to some of the marketing professionals and academicians who are not conversant with GRI Guidelines. In the present context, it means the company’s ability to obtain social licence to operate. This is measured by two indicators: 1) Ratio of standard entry level wage by gender compared to local minimum wage at significant locations of operation and, 2) Proportion of senior management hired from the local community at significant locations of operation.

The process of computation of DJ Index will now be illustrated with an example of a hypothetical business scenario.

### **Hypothetical Business Scenario, Company X**

Shareholders are enjoying consistently high returns for the last five years. The Profit After Tax (PAT) has been growing

at 6% year-on-year and Economic Value Generated (EVG) or Revenue is 100 monetary units (Say) and is distributed as follows. Operating cost is 80 units, Employee wages and benefits is 5, Payment to providers of capital is 5, Payments to government (by way of taxes etc.) is 9 and Economic Value Retained by the company is 1. The wages paid to the entry level workers is 20% more than the statutory minimum wages and 20% of the workers are women. Procurement practices with the vendors do not exploit the vendors.

80% materials used for packing are recyclable and 40% of them are actually recycled. Percentage of total amount of energy consumed that is renewable is 15%. Of the water requirement, 50% is obtained by recycling and 20% by rain water harvesting. Biodiversity is being maintained.

Percentage of permanent employees is 70% and the remaining 30% of temporary employees are also covered by wage agreements and the employee relationship is cordial. The company many outreach programmes like support for education of girl child and relationship with the community is cordial. Compliance with local labour laws is good. Customer health and safety, product labelling, marketing communications are good.

Computation of DJ under the category “Economic”

Table 2: Computation of DJ Index, Category: Economic

Stakeholder	Investors	Employees	Consumers	Producers	Community	OWR
<b>Weight</b>	0.01	0.15	0.30	0.05	0.49	
<b>Aspect</b>	<b>Rating</b>	<b>Rating</b>	<b>Rating</b>	<b>Rating</b>	<b>Rating</b>	
Economic performance	5.00	5.00	3.00	4.00	3.00	3.37
Market presence	3.00	4.00	3.00	3.00	5.00	4.13
Indirect economic impact	1.00	2.00	2.00	2.00	4.00	2.97
Procurement practices	2.00	1.00	1.00	5.00	3.00	2.19
Average OWR, Category "Economic"						3.17

## Notes

1. Weights are for each stakeholder is taken from Table 1.
2. Ratings are the sum total of benefit and the burden of a particular aspect on the stakeholder under consideration. Ratings are provided on a scale of 1 to 5. Rating of 1, represents bad (burden being more than benefit) and a rating of 5 represents good (benefit being more than burden). A rating of 3 represents an average, implying benefits and burdens are balanced. This approach is based on the work by Graham Hubbard in measuring Organisational performance (Hubbard, Measuring Organizational Performance: Beyond the Triple Bottom Line, 2009).
3. OWR stands for “Overall Weighted Ratings” and is computed as summation of weighed ratings for each stakeholder against each aspect. For example, OWR against the aspect “economic performance” is computed as  $(0.01 \times 5 + 0.15 \times 5 + 0.3 \times 3 + 0.05 \times 4 + 0.49 \times 3) = 3.37$
4. Average OWR for the category “Economic” is calculated as the summation of OWR for each aspect divided by the number of aspects. In the category “Economic”, there are four aspects considered, namely, economic performance, market presence, indirect economic impact and procurement practices, and the value is  $(3.37 + 4.13 + 2.97 + 2.19) / 4 = 3.17$

### Category: Environment

Under the category environment, aspects of materials, energy, water, biodiversity, emissions, effluents and waste, products and services, compliance, transport, overall, supplier environment assessment, environment grievance mechanism are included.

**Computation of DJ under the category “Environment”**

*Table 3: Computation of DJ Index, Category: Environment*

Stakeholder	Investors	Employees	Consumers	Producers	Community	OWR
Weight	<b>0.01</b>	<b>0.15</b>	<b>0.30</b>	<b>0.05</b>	<b>0.49</b>	
Aspect	Rating	Rating	Rating	Rating	Rating	
Materials	3.00	3.00	2.00	2.00	4.00	3.14
Energy	2.00	3.00	2.00	1.00	4.00	3.08
Water	4.00	3.00	3.00	1.00	4.00	3.40
Biodiversity	2.00	3.00	2.00	1.00	4.00	3.08
Average OWR, Category “Environment”						3.18

**Category: Social**

There are sub-categories under the category Social Sub-categories are, Labour practices and decent work, Human rights, Society, and Product responsibility. Under each of the sub-categories there are several aspects as indicated in Tables 4, 5 & 6.

**Computation of DJ Under the Category “Social”,  
Sub-Category: Labour Practices and Decent Work**

*Table 4: Computation of DJ Index, Category:  
Social, Sub-category: Labour practices and decent work*

Stakeholder	Investors	Employees	Consumers	Producers	Community	OWR
Weight	<b>0.01</b>	<b>0.15</b>	<b>0.30</b>	<b>0.05</b>	<b>0.49</b>	
Aspect	Rating	Rating	Rating	Rating	Rating	
Employment	1.00	4.00	1.00	1.00	4.00	2.92
Labour/ management relations	4.00	5.00	3.00	1.00	4.00	3.70
Equal remuneration for men and women	1.00	4.00	1.00	1.00	4.00	2.92
Supplier assessment of labour practices	3.00	3.00	1.00	3.00	3.00	2.40
Average OWR, Category “Social”, Sub-category: Labour practices and decent work						2.99

**Computation of DJ Under the Category “Social”,**

***Sub-Category: Human Rights***

*Table 5: Computation of DJ Index, Category: Social, Sub-Category: Human Rights*

<b>Stakeholder</b>	<b>Investors</b>	<b>Employees</b>	<b>Consumers</b>	<b>Producers</b>	<b>Community</b>	<b>OWR</b>
Weight	<b>0.01</b>	<b>0.15</b>	<b>0.30</b>	<b>0.05</b>	<b>0.49</b>	
Aspect	Rating	Rating	Rating	Rating	Rating	
Investment	2.00	5.00	3.00	2.00	3.00	3.24
Non- discrimination	2.00	5.00	3.00	2.00	4.00	3.73
Freedom of association and collective bargaining	1.00	5.00	3.00	2.00	3.00	3.23
Child labour	1.00	4.00	3.00	2.00	3.00	3.08
Average OWR, Category “Social”, Sub-category: Human rights						3.32

**Computation of DJ Under the Category “Social”,**

***Sub-Category: Society***

*Table 6: Computation of DJ Index, Category: Social, Sub-Category: Society*

<b>Stakeholder</b>	<b>Investors</b>	<b>Employees</b>	<b>Consumers</b>	<b>Producers</b>	<b>Community</b>	<b>OWR</b>
Weight	<b>0.01</b>	<b>0.15</b>	<b>0.30</b>	<b>0.05</b>	<b>0.49</b>	
Aspect	Rating	Rating	Rating	Rating	Rating	
Local communities	1.00	4.00	2.00	4.00	5.00	3.86
Anticorruption	2.00	3.00	2.00	3.00	5.00	3.67
Anti- competitive behaviour	1.00	3.00	5.00	3.00	4.00	4.07
Compliance	3.00	4.00	3.00	3.00	4.00	3.64
Average OWR, Category “Social”, Sub-category: Society						3.81

**Computation of DJ Under the Category “Social”,**

***Sub-Category: Product Responsibility***

*Table 7: Computation of DJ Index, Category: Social, Sub-Category: Product Responsibility*

<b>Stakeholder</b>	<b>Investors</b>	<b>Employees</b>	<b>Consumers</b>	<b>Producers</b>	<b>Community</b>	<b>OWR</b>
Weight	<b>0.01</b>	<b>0.15</b>	<b>0.30</b>	<b>0.05</b>	<b>0.49</b>	
Aspect	Rating	Rating	Rating	Rating	Rating	
Customer health and safety	2.00	2.00	5.00	2.00	4.00	3.88
Product and service labelling	2.00	2.00	5.00	2.00	4.00	3.88
Marketing communication	2.00	2.00	3.00	4.00	3.00	2.89
Compliance	3.00	2.00	3.00	3.00	3.00	2.85
Average OWR, Category “Social”, Sub-category: Product responsibility					3.38	

Grand OWR, category Social is the average of OWR computed under the sub-categories of Labour practices and decent work, Human rights, Society and the Product responsibility. For the Business Scenario 1 considered in this study, DJ is computed as  $(2.99 + 3.32 + 3.81 + 3.38) / 4$ , which works out to 3.37.

### Computation of DJ Index

DJ index is the average of the OWR for each of the categories, namely, Economic, Environmental and the Social considering equal weights for each of the category. For the Business Scenario 1 described in this study, the corresponding OWRs are 3.17, 3.18 and 3.37, respectively. Thus, DJ Index for the Business Scenario described in this study is computed to be  $(3.17 + 3.18 + 3.37) / 3 = 3.24$ .

*Table 8: Computation of Overall DJ*

<b>Aspect</b>	<b>DJ index for the aspect</b>	<b>Remarks</b>
Economic	3.17	See Table 2.
Environmental	3.18	See Table 3.
Social	3.37	See Table 4, 5, 6 for each of sub-category and the average is taken.
Average	3.24	Average of DJ for the three aspects, namely, Economic, Environmental and Social.

## **Discussion**

Development of DJ index proposed in this study is based on the works of Thomas Klein (2008) and Stein and Ahmad (2009). Stein and Ahmad have categorised benefits and burdens on the basis of physical, economic and psychological and we adopted the same to classify benefits and burdens under profit, planet and people. Klein has provided a basis for rank weight based on population representation of stakeholders. GRI provides the basis for measuring sustainability under the categories of economic, environmental and social. DJ Index based on the aspects of Economics, Environmental and Social as per GRI Guideline is a good choice as large numbers of firms are reporting on the lines of GRI guidelines. For example, Sustainability Disclosure Database, 5713 organisations have their profile with the Global Reporting Initiative organisation (Global Reporting Initiative, 2013).

Developing on these methodologies, we have arrived at a method of developing DJ index indicative of the extent to DJ has been implemented in a given business situation.

The proposed method is based on a combination of objective and subjective parameters and is flexible to accommodate contextual sub-dimensions and priorities. For examples, in assessing a business situation under economic, environmental and social categories, objective parameters like economic performance, emission and compliance can be used. Weights assigned to various stakeholders are objective according to us as they are based on population but analysts may wish to adopt other criteria giving priority

to any of the stakeholders based on their perception of relative importance.

DJ Index suggested in this paper is based on stakeholder approach and includes the categories of Economic, Environmental and Society as described under GRI G4 Guidelines. The earlier sustainability reports have focussed on environmental issues and have not focussed on social sustainability, which was lagging well behind in conceptual and practical development (Sharma & Ruud, 2003). The present proposal takes care of these lacuna by including the category "Society" as per GRI G4 Guidelines.

Though the basis of the rating used in this study is not explicitly stated, a few illustration, especially those of which are contentious, will throw some light on the process adopted. The descriptions are based on Sustainability Report of a leading automobile company in India for the year 2012-13. Referring to Table 5, Computation of DJ Index, Category: Social, Sub-category: Human rights, the rating against the aspect "Freedom of association and collective bargaining", a rating 1.0 (burden for exceeding benefit) for the stakeholder Investor is adopted and a rating 5.0 (benefit for exceeding burden) for the stakeholder employees based on discussion with a limited number of well-informed investors and employee, respectively as this is a conceptual study. It is proposed that when a prototype study is taken up using a larger data basis and covering industries and markets, the rating assigned against each of the aspects will be arrived at by conducting survey of stakeholders so that subjectivity is eliminated. Use of

Analytical Hierarchical Process (AHP) methodology to arrive at relative weights during prototype study will also be examined. This also ensures that stakeholder's engagement in the process of arriving at DJ index is ensured.

The DJ Index developed in Table 8 may be criticised for its brevity that there should be more indicators! While acknowledging the criticism, we offer the following defence:

The simplicity of having one indicator is widely appreciated. For example, the Human Development Index (HDI), which is a measure of average achievement in a country in three basic dimensions of human development, namely, a long and healthy life, knowledge, decent standard of living, is widely accepted, (Michael Grimm, 2006) though criticism are always made with a view of improving the reporting of the Human Development.

In the hypothetical case considered, the DJ Index is determined to be 3.24 (See Table 8) and this absolute value in itself may not be interpreted in isolation. Suppose we had two situations 1 & 2 each with DJ Index of 3.24 and other with a DJ Index of 6.28, respectively, then we may say that DJ is better implemented in business situation 2 as compared to situation 1. In this case, DJ indices of aspects Economic, Environmental and Social are 3.17, 3.18 and 3.37 respectively, and are not excessively varied (in this case, variation is between 3.17 and 3.37) and hence deemed as desirable situation as all dimensions are balanced.

Why should not the index be between zero and one, as in HDI? Considering the logic of arriving at HDI each of the dimension or capability indices were created to be between zero and one and total HDI computed by aggregating them, geometrically (Anand & Sen, 1994). This was possible because, the minimum and maximum value for each of the capabilities is known (or assumed). For example, in computing index for Health, minimum life expectancy is taken as 20 years, the maximum is 83.4. So, if life expectancy in Vietnam during 2011 was 75.2 years, than, Life Expectancy Index (LEI) would be:

$$LEI = (75.2 - 20) / (83.4 - 20) = 0.87$$

But in the case of DJ, we still do not have any literature which indicates the minimum and maximum values amongst various business situations and hence it is not possible normalise the same. So, as of now, we retain the values as they are computed.

Finally, one has to recognise the plurality of situations and the contexts and allow for diversity of doctrines and the plurality of conflicting and indeed incommensurable, conception of the good affirmed by the members of the existing democratic societies (Rawl, 1985).

### **Concluding Remarks**

The objectives of the present study have been fulfilled. The field work to verify the framework suggested in the paper needs to be taken up. The first objective of the study was to understand the concept of DJ in the context of

macromarketing and this has been accomplished through literature survey. The second objective was to study the methodological approach in determining the extent to which DJ is implemented in a business situation. A methodology for assessing the extent of DJ in a business situation using the concept of the triple bottom line has been proposed. The third objective was to examine the problems associated with measurement of DJ. The essential problem is that each of the dimensions of sustainability, namely, economic, environmental and social has different units of measurement and hence adoption of rating system using a Likert like scale has been suggested. Finally, the objective of arriving at a DJ index has been achieved through the method of rating and weighted score for each of the stakeholders. The methodological has been illustrated using a hypothetical business situation.

The present work is conceptual in nature and needs to be verified with field data. The above work needs to be continued with taking other parameters into consideration and developing a comprehensive DJ Index considering different business contexts such as industries and markets.

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