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Business ethics and customer stakeholders

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A common view of the firm holds that employees, customers, shareholders, and suppliers are key organizational stakeholders.[1] While obligations to these stakeholders are sometimes considered to be motivated by organizational self-interest, the ethical perspective asserts the rightness or wrongness of specific firm actions independently of any social or stakeholder obligations.[2] Customers are key stakeholders that help establish the firm's reputation and identification. For example, today Procter and Gamble is considered a textbook market-driven global powerhouse with billion-dollar brands such as Bounty, Olay, Tide, Crest, and Folgers.[3] Understanding customer needs and wants and providing customers with high-quality products are the key to the company's success. A market orientation focuses on an understanding of customers' expressed and latent needs and development of superior solutions to the needs.[4] Such an approach selects to elevate the interests of one stakeholder—the customer—over those of others.

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While market orientation is considered a key strategic component of marketing strategy, the importance of customers in the development of ethical programs and social responsibility is not always clear. Although one study found the ethical climate of the firm to be positively associated with customer loyalty,[5] there are many other determinants of customer loyalty. As companies engage in competitive markets, market orientation and a customer focus have been recognized as key drivers of marketing performance. However, intense competition sometimes breeds unethical behavior even when a customer orientation is in play. When Pizza Hut and Papa John's aggressively attacked one another in advertising campaigns, each declared that they provided the 'freshest' ingredients. The matter was taken to court and resolved through civil litigation. The importance of creating customer relationships and creating value for the customer as a part of market orientation should lead to increased performance. This article provides insights on foundations for ethical customer relationships, contingent knowledge about customers as stakeholders, and insights on establishing a balanced stakeholder orientation from a managerial perspective.

Foundations for Ethical Customer Stakeholder Relationships

The relationship between a customer and a firm exists because of mutual expectations built on trust, good faith, and fair dealing in their interaction. In fact, there is an implied covenant of good faith and fair dealing, and performance cannot simply be a matter of the firm's own discretion. Not only is this an ethical requirement but it has been legally enforced in some states. The implied covenant of good faith and fair dealing is to enforce the contract or transaction in a manner consistent with the parties' reasonable expectations.[6]

From this perspective, ethically questionable actions toward consumers can be addressed in civil litigation. Therefore we do know that ethical judgments of inappropriate conduct have a foundation for legal resolution. For example, in a recent year, Wal-Mart was involved with roughly twelve lawsuits per day or one every two hours. Wal-Mart is the most sued organization except for the U.S. Government.[7] The lawsuits stem from every aspect of customer interaction and the claim from some customers that something wrong has happened in their role as Wal-Mart customers.

Ethical responsibilities to consumers have a strong foundation of legal protection. At the federal level, the Federal Trade Commission (FTC) enforces consumer protection laws. Within this agency, the Bureau of Consumer Protection works to protect consumers against unfair, deceptive, or fraudulent practices. In addition to the FTC, other federal agencies such as the Food and Drug Administration, the Consumer Product Safety Commission, and the Federal Communications Commission try to assist consumers in addressing deceptive, fraudulent, or damaging conduct. At the state level, consumer protection statutes exist, and deceptive trade practices laws exist in most states. Key issues addressed in consumer protection include product liability, which refers to a business' legal responsibility for the performance of its products. Communications that are false or misleading can destroy stakeholders' trust in an organization and may at times even be considered fraudulent. False and misleading advertising is increasingly a key issue in organizational communications. Abuses in advertising can range from exaggerated claims and concealed facts to outright lying. Such abuses range from the unethical, which they clearly are, to the illegal, which they may be. The Federal Trade Commission stepped in when KFC promoted the health benefits and low carbohydrate content of its chicken with the slogan, "If you're watching carbs and going high-protein, go KFC." Two pieces of fried chicken (skin removed) were being compared to the original Burger King Whopper. Small print at the bottom of the ad noted "a balanced diet and exercise are necessary for good health and that KFC chicken is not a low fat, low sodium, low cholesterol food." The FTC required KFC to stop running the advertising, indicating the deceptive nature of the advertisement.[8]

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Ethical issues that have the support of the government include various laws and statements made to encourage ethical behavior. New federal regulations that hold both organizations and their employees responsible for misconduct require organizations to assess areas of ethical and legal risk and develop programs to manage those risks. Based on both the 2002 Sarbanes-Oxley Act and the United States Sentencing Commission guidelines, there are strong directives to encourage ethical leadership. If ethical leadership fails, especially in corporate governance, there are significant penalties. When organizations communicate to employees that certain issues are important, the intensity of the issues is elevated. The more employees appreciate the importance of an issue, the less likely they are to engage in questionable behavior associated with the issue. Under the Sarbanes-Oxley Act, boards of directors are required to provide oversight for all auditing activities and are responsible for developing ethical leadership. In addition, court decisions related to the Federal Sentencing Guidelines for Organizations hold board members responsible for the ethical and legal compliance programs of the firms they oversee.

In 1962, President John F. Kennedy proclaimed a consumer bill of rights, which includes the rights to choose, to safety, to be informed, and to be heard. Kennedy established the Consumer Advisory Council to integrate consumer concerns into government regulations and processes. These four rights established a philosophical basis on which state and local consumer protection regulations were developed.[9] All U.S. presidents since Kennedy have confirmed the four basic consumer rights and expanded this philosophical concept, focusing on issues such as healthcare and consumer financial issues, paying particular attention to children, teens, and senior citizens.

Contingent Knowledge About Customer Stakeholders

While there has been concern with corporate reputation, there is limited research to determine if customers increase their active support based on the ethical conduct of an organization. Customers do evaluate the ethical practices of companies, and research in marketing ethics has shown that some customers are aware of the importance of environmental issues, level of service quality, and other responsibility issues that impact the purchasing and consumption of products. In a Cone-Roper national survey of consumer attitudes, 81 per cent of consumers indicated they would be likely to switch to brands associated with a good cause if price and quality were equal.[10] Examining customers from the perspective of a stakeholder orientation provides an opportunity to better understand the importance of customers in shaping the ethical conduct of the firm.

Research has demonstrated that consumers identify with organizations and may perceive an overlap between organizational attributes and their individual attributes.[11] The concept of organizational identification is important because consumers often seek organizational images that are congruent with their self-identity. Organizational disidentification may occur when individuals perceive a conflict between their defining attributes and the attributes defining the organization.[12] This disidentification represents a separation of a person's self-concept from that of the organization and translates into negative perceptions of the organization.[13] Companies such as Enron, WorldCom, Parmalat, and HealthSouth have been confronted with scandal and assumed disidentification from customers, as well as from other stakeholders such as investors and employees. Overall, business ethics practices emerge as a useful instrument to market the organization to customers and to avoid customer disidentification and sanctions.[14]

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Companies with poor reputations with customers or the general public may still be rewarded by investors if the bottom line looks attractive. While the S&P stock index posted a 28.7 per cent return in 2003, the so-called "Feds index" consisting of companies under investigation for wrongdoing increased more than twice that, with a 59.8 per cent rise. The index developed by the equity department at Guardian Life Insurance included Tyco, HealthSouth, Qwest, and Computer Associates, as well as other firms in trouble. Although the index was only developed to capture the mood of the market and was not all-inclusive of firms under investigation, it appears that investors are forgiving.[15] This potentially creates a conflict between stakeholders' interests and businesses limiting their ethical responsibility initiatives to please the most powerful and visible stakeholder interests. If shareholders reward firms in the short run for earnings or financial performance without any regard for ethics, then this may be a signal to management that ethical behavior is not a key factor in success. Customers may be able to withhold purchasing from an unethical firm but may lack information and coordination of efforts to systematically influence a firm's performance.

Wal-Mart has experienced ethical and legal allegations concerning employment issues, including issues related to forcing employees to work off the clock, as well as discrimination against women and minorities in promotions to management positions. Wal-Mart workers generally receive lower pay and fewer benefits than workers at other retail stores. Because of the vast Wal-Mart work force of over 1.4 million, these policies have been blamed for driving down retail wages across America. On the other hand, the Wal-Mart philosophy squeezes suppliers and helps directly or indirectly save customers possibly over $100 billion per year.[16] There may be a big difference between what a company can do for success and what the company should do for success in the long run in balancing the interests of all stakeholders. In the case of Wal-Mart, customers appear to have more power than employees, or at least customers are the preferred stakeholders. Wal-Mart's suppliers do not feel 'preferred,' communities boycott to prevent Wal-Mart from opening new stores, and employee treatment is under scrutiny.

Establishing a Balanced Stakeholder Orientation

There are potential conflicts between customer stakeholders and other stakeholders such as employees, shareholders, suppliers, and communities concerned about the natural environment or economic development. Some customers may take a self-centered approach and look for the best value, quality products, and service without regard to other stakeholders. While some customer groups engage in organized communication and action related to the exchange relationships, consumer actions such as boycotts or abstaining from purchasing and using products are not widespread. Nike, as well as other contract manufacturers, has been boycotted by consumer groups concerned about child labor practices and working conditions in developing countries. In general, however, customer groups are not organized and do not speak with one voice. Therefore, there is a danger that more powerful stakeholders will influence ethical decisions to a greater extent and perhaps in a manner not in the overall best interests of consumers. Resource-dependent theory states that "an organization must attend to the demands of those in its environment that provide resources necessary and important for its continued survival."[17] Customers provide financial resources, loyalty, and enhanced reputation that can help create positive firm images related to ethics and responsibility. Stakeholder groups need to demonstrate that they can influence business activities in order to be powerful enough to influence organizational decisions. In some cases, such as Wal-Mart, customers may be powerful, but shareholders, employees, or even suppliers may have the upper hand in other firms.

The development of organizational ethics programs has become increasingly popular for ethical relationships with all stakeholders. Organizations create ethical or unethical corporate cultures based on leadership and the commitment to values that stress the importance of stakeholder relationships. Establishing and implementing a strategic approach to improving organizational ethics is based on establishing, communicating, and monitoring ethical values and legal requirements that characterize the firm's history, culture, and operating environment. Without such programs and uniform standards of conduct, it will be difficult to maintain satisfactory relationships with all stakeholders. While many ethics programs focus on relationships with employees, suppliers, shareholders, and regulators, it is also important to determine appropriate conduct toward customers. Key issues that exist today related to customers include privacy, identity theft, disclosure of product information, and appropriate methods of addressing conflict, as well as all issues associated with the Kennedy Consumer Bill of Rights. Developing an ethical climate that addresses the needs of customers must be built on a foundation of values that make concrete connections between standards and the actions of employees that serve customers.

The development of an ethics program should be based on a balanced stakeholder orientation that aligns the demands and needs of all stakeholders. There is a need to conduct formal research, including surveys, focus groups, Internet searches, or other methods to generate data about stakeholder groups and assess the firm's effects on these groups. Distribution of this information throughout the firm can provide a basis for organizational responsiveness and ethical behavior.

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