Business Ethics
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Lecture – 33
Consumers as stakeholders

Welcome today we are going to discuss about one of the major stakeholders for business; the consumers and ethical issues with related to consumers. Let see what will be the flow of discussion today.

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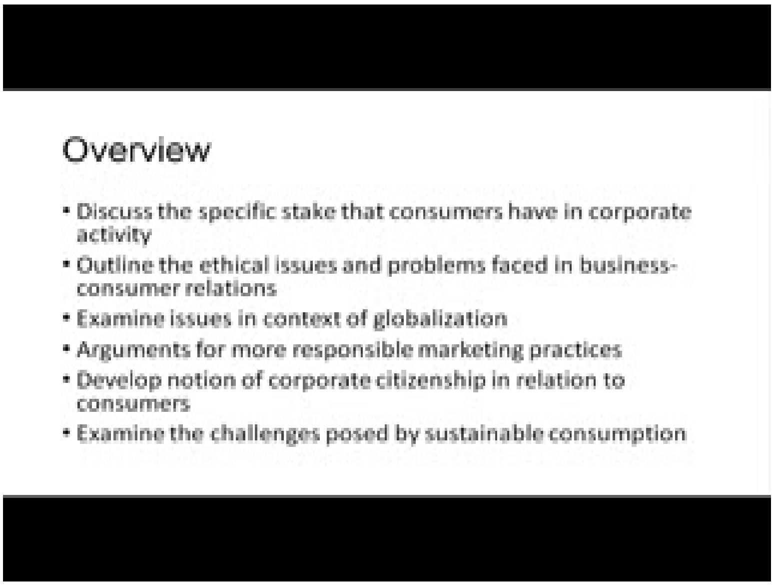

We will be discussing the specific stake; the consumers have in corporate activities. Outline the ethical issues and problems faced by business consumer relations. We will examine the issues in context of globalization, argument for more responsible markets; marketing practices, develop a notion of corporate citizenship in relation to the consumers and examine the challenges posed by sustainable consumption. This we will discuss through 5 specific modules.

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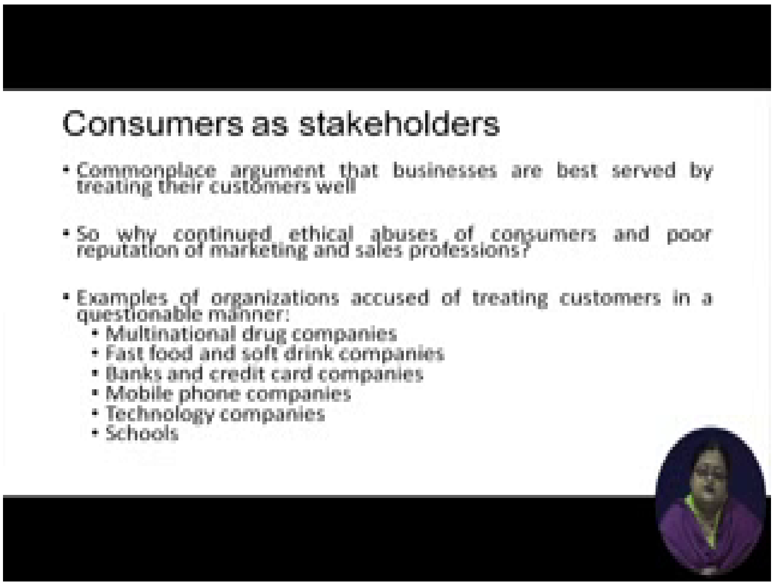

So, first let us understand about the consumers as the stake holders of business. The common argument is that; the consumers are the decision makers for the business. Business exists because from the consumer’s side demand is there, and business activities are like framed directed towards meeting up the demands and needs of the consumers.

The businesses produce goods or deliver services. Those goods and services which the consumers show a demand for. So it is the consumer driven market. And it is a common place argument that the business exists, flourishes by serving its consumers in a better way. Then if the consumers are taken to be the supreme and the guiding forces for the survival of the business prime forces for the survival of business, then question comes about also why there are ethical issues and abuses of the consumers and which leads to poor reputation of the marketing and the sales professions.

Examples of organisations who have been accused of treating its consumers in a questionable manner or organisations like multinational drug companies who like in many cases develop drugs which are very high priced and which are not accessible by the people in general or they used as for clinical testing people, vulnerable people who do not even know what is the purpose of the drug or they may never have an access to that drug and that gets sold in a very high price to people of different country. So these could be the issues with multinational drug companies. They do the testing in one developing country and the result gets sold in a developed country at a very high price. Which the people of the developing country who contributed towards the clinical trial do not have an access for fast food, and like soft drink companies. These are ethical issues rise about the compositions in the food and the processes of preparing it which may lead to health hazards and obesity in the people.

So, this is also like ethical issues with the people and this could be related to the packaging of those foods or the attractiveness of the food as shown in the advertisement, but in reality when the person goes to consume it, sees like it is not that attractive as it appears in the advertisement. So these type of issues could be there with fast food and soft drinks companies, banks and credit card companies which like to may share their data about the consume it is people with other organisations without the person getting known that the data are getting shared or it is charging very high amount on different transactions or the security of the data shared also, these could be issues with bank and credit card companies. Mobile phone companies also, like the billing policies charge for calls.

So all these things may be ethical issues with the consumers, technology companies also like what actual upgradation you are doing and in in the various models that are been developed. So these type of things or the that various versions of the software developed may be. So these are may be not very great changes to done brought in which will like be equitable to the price difference that is the consumers are paying for it. And there is no like in detailed information shared with the buyers for it. And schools like in case of like giving mid-day meals and all can give low quality processed food cheap food in place of like when it is expected that they give hygienic foods and nutritious foods to the children.

So, these could be ethical issues these are small examples of ethical issues with respect to when the organisations are treating consumers in a questionable manner. So if this is what is happening in reality, then is it to define the relationship between the consumers and the organisation and posing it in a way like the consumers are and the demands that the consumers are having it is directing what the organisation is producing as goods or services and it is the organisations intention is to treat the consumers well so that they keep on flourishing.

Then we so this abuses ethical abuses done to the consumers, like it motivates us to look into the different nature of relationships that based on different views perspectives taken that the consumers may share with the organisation. Now we will study each of these viewpoints separately.

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So, as consumers as stakeholders, we see like the consumers have the right to an air treatment when they are entering into exchanges with the sellers. They rest upon the assumption that the consumer’s dignity should be respected. And the sellers have a duty to treat the consumers as ending themselves and not only as means when and for themselves like gaining a profit. So this is the assumption, basic assumption with which the relationship between the consumer and the organisations starts. So however, there has been a debate about what is meant by a fair treatment.

So, in whose eyes it is fair treatment, what if done by the organisation will be treated as fair treatment done to the consumers. So these are debatable issues. So in past consumer’s rights were based on the principle of caveat emptor that is buyers beware. Means in the earlier it was considered buyers have a right to purchase, but they did not have a decision power of choosing purchase what. In that case whatever happens after buying means, after you have brought that product any issues which arises brought that product or services, any issues that happen with the product or services, when you choose to buy it, and you have got it the responsibility lies with the consumers. Because it is they who have chosen to buy. So it is taken to be their responsibility to find out which is good which is bad which will be working for them, which will be not be working for them, what are the safety measures, this and that. So the whole responsibility was left on the part of the consumers to understand their responsibility in what other cons affected with getting a product or services from the organisation. And based on their judgement it was taken they had to judge like whether to buy or not to buy.

This was taken as the principle of caveat emptor, but with changing expectations and understandings of the consumer laws. So these there has been a shift from this principle of caveat emptor to caveat vendor. Now we look into the situations the factors which have led towards this change of focus from caveat emptor to caveat vendor.

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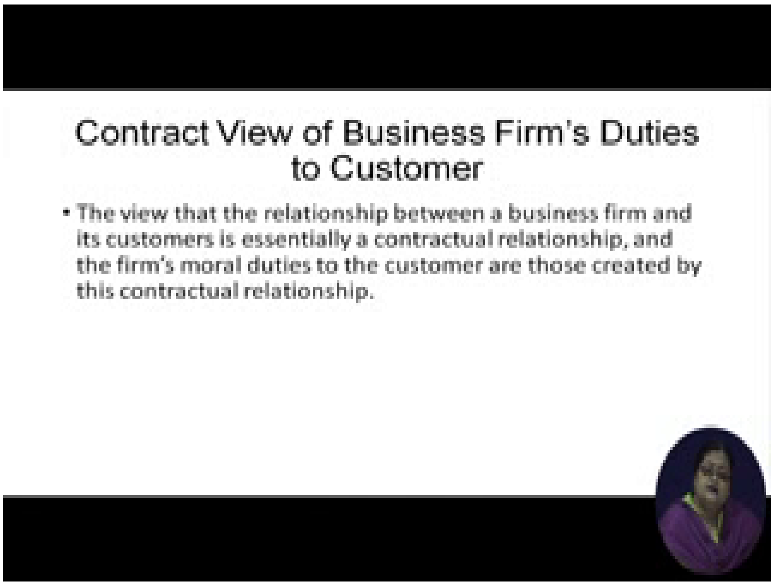

So, buying the caveat emptor was guided by the principle which is a market driven approach. And in that it is taken it is a fair market where all the players have free chance of entering into the market and the individual is placed with n number of alternatives to choose from, and the individual who is a rational decision maker evaluates the pros and cons of the different alternatives available to the to him or her and then based on this rational decision making process ultimately chooses something to buy or some services to avail off. But in reality we understand this picture of the fair market or a free market as has been claimed is not the reality because there is a power dynamic in the market place, where some players have a prominent position may be even monopoly and where some small players are not even allowed to enter or they cannot compete with the big players also. It is not always that the consumers are rational decision makers.

Sometimes the buying decisions are emotional decisions also, sometimes buyers are not people who are positioned to make rational decisions. So these are called vulnerable consumers. From whom we cannot expect like they have evaluated all the choices available to them, and then come to some conclusion of buying or not buying a product or service. So 2 things first the it may not be true that all the alternatives are present in front of the individual. And second the individual may not have the competency or time or ability to decide on rationally which to choose which not to choose. Third there could be information asymmetry between the consumer and the manufacturers or the service providers. Because actually what they are going to produce what service they are going to give that idea is there with the organisation. And the consumers do not have a full access to this information to make a rational choice. That much is known to them to the extent that the manufacturers or the corporation has made it public for them to know about it through it is various communication channels. But what it not means is like communicate it publicly the consumers may not have an access to the that set of information, and always there is an information asymmetry between the organisation and the consumer.

So, we cannot tell like they are on equal platform of deciding like which whether to buy or not to buy. The there is a corresponding responsibility or the duty of the firm towards the consumers. To what extent this duty is and to and of what nature? We will try to see it now through the various theories. The first of this is a contract view of the business firms of duties to the customer. What we see like there is a relationship between the firm and the customer is based on a contractual relationship.

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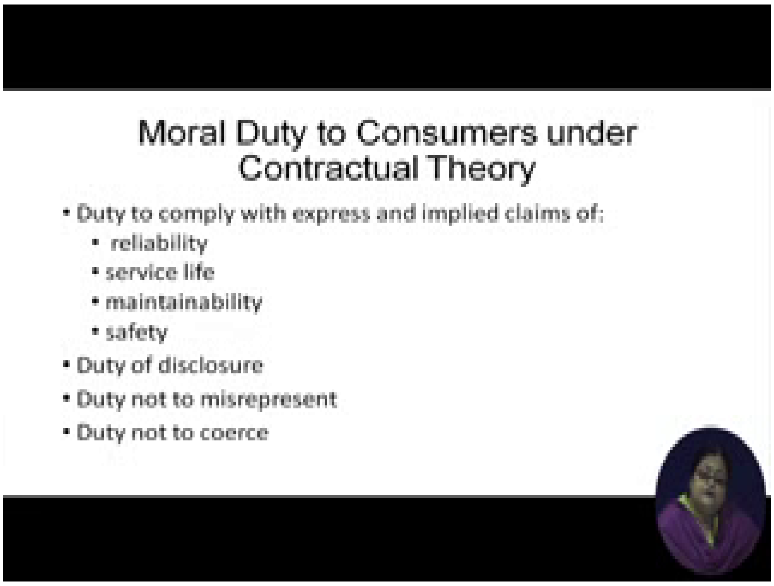

And the firm's moral duties to the customer are those created by this contractual relationship. And why this corresponding duty of the firm to the consumer or the customer, because contract is a mutual agreement of to give something and in return to get some benefit of it. So when you talking of organisation is entering into a contract with the customer or the consumer as a part of that entering in to a contract, the corresponding duties of the firm are, duty to comply with the express and implied claims of reliability service life maintainability and safety.

So, why this duty. As already discussed it the consumers come to know to that extent what actually the company let us them to know and it is a mutuality of trust. It is the trust which the consumers play on the company which moves them forward to enter into a contract with an organisation. So when you are talking with the expressed and implied claims of reliability service life maintainability and safety. So the qualities that is expressed in when you are talking of you are giving a safe product or this is how you maintain things and this is this will be the service life so these are expressed things and actual performance wise it should also be following these things it should not be a gap between the promise and what is actually given to people. Duty of disclosure, because the consumers do not know fully about the product or services how things how the idea came how the resources are brought together how it was processed and how this product or services was wish to the output deliver and all, so it and because the organisation is guided by the stake holder theory.

So, how this whole process got affected by or in turn affected the stake holders need to be disclosed properly. And it is the duty of disclosure. Duty not to misrepresent facts. Coming from the same note again because the consumers have accessed to or form a knowledge about the product or services based on the perception of the product or services as shared by the organisation through it is various communication channels medium etcetera. So it is the duty of the company not to misrepresent facts and compel the person to buy or like persuade the person to buy certain things goods or services. So the information given should be true in nature. Duty not to coerce it is the duty of the firm not to coerce a person force an individual to buy certain goods or services. The buyers should be left to their free will to decide given this set of information and given this total set of things how it is happening, whether I buy or not to buy. So they cannot be forced for deciding on you have to go for buying this.

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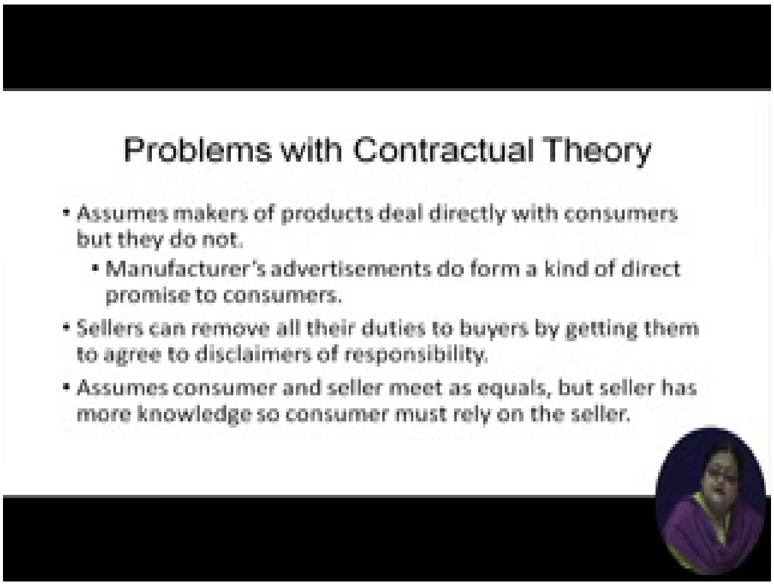

So, these are the moral duties to consumers under contractual theory; however, there are problems with the contractual theory. It may appear that it is a fair contract done, no injustice done both the parties can equally have the option of entering into the contract or not entering into the contract, but in true sense of the term, this does not happen. As there a legacy the reasons for it. The contract theory assumes like the makers of product deal directly with consumers, but they do not. There are so many intermediary bodies in between, intermediaries in between who like try to interpret things based on their benefit levels and interpretations. So unless it is like door to door marketing sort of technique or direct marketing sort of technique taken by some organisations, then it is very difficult like the makers of the products are dealing directly with the consumers, because there are so many intermediaries in between.

Manufacturers advertisement do form a direct promise of course, to the consumers. The sellers can remove all the duties to the buyers by getting them signed in a disclaimer form of like disclaimers of responsibility. So that will free the seller absolve the seller of any responsibility towards anything happening after the product has been sold or the services product or services have been sold. So this again puts the consumer not at equal power level with that of the producer of the goods or services. Also it assumes the consumers and the sellers meet as equals, but the seller has more knowledge as we have already discussed and so it the consumer at certain point of time taken for granted whatever information he has tried to gather, whatever background search he has tried to do through research he has to rely on the seller and trust the seller.

So, these are the problems with the contract theory. As the contract generally is accepted is done between 2 equally powerful parties, but here we understand from this discussion that the seller and the buyer are both not in the equal power platform when they are entering into the contract. That is the problem with the contractual theory.

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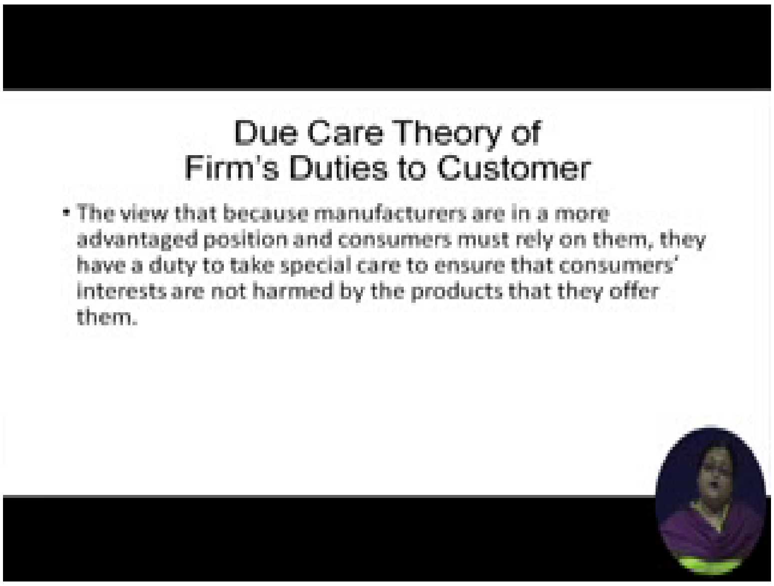

So, when we understand, there is a difficulty with the contractual theory, we move forward with the understanding of the due care theory of the firm's duties to the customers. It is based on the assumption that it is assumed or it is viewed that the manufacturers are in a more advantageous positions and the consumers have to rely on them, then the manufacturers do have a duty to take special care to ensure that the consumers interest are not harmed by the products that they offer them. So it comes to the point of realisation because consumers have less power as compared to the organisation in terms of the first-hand knowledge about the product or services. And because it may not be a fair market where the consumer gets a free choice of decision making of choosing amongst the various alternatives. So it is taken like the manufacturers are in a more advantageous position than the consumers and it is the part of their duty to take care of the fact like the consumers are not harmed by them and to take special care to ensure that thing.

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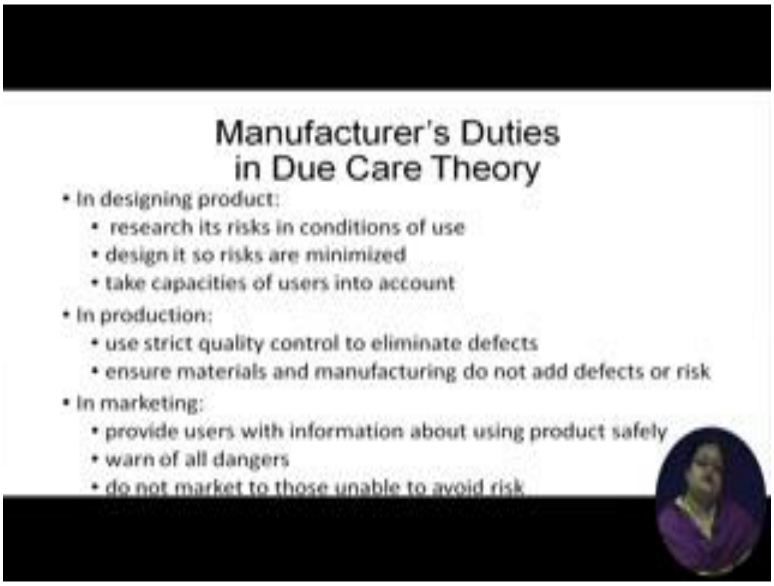

Now, we will try to see this special care is related to what or at all what all the processes connected with the organisation. Corresponding to the manufacturers duties to the as guided by the due care theory, it starts from the design to the production to the marketing and also to the after sales service. In designing the product, it is the responsibility of the organisation to research its risk in conditions of use design it so risks are minimized. Take the capacities of users into account, so that like we are not targeting vulnerable customers or we are taking care of the fact, even if people for whom it is not targeted are going to use it, then what are the processes that I can put in in built type of things. So that it takes care of the fact like if people who are not targeted for using it, uses them out of curiosity and all and how the harm could be minimized other ways could be minimized. In production it is to use strict quality control to eliminate defects. So it will ensure like the materials and manufacturing do not add defects or risk to the whole process. In marketing it is to provide the users with information about using the product safely. And with all warning signs of danger, and it is not to market those who are unable to avoid risk.

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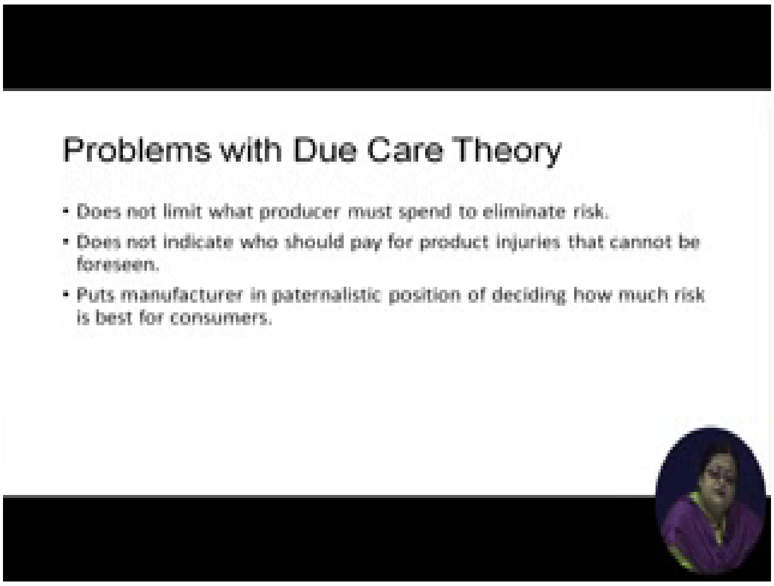

But the problems of the due care theory are, it does not limit what producer must spend to eliminate the risk. This is a practical problem like when we are talking of you have to eliminate the risk. And you have to certain things to eliminate the risk either designing the production and in the marketing processes. It is not mentioned to what extent to what all the organisation can do to take care like the risk gets eliminated. Does not indicate who should pay for the product injuries for which their risk cannot be foreseen now. So this is also a point of dilemma, for using the putting the due care theory, like may be till the level of organisation has foreseen the facts. It has tried to take care of those risks and tried to inbuilt something in it is design or production process or marketing, but what about those risks that they could not foresee, now may have arising due to some very unusual ways of using the things, which is not as per the requirements. It puts the manufacturer in a paternalistic position of deciding how much of risk is best for the consumers.

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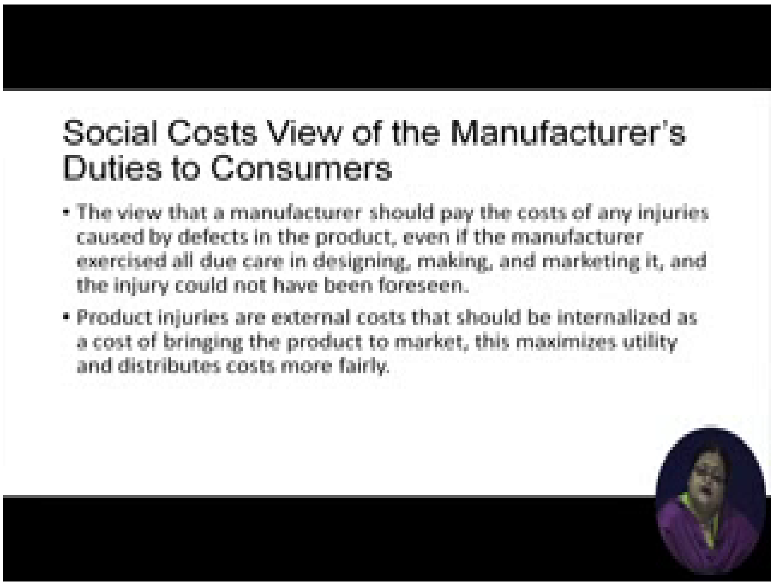

But this again as a problem of understanding, like we have to understand from the practical points of view like to what extent it is possible. Is it not that the users of the product or services also have a corresponding duty towards using it and to maintain may be the safety processes in a way as directed in the manuals or for the purposes as expected by the nature of the products or services. So if we are talking of consumers right to self and less risky product and something which is going to do them less harm, so we can talk of this is not a full unlimited right, but it is a right with a limitation that the consumers also do have a corresponding duty and responsibility to use it in a proper way for the purpose, for which the product or services is meant for. That is why this is called a due care theory. Here as much as is due and it brings the manufacturer and the buyer or the user into a mutual responsibility of rights and duties, to work together so that they lead to a healthy use of the product. Next we will discuss of the social cost view of the manufacturers duties to the consumers. It is the view that the manufacturer should pay the cost of any injuries caused by the defects of the product even if the manufacturer exercised all due care in designing making and marketing it and the injury could not have been forcing.

So, these social cost view of the manufacturers duties to the consumers tries to answer to the question like if something happens which is in the unforeseen things then who should pay the cost for it. These product injuries are taken to be the external cost, but before we go on discussing that we will try to understand why this social cost of view of the firm.

Because something this will help to explain the sustainability domain also, like why we have to pay for something for which is unforeseen, because in certain cases the harm happens is not immediate in nature and it may have a long term affect. Also by the nature of the ways of manufacturing products and services you may not bring like harm to the immediate people connected with, but people in a different locality gets harmed by the effect of your business or the general public at large who may or may not use your product gets harmed by the nature of your products and services.

For this is called the social cost of your products and services. And this this social cost takes into account like the manufacturer should pay for all cost of injuries any injuries created by the defects of product, even if the manufacturer exercises all due care designing and making and marketing it and the injury could not have been foreseen. Now these actually are very huge external cost and this can be internalised should be internalised as a cost of bringing the product to the market. This maximises the utility and distributes cost more fairly. So when it is this external cost is internalised in firms of introducing the product to the market, so this brings a balance between who is paying for it, so if I am ready to use your product and I know the products somewhere is harming someone, then it cost is internalised in the bringing the cost of bringing the product to the market, then the buyers the consumers of the products or services are also sharing a part of that cost, why it is getting introduced into the market and it should be mapped into the product price and the profit margins etcetera.

So, this is the social cost of view of the manufacturers duties to the consumers. These will get more discussed when you are talking of ethical consumption and sustainability issues. This has a major this theory has a major role to play and shows it is implication or the application in those concepts.

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The criticism of the social cost view is; it is unjust may be to the manufacturers. Since compensatory justice says one should compensate inured parties only if the injury was foreseeable and preventable. So for how can I be responsible for a certain thing for which I could not foresee, or have happened long term after. It is a very long term effect from the happening of the incident and so on. It falsely assumes, another thing is that the social cost view prevents accidents. So why because if the manufacturer is taking care of all the responsibilities of how the services are getting used or not, then on the contrary it may make the users careless enough not to use in a proper way. Because they may find that the I will get compensated for the harm done to me and it may lead to careless use by the users. So this could be the criticism.

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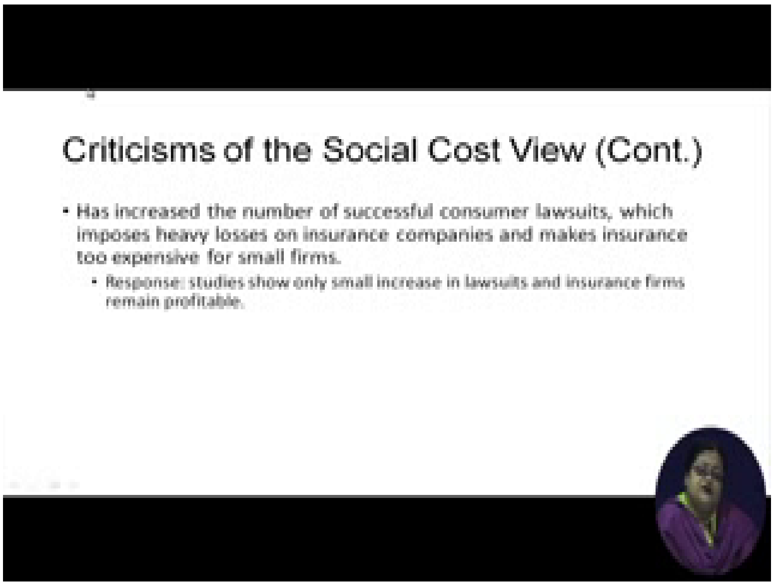

But we have to understand when we are talking of social cost. We are trying to incorporate the larger view to it, where we are talking of all the stakeholders who gets affected by the products or services, and who may not be even suing your product, but they get affected by it.

Has increased the number of successful lawsuits which imposes heavy losses on insurance companies and make insurance too expensive for small firms. Because insurance are companies measures to guard them against the risks. And the insurance companies generally try to do insurances, for provide insurances for things where there is a less chance of like repeat happening or happenings, but if it is increase the lawsuit is where the consumers get their claims of the like compensation, what they have demanded for the unforeseeable part of the risk also, then the insurance companies will be facing heavy losses for providing insurance or safety nets for certain of the things. And, but; however, actual studies have shown there only there have been small increases in lawsuit is and the insurance firms still are remaining profitable.

So, what we can tell over here, it is if you are understanding the social cost view of firm and stakeholder model of the firm, we understand like the way that we do our business is affecting others who are connected or may not be connected with the business the effect of a business is having a like impact in their lives. And it is a part of our responsibility to pay for it. Then this makes us more responsible, in the sense if you have to internalised the cost, within the way that and you have to include that in your product price, then it may so happen that you become less competitive with respect to the price, but because others may be giving the same quality of things or the same variety like different more choices based on like are better quality based on the same price.

So, when competing with the others, this may have an effect on how you remain competitive with your competitors. So it is somewhere motivating the organisation to follow a due care in the processes not only in the processes of how it is designed manufactured produced and marketed, but also due care to think, like it is not extending any harm to others to the other stake holders who are connected to it, and to have a check on each of the processes. So that it can reduce the errors it can reduce the wastages, it can reduce the reactive, it will promote the organisation to be on a proactive mode, to and be quality conscious and to understand if they are doing it, then and to be imaginative enough to increase their part of moral imagination to think like to what could be the foreseeable and unforeseeable harm that could be reduced due to the use or misuse of my products or services.

And we will help them to become research more on it and incorporate those actors in the design of the product of the production process or marketing and that is the challenge, but again with you have to care of the cost involved in it also because if it becomes costlier than people may not buy it also. And also it brings into the corresponding responsibility of the consumers to use it in a proper way to pay the price, sorry to pay the price which is actually worthy for it. And so that we should not be asking for a certain thing at a such a low price, that it pushes the manufacturers to the may be all and may be it makes them follow some unethical practices or so that if that it has to provide you the products and services in a particular price this this actually cannot be done.

So, it is a consumer’s responsibility also to pay the price what is may be equitable with the quality that you are asking for and it is a rational decision for it. And also to use it in the way that is expected and the after like may be the when you are talking of now after you have used the product and it goes for disposing it in a proper way or not so these are also responsibilities of the producers and the users both together. So that the due care is maintained the social cost is taken care of and the contract between the consumer and the company becomes more strong. The bond becomes more strong between the consumer and the organisation. With this we will move forward to the discussion of ethical issues related to the consumers and in marketing in the next module.

Thank you.