

We have included the links to a number of marketing industry codes of ethics as additional resources at the end of this chapter; they are useful in terms of comparison of how useful they might be for a marketer facing an ethical dilemma. Further research is needed into which types of ethical resources would be most useful to practitioners at all levels in marketing strategy and tactics decisions.

## SUMMARY

The discussion in this chapter has highlighted the complexity of ethics within marketing, and their link to wider social, economic and environmental factors. The focus on 'giving the customer what they want' may be at odds with the increasing impetus towards a greater sustainability focus in all spheres of activity impacting on consumers and organisations. The greater awareness of sustainability issues among consumers and their willingness to both reward companies who act responsibly and to punish those that do not will impact on future marketing activity.

There are thus increasing reasons for organisations to act ethically in all aspects of their operations, not just marketing. Unfortunately, breaches of ethics and of consumer trust reoccur, with the ability of the industry to effectively self-regulate itself in an increasingly complex communications environment being increasingly questioned.

While there are a number of ethical frameworks that are frequently cited in both academic and practitioner literature, guidance on which framework should be applied under specific circumstances is lacking and many frameworks remain statements of hope and good intent rather than offering clear guidance for the resolution of specific ethical problems. The lack of enforceable codes of ethics for the industry also remains problematic and this represents an area in which further research is needed.

### Case study Product recalls in the auto and other industries



A test of an organisation's ethical stance occurs during times of crisis. The 'gold standard' of exemplary ethical behaviour is the action of Johnson & Johnson (J&J) in the USA in its handling of the recall of its Tylenol (headache remedy) product in response to a cyanide-poisoning crisis in 1982. The then CEO of J&J had focused on crisis management provisions to ensure that active commitment to the company philosophy statement and the ethical principles it implied would be maintained even in the event of a major crisis situation. This made the subsequent swift and effective product withdrawal, coupled with full, honest discussion of the company's actions in the media, an uncontested course of action (Anonymous, 2003), which, while it cost the company some \$US100 million in lost earnings in

the short term, allowed it to rebuild and increase its market share in the long term and 'reinforce the company's reputation for integrity and trustworthiness' (Pearson and Clair, 1998: 61).

This case stands in marked contrast to the actions of the automobile industry, starting with the now infamous Ford Pinto case where Ford rushed the Pinto into production in 1971 to try to combat strong competitive pressures from other brands, even though they were aware that rear-end collisions would rupture the car's fuel system, potentially causing the gas tank to explode. Several deaths from rear-end collisions and resultant fires led to the first ever criminal homicide charge against an American company. Documents produced in court showed that Ford had actually conducted a cost-benefit analysis, weighing likely damages claims due to injury or death against the cost of modifying all cars (at \$11 per car). While the criminal homicide charge was dismissed, Ford subsequently paid out millions in out-of-court settlements and mandatory safety standards were eventually introduced despite intensive lobbying to prevent or delay their introduction (Hoffman, 1984).

More recently the case of Ford/Bridgestone (Govindaraj and Jaggi, 2004; O'Rourke, 2001) erupted in 2000, although first reports of problems with Bridgestone tyres had surfaced in 1996. In 2000 Ford unilaterally recalled 13 million tyres, at a cost of US\$2.1 billion, after pressure mounted on the company to investigate increasing reports of faulty tyres. The affair lasted for more than five years after the product recall, and resulted in both sides blaming each other publicly for the faulty tyres, which resulted in more than 270 deaths and over 800 injuries (BBC News, 2005). The affair finally came to an end in 2005, but not after a massive loss in confidence in both companies.

In early 2010, Toyota announced a number of recalls, totalling over 8.5 million cars across a wide range of models, due to several mechanical problems that were linked to road accidents, some of which were fatal (BBC News, 2010). It remains to be seen as to what the long-term impact on the company will be.

Volkswagen incurred a considerable amount of negative media coverage during 2009–2013 and adverse customer sentiment for differing responses across countries in response to gearbox problems and diesel injectors. For example, Volkswagen Australia refused to issue recalls when Volkswagen of America had done so (Fyfe, 2013). A worldwide 2.6 million vehicle recall in late 2013 for possible fuel leaks, electrical faults and gearbox problems has been attributed in the news media to Volkswagen 'taking shortcuts in its bid to overtake Toyota to become the world's biggest car maker by 2018' (Dowling, 2013: 1). Toyota subsequently made a US\$1.32 billion payment to the US Justice Department in early 2014 after admitting it misled consumers, concealed safety issues and made deceptive statements about them (Cowan, 2014).

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Questions are being asked about why the auto industry is subject to these types of ongoing problems, and why European and American producers have recall rates that are nearly three times greater than those of their East Asian counterparts (Bates et al., 2007).

Product recalls are not exclusive to the automotive industry. Recent recalls have included toys (Freedman et al., 2012). A 2013 'horsemeat scandal' involving deliberate mis-description of beef burgers and ready meals in the UK led to major product recalls by supermarket chains including Tesco, Iceland, Aldi and Lidl, as well as catering companies, hotel and fast food chains, with similar problems being subsequently found in several European countries. The problem has led to calls for greater food traceability provisions and tighter regulation of food supply chains (Van Vark et al., 2013).

Apart from the direct costs in a product recall, there are also substantial direct and indirect costs associated with such a crisis (Jarrell and Peltzman, 1985); indirect costs will be substantially higher than the direct costs of a product recall, particularly as a result of the negative impact on a firm's goodwill, to the extent that negative externalities for competitors may be larger than those of the company producing the recalled product. These financial strains can be so severe that many companies will need to seek bankruptcy protection when faced with both the direct recall costs and the resulting fines and product-liability claims and/or lawsuits as a result of faulty products (Kwon, 2000).

Often consumers will react to a product recall with total product avoidance, often beyond the affected products. This product avoidance may well last substantially longer than the crisis itself, and therefore remain a major obstacle long after the recall is finished. As a result, after a recall, a company may well struggle to recover its lost market share (Dawar and Pillutla, 2000; Siomkos and Kurzbard, 1994). However, despite these potentially devastating effects of reactive crisis communication, most firms remain ill-prepared to handle a potential crisis effectively – and some argue if most companies face a crisis at best they react ambivalently (Dawar and Pillutla, 2000).

Consumers' interpretations of a firm's response to a product recall crisis are heavily dependent on their prior expectations about the firm (Siomkos and Kurzbard, 1994); a company that is regarded as generally a 'good' company may well find it easier to communicate their point in a crisis situation than a company that is perceived as deceptive or has a poor rapport with the public. Firms with weaker consumer expectations may also have to undertake more brand support either during the crisis or after the immediate crisis is over, for example with extensive advertising and sales promotions, in order to maintain or restore consumer brand equity and **trust** (Kwon, 2000). Recovery rates are an indicator of the success of strategies and tactics put into place to deal with a crisis (Kabak and Siomkos, 1992), as seen via Tylenol. Unfortunately, data from the automotive industry regarding the impact of their recalls are not available.

**Brand equity** is a term that is frequently used, but often in different ways. There are two distinct ways in which brand equity is measured. The first is financial – the

value of a brand as a specific asset when it is sold or included on a balance sheet. The second way in which the term is used relates to customer perceptions and is more relevant here. Consumer-based brand equity is a measure of the strength of consumers' attachment to a brand. Coupled with this are descriptions of the associations and beliefs people have about a brand, brand loyalty and willingness to pay the same price or more than for other brands. Brand equity is therefore closely linked to measures of past satisfaction and intentions to repurchase and can be adversely affected by crises or prolonged negative publicity.

### Questions to consider

How should companies develop ethical procedures to be implemented in the event of a product recall or other crisis?

How should they monitor, and respond to, media and consumer comments on any such activity?

## Further Reading



### Philosophy

You may want to go right back to original philosophies, although some of these are very 'heavy' reading! They are also listed in the supplementary resources at the end of the text.

Aristotle (approx. 350 BCE) *The Ethics of Aristotle* (available as a free ebook from sources such as Project Gutenberg)

Kant, I. (1785) *Groundwork for the Metaphysic of Morals*. Available at: [www.justiceharvard.org/resources/immanuel-kant-groundwork-for-the-metaphysics-of-morals-1785/](http://www.justiceharvard.org/resources/immanuel-kant-groundwork-for-the-metaphysics-of-morals-1785/) (accessed 29 June 2015).

Mill, J.S. (1863) *Utilitarianism* (available as a free ebook from sources such as Project Gutenberg)

Rawls, J. (1972) *A Theory of Justice*. Oxford: Clarendon Press.

### Business ethics-focused readings

Craft, J. L. (2013) 'A review of the empirical ethical decision-making literature: 2004–2011', *Journal of Business Ethics*, 117: 221–59.

Elm, D.R. and Radin, T.J. (2012) 'Ethical decision making: Special or no different?', *Journal of Business Ethics*, 107(3): 313–29.

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