

Business Ethics Concepts & Cases

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Chapter Six

The Ethics of Consumer Production and Marketing

Risks to Consumers

- Dangerous and risky products
- Deceptive selling practices
- Poorly constructed products
- Failure to honor warranties
- Deceptive and unpleasant advertising

Market Approach to Consumer Protection

- Safety is a commodity that should not be mandated by government.
- Safety should instead be provided through the market.
- In a market, sellers will provide safety if consumers demand it.
- In a market, the price of safety and the amount sellers provide will be determined by the costs of providing it and the value consumers place on it.
- Government intervention in consumer markets makes them unfair, inefficient, and coercive.

Problems with the Market Approach

- Assumes markets are perfectly competitive, but they are not because:
 - Buyers do not have adequate information when products are complex and information is costly and hard to find.
 - Buyers are often not rational about product risk or probabilities and are often inconsistent.
 - Many consumer markets are monopolies or oligopolies.

Contract View of Business Firm's Duties to Customer

- The view that the relationship between a business firm and its customers is essentially a contractual relationship, and the firm's moral duties to the customer are those created by this contractual relationship.

Moral Duty to Consumers under Contractual Theory

- Duty to comply with express and implied claims of:
 - reliability
 - service life
 - maintainability
 - safety
- Duty of disclosure
- Duty not to misrepresent
- Duty not to coerce

Problems with Contractual Theory

- Assumes makers of products deal directly with consumers but they do not.
 - Manufacturer's advertisements do form a kind of direct promise to consumers.
- Sellers can remove all their duties to buyers by getting them to agree to disclaimers of responsibility.
- Assumes consumer and seller meet as equals, but seller has more knowledge so consumer must rely on the seller.

Due Care Theory of Firm's Duties to Customer

- The view that because manufacturers are in a more advantaged position and consumers must rely on them, they have a duty to take special care to ensure that consumers' interests are not harmed by the products that they offer them.

Manufacturer's Duties in Due Care Theory

- In designing product:
 - research its risks in conditions of use
 - design it so risks are minimized
 - take capacities of users into account
- In production:
 - use strict quality control to eliminate defects
 - ensure materials and manufacturing do not add defects or risk
- In marketing:
 - provide users with information about using product safely
 - warn of all dangers
 - do not market to those unable to avoid risk

Problems with Due Care Theory

- Does not limit what producer must spend to eliminate risk.
- Does not indicate who should pay for product injuries that cannot be foreseen.
- Puts manufacturer in paternalistic position of deciding how much risk is best for consumers.

Social Costs View of the Manufacturer's Duties to Consumers

- The view that a manufacturer should pay the costs of any injuries caused by defects in the product, even if the manufacturer exercised all due care in designing, making, and marketing it, and the injury could not have been foreseen.
- Product injuries are external costs that should be internalized as a cost of bringing the product to market, this maximizes utility and distributes costs more fairly.

Criticisms of the Social Costs View

- Unjust to manufacturers since compensatory justice says one should compensate injured parties only if the injury was foreseeable and preventable.
- Falsely assumes that the social cost view prevents accidents.
 - Instead, it encourages consumer carelessness by relieving them of responsibility for their injuries.

Criticisms of the Social Cost View (Cont.)

- Has increased the number of successful consumer lawsuits, which imposes heavy losses on insurance companies and makes insurance too expensive for small firms.
 - Response: studies show only small increase in lawsuits and insurance firms remain profitable.

Characteristics of Advertising

- A public communication aimed at a large social group intended to induce members of this audience to buy the seller's products.
- It succeeds by creating a desire for the seller's product or a belief that a product will satisfy a preexisting desire.

Criticisms of Advertising Based on Social Effects

- It debases the tastes of the public.
 - Response: this criticism is not a moral criticism.
- It inculcates materialistic values.
 - Response: this criticism ignores the lack of evidence that advertisements can change people's values.

Criticisms of Advertising Based on Social Effects

- Its costs are selling costs that, unlike production costs, do not add to the utility of products and so waste resources.
 - Response: this criticism ignores how advertising can increase consumption which is good.
- It is used by big firms to create brand loyalties which let them become monopolies or oligopolies.
 - Response: this criticism ignores studies showing big monopoly or oligopoly firms do not advertise more than little firms.

Criticisms of Advertising Based on Its Effects on Desires

- Advertising creates psychic desires which, unlike physical desires, are pliable and unlimited.
 - Psychic desires are created so firms can use us to absorb their output.
 - Using us this way treats us as means and not as ends and so is unethical.
- Response: this criticism ignores studies which suggest non-subliminal advertising cannot create and manipulate desires in adults.

Requirements of Deceptive Advertising

- An author who (unethically) intends to make the audience believe what he or she knows is false by means of an intentional act or utterance.
- Media or intermediaries who communicate the false message of the advertisement .
- An audience who is vulnerable to the deception and who lacks the capacity to recognize the deceptive nature of the advertisement.

Importance of Consumer Privacy

- Protects individuals from disclosures that can shame, interfere in one's private life, hurt loved ones, and lead to self-incrimination.
- Enables the intimacy that develops personal relationships, the trust and confidentiality that underlies client-professional relationships, the ability to maintain distinct social roles, and the ability to determine how others will see us.

Balancing Right to Privacy and Business Needs

- Is the purpose of collecting information a legitimate business need that benefits the consumer?
- Is the information that is collected relevant to the business need?
- Is the consumer informed the information is being collected and the purpose?
- Did the consumer consent to the information disclosure?
- Is the information accurate?
- Is the information secure and not disclosed to recipients or used in ways to which the consumer did not consent?