

Committee: Economic and Financial Committee (GA 2)

Issue: The question of ethics in consumer and corporate behavior

Student Officer: Elli Eleni Konstantinidou

Position: Deputy Chair

INTRODUCTION

In the world that we live in today, it's really difficult to distinguish the good from the bad, especially when it comes to consumers and corporations. Many questions arise and sometimes their answers are more complex than we think.

Is it morally right to buy a shoe manufactured by Nike even though we know that workers made it under terrible working conditions?

Is it morally wrong to stop buying a product because it's more expensive than the one manufactured in a third world country by people working 14 hours a day?

Do we really know where to draw the line between good and bad in the corporate world that we live in?

All of these and even more are some of the questions that we will have to answer. In addition to that, we will explore what ethics really are, what types of consumers there are and under which conditions a product is considered to be ethically produced. Also, we will understand how consumers can take part in the decision making process of companies as well as how branding affects how we see companies as opposed to what they truly are, by using Coca Cola and McDonalds as our case examples. Plus, we are going to examine the country that owns most of the major international companies as well as the country that hosts their manufacturing. Lastly, we will understand some previous effort to solve the issue as well as look at some extra solutions that could be proposed.

DEFINITION OF KEY TERMS

Ethics

Ethics, according to the Merriam-Webster dictionary is defined as "rules of behavior based on ideas about what is morally good and bad". Even though the concept of ethics is something that most people can understand, ethics are defined differently by many people.

In the corporate world ethicists usually practice utilitarianism. Utilitarians believe that the morally right action is the action that produces the greatest sum of good for everyone affected by it, counting oneself no more and no less than anybody else. Therefore, we can understand that an action that some perceive as morally wrong can be perceived as morally right by a utilitarian because it produces a greater sum of good than other actions. This is a phenomenon that is ubiquitous in the corporate world.

Consumer behavior

Most of the times consumers are the ones that can have a major impact on the choices that companies make. Consumers are the ones that will determine the future of companies, therefore their behavior is critical. There are different types of consumers in the corporate world, but the two most important categories are the ethical consumer and the oblivious/alooof consumer. The ethical consumer is the consumer that will prefer products that are eco-friendly and manufactured under proper working conditions. In addition, the ethical consumer will prefer companies which abide to ethical standards as well as reward them by buying their products, even if they are at a higher price compared to unethical companies. The ethical consumer may choose to punish unethical companies by taking part in boycotts and generally refraining from buying anything of that brand.

On the other hand, the alooof consumer doesn't care about the conditions under which the product was manufactured as long as the quality is up to his standards. This type of consumer might buy Nike shoes for example, even though he knows that the people manufacturing the shoes are working under really poor conditions because the shoe "looks pretty". According to a survey by "the Guardian" journal, 41% of the people questioned try to live completely ethically and try to influence others in such topics, 23% live ethically but feel like they can contribute even more, 23% are confused by ethical concepts and 13% don't think that any individual effort can have an impact. In the same survey it was found that 86% prefer products manufactured by companies that "give back to society" and 84% would pursue legal actions against companies who aren't eco-friendly. Views on the topic may change from country to country, therefore this survey can only be held as an example and not as the status quo.

		Ethical Awareness	
		High	Low
Ethical Purchase Intention	High	Caring and Ethical	Confused and Uncertain
	Low	Cynical and Disinterested	Oblivious

Figure 1: A graph that shows all of the types of consumers nowadays.

Ethical production

In order to maintain a clear idea of what is considered to be “ethically produced”, we need to specify which things fall in this category and which don’t. According to the Wall Street Journal, there are three conditions that need to be followed: “First the company is considered to have progressive stakeholder relations, such as a commitment to diversity in hiring and consumer safety. Second, it must follow progressive environmental practices, such as using eco-friendly technology. Finally, it must be seen to demonstrate respect for human rights- no child labor or forced labor in overseas factories, for instance.”

BACKGROUND INFORMATION

The effect of consumer behavior on corporate decisions

Previously we talked about the types of consumers found in the corporate world. The question that is now raised is how consumer behavior can change a corporation’s policy and ideals. The answer to this question is quite complex, since this can happen in many ways. The easiest way to make a company understand that one of its unethical practices should be stopped now is by boycotting. According to the Merriam-Webster dictionary, a boycott is defined as “the act of refusing to buy, use, or participate in (something) as a way of protesting, to stop using the goods or services of (a company, country, etc.) until changes are made.” Nowadays boycotts are quite ubiquitous and their effectiveness has been praised by ethicists and journalists. According to a research by Georgetown University, there

are some key factors that determine the success of a boycott. These include the “moral outrage of consumers and the firm’s or product’s connection with the “grievance”. Consumers have to be concerned, willing and able to act for a boycott to work. Connection with the grievance means the consumer is able to connect a purchase decision to a concern about business practices and a more fundamental ethical concern.” There have been many effective boycotts that created major issues to big companies around the world; BP, L’Oreal, JCB, Natwest, Nestlé, Nike, McDonalds, Shell and Gap among many others.

One of the reasons why boycotts have become so wide-spread is the internet, which connects people from different parts of the world and helps information travel really fast. That way, something that might be happening in a factory in India can be shared immediately with the whole world in a matter of mere seconds. In addition, access to the internet has helped people with common views communicate and take matters in their hands, something really important especially for boycotts.

Other ways that consumer behavior can help shape corporate behavior is by preferring companies with ethical practices as opposed to ones that have a bad reputation in the world of ethics. This way they are rewarding ethical behavior while at the same time punishing unethical behavior. Also, some consumers may choose to punish unethical behavior in corporations but not necessarily reward ethical behavior. All of these are the most common ways that consumers can affect corporate behavior.



Figure 2: Example of a boycott

Branding as a force that shapes a company's image

Branding, as defined by the Business Dictionary is “The process involved in creating a unique name and image for a product in the consumers’ mind, mainly through advertising campaigns with a consistent theme. Branding aims to establish a significant and differentiated presence in the market that attracts and retains loyal customers.” A company’s branding can sometimes tell us a lot about the company and its mission, but it can also cause many people to buy products that they don’t need. In order to see how this works we’ll take two case studies, Coca Cola and McDonalds. In each respective case a lot of money is being invested in the branding of the products each year and the result is that Coca Cola is one of the two most recognized phrases in the world and the “M” of McDonalds is



Figure 3: Satirical picture of what McDonald's is really like

said to be “better known than the flag”. The strategy behind the Coca Cola company is to affiliate the product with major events like Christmas and the World Cup. That way, it seems like Coca Cola plays a big role in everyone’s lives and is something easy to relate to. On the other hand, McDonalds’ branding strategy is to focus on children and

how to make them happy, and that’s also the reason why other companies that sell the same products as McDonalds can’t seem to reach McDonalds’ sales.

Both of the brands mentioned have had incredible success ever since they were first created. Even though we can all agree that this is the case, there are many things that the branding of the companies doesn’t want us to know; some would say that the branding compensates for the unethical work and corruption behind these companies. Both companies have been boycotted various times and a lot of scandals have been linked to them; whether that is water pollution and poisoning of workers in India or poor working conditions and many complaints, there have been more than enough times that these companies found themselves in uncomfortable situations.

As we can understand, branding can be very misleading and can create an image for a company that is not even close to the truth. The question is: is it morally acceptable to deceive billions of people into thinking something about you that is not completely true? And if not, why does everyone seem to do it?

MAJOR COUNTRIES AND ORGANIZATIONS INVOLVED

United States of America

The United States of America is the country where it all started; from the creation of branding and advertising, to the internationalization of companies; the country's involvement in the business world is constantly present. The country's consumers are mostly oblivious and they don't take almost any action in hand. Something very interesting is that in the last couple of years we've seen numerous companies turn cruelty-free and vegan, as well as eco-friendly, something that shows us that many companies are turning to more ethical means of production and distribution. Even though this is something highly positive, it's not always the case. Many companies exploit other countries' resources, take advantage of the cheap labor and manufacture, launder money and take part in many more unethical practices.

Even though there are American companies that pursue unethical practices internationally, especially when it comes to human labor, inside the country's borders that can't happen. In 1970, the Occupational Safety and Health Act (OSH Act) was passed in order to prevent fatalities in workplaces. The law states that employees must work under harmless conditions. This was also accompanied by the creation of Occupational Safety and Health Administration (OSHA) which "sets and enforces protective workplace safety and health standards". Something else really important is that employees have the right to file a complaint in order for OSHA to inspect their workplace if one of the rules isn't being enforced.

Bangladesh

Bangladesh is one of the countries whose economies are based on textile manufacturing; about 4 million people work for the industry. Even though the wages aren't ridiculously low in many cases, some textile workers make about as much as teachers, the working conditions are quite terrible. On the 24th of April 2013, a garment factory in Dhaka collapsed causing 1129 fatalities, an example of how poorly funded the facilities are in the country. It has also been found that companies like H&M have children of ages as young as 12 working for up to 14 hours a day. This April people started to protest since, even after the Rana Plaza disaster two years before, only some to no actions were taken in order to deal with the working situations.

TIMELINE OF EVENTS

Date	Description of Event
1602	Dutch East India Company was established, the very first multinational company in the world which changed the way we thought until then about how businesses need to behave.
April 24, 2013	Rana Plaza disaster in Bangladesh, which caused 1129 fatalities and showed the world the negative side of international companies nowadays.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

Attempts to solve unethical corporate behavior are starting to become more and more frequent, whether that is in the form of boycotts or protests from the workers themselves, people have decided to start taking action in their hands. Even though it's not possible to solve this issue completely in the near future, the fact that more people are getting activated is a positive sign. In addition, we can see many companies starting to follow more and more ethical practices, which is also something really positive. We can understand that that's far than enough in order to drastically limit or even eliminate completely unethical corporate behavior; it's a first step that shows a lot of promise.

POSSIBLE SOLUTIONS

There are many things that can be done in order to combat unethical corporate behavior. One of them would be to apply laws and legislations concerning working conditions such as OSHA in all countries. That way, both employers and employees will be protected and will work under safe working conditions. Also, there would be less fatalities related to unethical corporate behavior. Something else that can be proposed is to motivate companies to become more eco-friendly and impose fines on companies harming the environment and the people that live around the factories. In addition, we can motivate consumers to become more ethically concerned, which will cause unethically run corporations to start changing their practices so as to attract more customers. Something

else really important that should be mentioned is that all companies should refrain from employing children under the age of sixteen, since that is considered exploitation. Lastly, laws and legislation concerning advertising and related practices might need to be revised in order to adjust to the current world situation.

BIBLIOGRAPHY

"The Role of Ethical Concerns in Consumer Purchase Behavior: Understanding Alternative Processes." By Sandra J. Burke and Sandra J. Milberg. Web. 7 July 2015.
<<http://www.acrwebsite.org/volumes/7422/volumes/v20/NA-20>>.

"Journal of Consumer Marketing." The Myth of the Ethical Consumer â Do Ethics Matter in Purchase Behaviour?: : Vol 18, No 7. Web. 7 July 2015.
<<http://www.emeraldinsight.com/doi/full/10.1108/07363760110410263>>.

"Value vs. Values: The Myth of the Ethical Consumer." *Value vs. Values: The Myth of the Ethical Consumer*. Web. 7 July 2015.
<<http://www.policyinnovations.org/ideas/briefings/data/000199>>.

"Customer Behavior - Ethical Consumerism: The Implications for Business from Michele: MarketingProfs Question 5917." *MarketingProfs*. Web. 7 July 2015.
<http://www.marketingprofs.com/ea/qst_question.asp?qstid=5917>.

Marylyn Carrigan, Ahmad Attalla, (2001), "The myth of the ethical consumer - do ethics matter in purchase behaviour?", *Journal of Consumer Marketing*, Vol. 18 Iss: 7 pp. 560 - 578. Web. 7 July 2015.
<http://econ.au.dk/fileadmin/Economics_Business/Currently/Events/PhDFinance/Kauttu_The_myth_of_the_ethical_consumer_-_do_ethics_matter_in_purchase_behaviour.pdf>.

"Does Being Ethical Pay?" *WSJ*. Web. 7 July 2015.
<<http://www.wsj.com/articles/SB121018735490274425>>.

Confino, Jo, and Ozoda Muminova. "What Motivates Consumers to Make Ethically Conscious Decisions?" *The Guardian*. 12 Aug. 2011. Web. 7 July 2015.
<<http://www.theguardian.com/sustainable-business/motivates-consumers-environmental-ethical-decisions>>.

"Workers." *Workers*. Web. 7 July 2015. <<https://www.osha.gov/workers/index.html>>.

Burke, Jason. "Bangladesh Garment Workers Suffer Poor Conditions Two Years after Reform Vows." *The Guardian*. 22 Apr. 2015. Web. 7 July 2015.
<<http://www.theguardian.com/world/2015/apr/22/garment-workers-in-bangladesh-still-suffering-two-years-after-factory-collapse>>.

"Good Working Conditions for Workers." *Work*. Web. 7 July 2015.
<<http://work.chron.com/good-working-conditions-workers-8106.html>>.

"McDonald's Workers Allege Unsafe Working Conditions." *CNNMoney*. Cable News Network. Web. 7 July 2015. <<http://money.cnn.com/2015/03/16/news/companies/mcdonalds-working-conditions/>>.

"H&M CEO Warns Rising Bangladeshi Wages May Spook Some Firms: Paper." *Reuters*. Thomson Reuters, 15 Apr. 2014. Web. 7 July 2015. <<http://www.reuters.com/article/2014/04/15/us-hm-bangladesh-idUSBREA3E0IJ20140415>>.

Farrell, Sean. "H&M Pledges Living Wage for Textile Workers in Bangladesh and Cambodia." *The Guardian*. 25 Nov. 2013. Web. 7 July 2015. <<http://www.theguardian.com/business/2013/nov/25/h-m-living-wage-textile-workers-bangladesh-cambodia>>.

"H&M: Violations of Labor Rights in Uzbekistan, Bangladesh, and Cambodia." *Facing Finance*. Web. 7 July 2015. <<http://www.facing-finance.org/en/database/cases/violation-of-labour-rights-by-hm-in-uzbekistan-bangladesh-and-cambodia/>>.

"Case against Coca-Cola Kerala State: India « Rights to Water and Sanitation." *Rights to Water and Sanitation RSS*. Web. 7 July 2015. <<http://www.righttowater.info/rights-in-practice/legal-approach-case-studies/case-against-coca-cola-kerala-state-india/>>.

Hills, Jonathan. "Coca-Cola in India - A Case Study." *CSR Asia*. 14 June 2005. Web. 7 July 2015. <<http://csr-asia.com/csr-asia-weekly-news-detail.php?id=4146>>.

"The Consequence of Unethical Business Behavior |." *Six Sigma Online*. Web. 7 July 2015. <<http://www.sixsigmaonline.org/six-sigma-training-certification-information/the-consequence-of-unethical-business-behavior.html>>.

"Is Chinese Corporate Behavior Improving in Africa?" *ChinaFile*. 19 Feb. 2015. Web. 7 July 2015. <<http://www.chinafile.com/library/china-africa-project/chinese-corporate-behavior-improving-africa>>.

"Changing Corporate Behavior From Within | Opinion." *The Moscow Times*. Web. 7 July 2015. <<http://www.themoscowtimes.com/opinion/article/changing-corporate-behavior-from-within/489876.html>>.

"Definition of Ethic". *Merriam-Webster*. Merriam-Webster. Web. 7 July 2015. <<http://www.merriam-webster.com/dictionary/ethic>>.

"What Is Ethical Behavior? Definition and Meaning." *BusinessDictionary.com*. Web. 7 July 2015. <<http://www.businessdictionary.com/definition/ethical-behavior.html>>.

"Definition of Boycott." *Merriam-Webster*. Merriam-Webster. Web. 7 July 2015. <<http://www.merriam-webster.com/dictionary/boycott>>.

"What Is Branding? Definition and Meaning." *BusinessDictionary.com*. Web. 7 July 2015. <<http://www.businessdictionary.com/definition/branding.html>>.

"Brand Strategy Basics." *Tronvig Group*. Web. 7 July 2015. <<http://www.tronviggroup.com/brand-strategy-basics/>>.

Bibliography for the pictures and graphs

"Journal of Consumer Marketing." The Myth of the Ethical Consumer â Do Ethics Matter in Purchase Behaviour?: : Vol 18, No 7. Web. 13 July 2015. <<http://www.emeraldinsight.com/doi/full/10.1108/07363760110410263>>.

"Boycott." Children's, Intermediate and Advanced Online English Dictionary & Thesaurus. Web. 13 July 2015. <<http://www.wordsmyth.net/?rid=4943>>.

"China's Latest Meat Scandal Could Deal a Death Blow to Brands Like KFC." *Brandchannel*. 23 July 2014. Web. 13 July 2015. <<http://brandchannel.com/2014/07/23/chinas-latest-meat-scandal-could-deal-a-death-blow-to-brands-like-kfc/>>.

Other sources

Hirsch, Eli. Brandeis PhD. Head of the Philosophy Department in Brandeis and Professor of Bioethics in Harvard Secondary School Program 2015.

§