

MARKETING OF FINANCIAL SERVICES

Lecture Thirteen

Ethics in Financial Services Marketing

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WEEK THIRTEEN

13.1 Introduction

Welcome to week thirteen lecture! Congratulations for coming this far! We have covered 12 lectures, and this is the last one in this series. It is my sincere hope that we have attained the course objective of equipping you with skills on marketing of financial services and that you can now craft a marketing strategy for a financial service or even participate in the implementation of such a strategy with greater understanding. However, for you to be able to effectively implement this strategy, you need to understand the underlying values required in this task. In this lesson we shall examine ethical requirements for effective marketing of financial services.

13.2 Intended Learning Outcomes

At the end of this lecture, you will be able to

- a) Define ethics
- b) Examine various ethical views
- c) Evaluate ethical dilemmas faced by financial institution managers and staff
- d) Discuss “jay customers” in the context of financial services marketing

13.3 Definition of Ethics

Studies on ethics are normally very controversial because of lack of reference point as to what is considered ethical behavior and one that is not ethical. According to Carroll and Buchholtz (2009), “Ethics is that discipline which deals with what is good and bad and also deal with moral duty and obligation. Ethics are set of moral principles or values.” Ethics is associated with moral principles that set standard as to what is good or bad or right or wrong. Ethics is defined as a set of rules or moral principles that helps a person to distinguish between right and wrong (Velasquez, 1996). Marketing ethics investigate morality of marketing practices with respect to 4Ps such as safety of products, fair pricing, truthfulness of claims advertised and bias in distribution (Smith & Quelch, 1996).

It is important to note that ethics goes beyond legality to an individual’s personal values and attitudes that help determine his or her behavior. For instance, in a financial institution, the chief executive and management are expected to display ethics in the way they carry themselves and the same should be emulated by the other employees of the organization. The management team is expected to build an ethical culture and only recruit ethical employees who can live to the organizational expectations.

13.4 Reference Points for Ethical Behavior

According to Schermerhorn and Bachrach, (2015) there are several approaches to what is generally considered ethical or unethical. This is attributed to the fact that there is no one universal ethical

code accepted everywhere. We can only infer to ethical conduct in the context of our marketing activities. Let us examine these views briefly.

- Utilitarian view: this holds the view that a behavior is considered ethical if it delivers the greatest good to the greatest number of people. This view ignores individual feelings, beliefs, values, and thoughts and only looks at what is accepted by the majority.
- The moral right view: this view considers the fundamental rights of all human beings irrespective of their location. It is championed by human rights activist who believe that there are fundamental rights for all people which need to be respected. These rights have to do with respecting individual privacy, due process, free speech, free consent, health and safety, freedom of conscience among others. This school of thought will approve any behavior that considers the fundamental rights of all individuals in the society.
- Individual view: this school of thought consider behavior that promote one's long-term self-interest as ethical. The school prohibits consideration of short-term interests and requires any individual to think about the long-term effect of their behaviors and actions.
- The justice view: according to the advocates of this view a behavior is considered ethical if it shows fairness and impartiality. This will depend on ethical code or other guiding principle in a particular situation.
- Universal approach: this school of thought hold the view that employees of any institution should choose a course of action that they believe would apply to all people under all situations. Borrowing from the Holy Book (The Bible), it has the implication that one should do unto others as they would have them do unto you'.
- Compensatory justice: this view holds that if distributive and procedural justice approaches fail, those hurt by the inequitable distribution of rewards are compensated. This compensation often takes the form of money or takes any other form.

A careful examination of these views indicates the following points of consideration by marketers of financial services:

- a) There is no one code of ethics that is acceptable globally and therefore one must consider the context in which they are marketing financial services to determine what is considered morally upright.
- b) The marketer must be deliberate in identifying point of reference on what is acceptable in a particular society as ethical.
- c) Ethically accepted behavior will be guided by individuals' beliefs, values, and convictions.
- d) Ethical behavior will be judged by the action that the individual takes in a particular situation.

13.5 Factors Influencing Ethical Behavior Among Employees

Individual ethical behavior is influenced by several factors. These include the person, the environment, and the organizational code of conduct

- The person: this is the general make-up of a person's character which has a strong impact on his or her ethical conduct. Of particular importance is the family influence, religion values, personal standards and principles of life. An individual who has well established value system will be predictable in different situations and positions as far as his conduct is concerned.
- The organization: this may take into consideration the organization's policies, code of conduct of the organization, the behavior of supervisor and colleagues as well as the culture of the organization. If the code of conduct is well developed and is being practiced by senior managers in a financial institution, the rest of employees will adapt easily.
- The environment: this consists of governmental regulations, norms and values of society as well as the ethical climate of industry. The financial sector has very clearly laid procedures of doing business which also informs individuals on how to conduct themselves.

13.6 Ethical Dilemmas

An ethical dilemma is a situation that although offering potential benefit or gain is also unethical (Stonner, 1989). The marketers of financial services have to deal with a number of ethical dilemmas that affect their actions. Some of the ethical dilemmas common to all businesses include:

- Discrimination: where the marketer may deny promotion or appointment to a job candidate because of the candidate's race, religion, gender, age or other non-job relevant criteria.
- Sexual harassment: where a marketing manager makes a co-worker feel uncomfortable because of the inappropriate comments or action regarding sexuality, or where a manager requests sexual favors in relation to favorable job treatment.
- Conflicts of interest: where a manager takes a bribe or extra ordinary gift in return for making decision favorable to the gift giver.
- Customer confidence: where a manager has privileged information regarding the activities of a consumer and shares that information with another party.
- Organizational resources: where a manager uses official stationery or a company email account to communicate personal opinions.

According to Jahan (2020), in marketing of financial services, the following ethical issues indicated in Table 1 may arise:

Table 1 Ethical issues in marketing of financial services

Marketing mix elements	Challenge	Ethical conduct
Product	Complexity of products making it difficult for ordinary customers to understand it	<ul style="list-style-type: none"> • Financial institutions should stick to principles such as honesty, integrity, fairness, and social responsibility. • Mandatory disclosures accompanying the product and clearly mentioning the suitability of the product.
Price	<ul style="list-style-type: none"> • Unjust and excessive amounts of interest/charges. • Pushing customers towards irresponsible credit usage • Deductions without customer's consent • Hidden charges 	<ul style="list-style-type: none"> • Clear disclosure of the charges associated with all financial products and services
Place/ Distribution	<ul style="list-style-type: none"> • Misrepresentation of facts about the product by salespeople • Vulnerability to cyber thefts and privacy breaches • Frequent breakdown of the ATMs 	<ul style="list-style-type: none"> • Salespeople to be barred from using deceptive techniques • Financial institution to own up problems arising from use of vulnerable technology
Promotion	<ul style="list-style-type: none"> • Hiding of facts regarding the financial product by salespeople • Aggressive selling of a product to the customer. • Misleading claims in the advertisements and falsification of information 	<ul style="list-style-type: none"> • Disclosure of all facts about a product • Honest summary of the risk and return associated with a financial product/service • The financial institution should take responsibility for misleading claims and any false information given
People	<ul style="list-style-type: none"> • Complicating the design of the product/service to oversell its usefulness at a premium. • Aggressive selling of irrelevant and unsuitable products. • High handedness of the staff 	<ul style="list-style-type: none"> • View customers as partners in business • Disclose facts about financial products • Train staff on taking responsibility

	<ul style="list-style-type: none"> • Citing of procedural protocol to avoid complete disclosure of facts 	
Processes	<ul style="list-style-type: none"> • Complex processes that drain customers energy • Constant change of terms and conditions to suit the interests of the bank • Spinning customer from one executive to another 	<ul style="list-style-type: none"> • Design service processes with customer in mind • Inform customers before changing terms and conditions • Clear procedure of resolving customer problems
Physical evidence	Use of high quality and expensive infrastructure in prime locations but giving misleading information	Avoid all deception through use of high-quality infrastructure

Adapted from: *Jahan M (2020) Ethical issues in marketing of Financial Services – with special reference to banking. Journal of Critical Review, ISSN- 2394-5125 VOL 7, ISSUE 08*

13.7 The Challenge of “Jay Customers”

Ethical issues are not witnessed on the side of financial employees only. There are also practices from financial customers that require mention and how to deal with them. Though customer is the king, sometimes his behavior is not right and should be addressed before it becomes a big challenge to a financial institution. One of the challenges the financial services marketer is likely to face is the jay customer. According to Lovelock and Wirtz (2004), jay customer refers to one who acts in a thoughtless or abusive way, causing problems for the firm, employees, and other customers. The authors have cited six types of jay customers discussed here briefly in the context of financial services marketing.

- The thief: this kind of customer has no intention of paying and sets out to steal services (or to pay less than full price through whichever means possible. In financial institution thieves try to use fraudulent forms of payment, such as stolen credit cards or checks drawn on accounts without any funds. Cybercrime resulting in losses of billions is also categorized under the category of jay customers.
- The rule breaker: this constitutes customers who don’t wish to abide by the law. Some customers may not want to que in a banking hall, or some may be unwilling to pay their loans. Customers should be educated on all procedures so that they can follow them properly. Where legal action needs to be taken against rule breakers, the same should be done to secure the financial institution from such customers.

- The belligerent: this is the customer who will insult and threaten everyone because of a problem in service delivery such as machine breakdown or delays. Service personnel are often abused and may even experience physical attack. Drunkenness and drug abuse add to extra layers of complications. Employees also need to be trained on how to defuse anger, anxiety, comfort distress and to be calm particularly when there is good reason for the customer to be upset with the organization's performance.
- The family feuders: are people who get into arguments with other customers who sometimes are their relatives within service facilities. Employee intervention may calm the situation or make it worse. Employee should be trained on how to handle such cases.
- The vandal: these are customers who destroy service facilities intentionally either because they are drunk or just find pleasure in engaging in destructive behavior. Disgruntled employees have also been known to commit sabotage. There are also occasions when unhappy customers, feeling mistreated by the service provider, try to take revenge in some way. These customers should be dealt with according to the financial institution policy on such matters.
- The deadbeat: these are customers who fail to pay for services received. It's important to furnish them with the right information before engagement and also clarify payment mode to avoid losing money.

13.8 Maintaining High Ethical Standards in Financial Institutions

Maintaining high ethical standard in an organization is one of the great challenges that managers find themselves in. It becomes even more demanding if the manager himself is not sure of his ethical standard in an issue. CHRYSOS HR solutions, (2022) points to the following as some of the ways in which an organization can maintain high ethical standards.

Ethics training: it seeks to help people understand the ethical aspects of decision-making and to incorporate high ethical standards into their daily behavior. The training in form of participative program is designed to help people deal with ethical issues while under pressure.

Whistleblower protection: whistleblower is a person who exposes the misdeed of other organizations to preserve wasteful, harmful or illegal act. They face the risks of impaired career progress and other forms of organization retaliation up to and including termination. The government and some organizations have developed laws to protect whistleblower from the wrath of organizations concerned.

Ethical role model: top managers should serve as role models of appropriate ethical behavior for the entire organization. Not only must their day-to-day behavior be the epitome (essence) of high ethical conduct, but top managers must also communicate similar expectation throughout the organization and reinforce positive results. Junior managers must take the lead in determining ethical behaviors for their employees.'

Codes of ethics: this is a written document that states values and ethical standards intended to guide the behavior of employees. They are found in professional organization such as engineering,

medicines, law and public accounting. The code tries to ensure that individual behavior is consistent with the historical and shared norms of the professional group. Most codes of ethical conduct identify expected behaviors in terms of general organizational citizenship, avoidance of illegal or improper acts in one's work and good relationship with customers. Specific issues addressed include workplace diversity, bribes and kickbacks, political contributions, the honesty of book of record, customer-supplier relationship and the confidentiality of corporate information. It's important to realize that codes though important cannot direct everything in organization.

Social awareness and education: non-governmental organizations are taking an increasing role, leveraging the power of the media and the internet to increase their scrutiny and collective activism around corporate behavior. Through education and dialogue, the development of community in holding business responsible for their actions is growing (Garriga and Mele, 2007).

Ethical consumerism: As global population increases, so does the pressure on limited natural resources required to meet rising consumer demand (Garriga and Mele, 2004). Industrialization in many developing countries is booming because of technology and globalization. Consumers are becoming more aware of the environmental and social implications of their day-to-day consumer decisions and are beginning to make purchasing decisions related to their environmental and ethical concerns. However, this practice is far from consistent or universal.

13.9 Review questions

1. Describe ethics in context of financial services marketing
2. Discuss alternative ethics views
3. Advise an upcoming marketer of financial services on how to maintain high ethical standards in her work
4. Describe the three factors that influence ethical behavior in marketing of financial services
5. Discuss ways of dealing with ethical dilemmas

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Figure 3.1 Four vies of ethical behavior p.53.

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