

The co operative bank ethical audit marketing essay

[Finance](#), [Banks](#)



The importances of ethical issues in the banking industry are twofold. Firstly government legislations and guidelines need to know a business is being governed correctly. Secondly, these issues are becoming more popular in public relations brought about by the recession. This Co-operative bank compliant ethical audit report summaries their marketing targeting, product and services and promotional mix for compliance to their bank ethical policy with any corrective actions.

In recent years, the pursuit of raising profits and gaining financial power has been seen as the most important aspect in people's and businesses agendas. Businesses and their activities are coming under greater scrutiny from governments, shareholders, customers and other stakeholders to prove that their activities are conducted in a fair way. An ethical dilemma develops between stakeholders when this is not the case.

According to Murphy et al. (2005, p. 3) defined an ethical dilemma as: a situation where it is not clear what choices morality requires. But what exactly is business ethics and what is it doing in business; if the main concern is making profits. Therefore it's not very surprising that some businesses view ethics as secondary in importance to financial success.

Business ethics are a set of moral values; a social responsibility to society that governs the behaviour and decision making of a company " organisation reply on the co-operation and commitment of society (Ethics and marketing, P. 29). There are many valued philosophical ethics frameworks for example duty, consequence and care ethics. Most businesses call these values and policies Corporate Social Responsibilities (CSR)

The UK recession; the banking industry was worse hit, triggered by a liquidity shortfall in the United States financial sector; Northern Rock and Bradford & Bingley virtually collapsed, the Cheshire and Derbyshire Building Societies rescued by the UK government. Turmoil in the banking industry means that credit has literally frozen up. The banking industry faces the very real possibility of a systemic meltdown of the financial system which governed them, because of poor risk management. Rebuilding customer's confidence is the greatest challenge facing the UK banking industry.

Murphy (2005) suggested 4 types of ethical audit to test a business ethical risk. In this compliant ethical audit of the Co-operative bank ethical position consistency through to its values base; analysis will be made of their ethic by examining their target marketing, products and service, promotional mixes and any corrective action if required.

The Co-Operative Bank Ethical Overview

The Co-operative Bank was formed in 1872 from the Loan and Deposit Department of Manchester's Co-operative Wholesale Society. In 2002 The Co-operative Bank, Co-operative Insurance and Smile formed into the Co-operative Financial Services which have over 3 million members and 85, 000 employees across its businesses and are involved business ventures such as banking, food retailing and manufacturing.

The Co-operative bank is mutually led and owed by customers and their moral views and " is authorized and regulated by the Financial Services

Authority (FSA) and is a member of the Financial Ombudsman Service and is licensed by the Office of Fair Trading”

([www.cooperativebank.co.uk/servlet/Satellite/1193206376679, CFSweb/Page/Bank? WT. svl= footer](http://www.cooperativebank.co.uk/servlet/Satellite/1193206376679,CFSweb/Page/Bank?WT.svl=footer) Assessed 25-07-10).

The FSA 4 main guideline relating to commercial banking:

Transparency- a principle that allows those affected by administrative decisions, business transactions or charitable work to know not only the basic facts and figures but also the mechanisms and processes (http://www.transparency.org/news_room/faq/corruption_faq Accessed 28-07-10)

Good Governance and Code of Best Practice- is the set of processes, customs, policies, laws affecting the way or company is directed, administered or controlled. (http://en.wikipedia.org/wiki/Corporate_governance Accessed 29-07-30)

Confidentiality- We will treat all your personal information as private and confidential even when you are no longer a customer”(www.bsa.org.uk The Banking Code, P. 18 Accessed 29-07-10)

Fairness commitment- “ We promise we will treat you fairly and reasonably when providing you with products and services”(www.bsa.org.uk The Banking Code, P. 6 Accessed 29-07-10)

In 1992, The Co-operative Bank launched its Ethical Policy “ after customers said that they would like to see their money invested ethically” (www.cfs.

co. uk/servlet/Satellite? c= Page&cid= 1166524495180&pagename= Corp %2FPage%2FtplCorp&loc= t Accessed on the 25-07-10) It's the first UK bank to have an ethical policy. Since the launch of this policy; the Co-operative bank has campaigned for change on a wide range of issues relating to their ethical policy and has donated more than £3 million to over 80 charities and organizations.

Financial Overview

The Co-operative bank is making a profit, although UK economy is in the recession; they are making a substantial profit of £164. 6m for 2009 pre tax; having their financial account open for public viewing are excellent signs of transparency and good corporate governance.

Profit before tax of £164. 6m was £141. 3m higher than in 2008. The 2009 result includes the profits of the merged Britannia business from 1 August 2009 only. Total operating result for 2009 was £115. 2m compared with £85. 6m in 2008 (an increase of 34. 6%). On a like-for-like basis the operating profits increased from £107. 1m in 2008, to £112. 3m. These results reflect the business's success in maintaining profitability despite the continuing weakness of the financial services market, while underlying capital and liquidity positions continue to provide the foundations for stable growth

Marketing is a managed process of exchange; “ Marketing is ‘ a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others” (Ethics and marketing, P. 5) The Co-operative Bank engaged in commercial

banking. In commercial banking; the banks collect deposits from customers and give direct loans to businesses and individuals at a higher interest rate. However without the knowledge that mismanagement can lead to failure, senior management face no moral hazard for years which led to the economic recession in 2007.

If risks may be taken for short term gain, secure in the knowledge that the public sector will step in to rescue the business for example Northern Rock 2008. However the Co-operative Bank has taken a different approach. Ethical principles are the core of their marketing targeting strategies; according to the Co-operative Financial service chief executive David Anderson “our reputation for solidity, People see us as a bit boring, but boring in this market is attractive.” (www. telegraph. co. uk By Philip Aldrick Accessed 02-04-09)

According to Murphy (2005) “marketing ethics is the systematic study of how moral standards are applied to marketing decisions, behaviours, and institutions” (Ethical Debates in Marketing, P. 122) Ethics in marketing includes practices and policies that emphasize honesty, transparency and integrity which are fair to consumers and other stakeholders; this is shown in their ethical policy and illustrated in the diagram below.

The Co-Operative bank is using their customers led ethics model for targeting and market segmentation. In 2008 the Co-operative bank provided basic bank accounts to pre-release prisoners “The Co-operative Bank now accepts applications from 29 prisons, representing nearly 20% of the UK prison system. The total number of accounts opened since the

scheme began reached 1, 400 in August 2008” (<http://www.co-operative.coop/corporate/Sustainability/social-responsibility/social-inclusion/CFS-and-ethical-finance/> Accessed on 29-07-10).

Inclusion of this tarnished social group clearly illustrated a new scheme under their human rights and social enterprise policies which involve an element of care ethics “ does not recommend that we discard categories of obligation, but that we make room for an ethic of love and trust, including an account of human bonding and friendship” (www.caae.phil.cmu.edu/cavalier/80130/part2/II_7.html Accessed 28-07-10), which no other UK bank has adopted. Pre-release prisoners having a bank account increases job opportunities, which might reduce re-offending in society. This meets the FSA guideline of treating customers fairly and equally.

Exclusion from the Co-operative bank products and services are businesses and stake holders that do not meet this ethical criteria; this information is protected by the data protection legislation which shows confidentiality. However during 2005, “ The Co-operative Bank turned away some 30 businesses whose activities were in conflict with their customers’ ethical concerns. As a result, income worth some £10 million was denied to the Bank” (<http://www.cfs.co.uk/servlet/Satellite?c=Page&cid=1169627027831&pagename=Corp%2FPage%2FtplCorp> Accessed 28-07-10). This shows the Co-operative standing by the ethical policies and not swayed to increase profits.

Product and Service Analysis

In 2009 the Co-operative bank has seen profits surge as it attracted thousands of bank account customers disillusioned with other UK banks non ethical approach to banking; customers can choose from a range of benefits which includes current and savings accounts, credit cards, loans and mortgages with add-on benefits relating to travel, personal safety and gadgets which are optional. In 2009 the Co-operative bank had a 38% jump in new current accounts as consumers deserted the bigger banks in droves in the wake of the financial crisis. It gained 140, 000 new customers, taking the total to 1. 2 million, and doubled its share of the current account market to 4%. (<http://www.guardian.co.uk/business/2010/mar/18/coop-profits-uk-banks> 28-07-10).

Although their products are intangible services, stake holders can have tangible benefits from these services, such as high interest rates. These service can be accessed depending on your credit rating which is universal between banks. However Co-op credit cards give charitable donations with each purchase from their customers which equals to £15 for every account opened, £2. 50 is received if your account is used within six months. Plus 25p for every £100 you spend using the charity card and 25p for every £100 you transfer to the card (www.co-operativebank.co.uk Accessed 28-07-10).

With products and services a philosophical ethics framework of duty ethics applies. This theoretical approach is called deontology “ Morality is doing something because it is right and acting from a good will” (Ethics and marketing, P. 22).

Thus Businesses and people's actions are wrong no matter what consequences follow from them. The Co-operative bank demonstrate this framework by following their ethical policy for example their Corporate Responsibility and Global Trade policy with no matter the financial returns (consequence) on their investment, they will not invest in any businesses that does not have fair trade policies in developing countries.

By the evidence provided in the Co-operative bank ethical approach and this ethical audit report; these product and services have the criteria to meet Murphy et al. (2005) list of questions (advice) that can be used in an ethical audit in a new product development.

Promotion

The promotional mix includes all activities related to advertising, sales promotion, personal selling, public relations and direct marketing. According to Kotler (2001) it's the most visible of the marketing activity. The Co-operative Bank promotional mix is based on an ethical framework which fits into its objective of being an ethical bank; with their slogan " Good with money" (www. co-operativebank. co. uk Accessed 28-07-10) advertised on televisions, internet and billboards across the UK. The co-operative bank spends little more than £1million a year on advertising. However their key concept is the responsible sourcing from customers and distribution of funds to other stake holders highlighting the company's ethical policies.

The promotional mix endorses specific messages though a mixture of advertisements and public relations around offering trust and reassurance to

stakeholders, reflecting the needs of consumers they require from the banking industry in the current recession climate. Ethically motivated customers generally come from higher socio-economic groups and are more likely to be loyal to the bank they have researched and have products and services with and are more likely to recommend the Co-operative bank to friends and family, this is showed by the increase in the Co-operative customers in the recession.

This theological approach to their promotional mix is called utilitarianism; which simple put it's the decision based on consequence; comparison on the percentage who will be affected will have greater " good" coming from this activity to the other percentage that will have greater " pain" from this activity on and the consequences of this actions " the greatest good for the greatest number" (Ethics and marketing, P. 22). This is quite hard to measure. However, the Co-operative bank is using the ethical policy as a benchmark to test compliance of their ethics with other businesses ethics before offering their products and services though their promotional mix. Thus if the business have conflicting ethics to the Co-operative bank, it is seen by the bank giving the business money will only increase the " pain" cause to society.

According to Garrett (1961) the ethical checklist for advertising focus on the intent; if the advertisement is not bad or degrading to anyone in society then it should have a good end result. The Co-operative banks meets these criteria; In 2006 won an award for their green advertisement " The Co-operative Bank has won best TV ad at the inaugural Green Awards for its '

stand up' spot, by direct marketing agency Dig For Fire, which held off competition from Waitrose, Marks & Spencer and O2" (www. brandrepublic. com/news/609250/coop-bank-wins-best-tv-ad-ethical-campaign Assessed 29-07-10).

The Co-operative bank recently alongside WWF-UK; were putting pressure on the UK Government (moving upstream) to help stop the expansion of toxic fuels. This was well publicized on television, newspaper and the internet. This is making their products and services appealing to the environmental friendly stake holders. Plus in 2010 the bank will be donating £100, 000 to charities from consumers voting and to organizations involved in challenging the expansion of toxic fuels which shows their customer consultation ethical policies.

Corrective Actions

The Co-operative Bank has a different approach to banking. The aspects of their ethical activity have increase business benefits. For a number of years the bank has undertaken research amongst customers to establish the percentage who are attracted to their products and services because of its ethical and sustainability positioning. In 2003, the co-operative bank found that 17% of profitability can be attributed to those customers whose primary motivation for using its services was ethics. 30% (around £40 million) of profitability can be attributed to customers who believe that ethics is an important factor. This compares with £6. 9 million of income foregone for ethical reasons, based on business declined by the bank's Ethical Policy Unit (www. co-operativebank. co. uk Accessed 28-07-10)

The ethical stance does, potentially, have a negative impact on income, since business is turned away on ethical grounds. Thus it is the training from the Co-operative staffs to recognize businesses and individuals that do not meet the ethical criteria, From Co-operative bank internal audit of staff development and training; 23% believe they don't have the necessary training to do their job efficiently in 2008. This raises a lot of concerns about the staff making decisions on businesses and customer who will be offered products and services on ethical grounds

The Co-operative Bank is an ethically fair business, with individuals making decisions that affect other individuals. Thus feelings, emotions and belief will always play a part in the decision making process of the business “ A person might know what the right thing to do is but not know how or lack the resources to enact it”(Ethics and Marketing, P. 94). According to Cooke (1991) there are a set of guidelines (audit) that indicate a business ethical risk.

The Co-operative bank should carry out these audits on more frequent basis such as yearly which focus on the internal staff and their training rather than the external environment. Formal corporate staff training and ethical auditing are useful opportunities to install ethical values at their core functions. Jon Moulton of Alchemy Partners argued “ that banks had become too complex, and that the only way in which banks could regain the trust of their customers was by becoming much simpler entities” ([http://www. publications. parliament. uk/pa/cm200809/cmselect/cmtreasy/416/41610](http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/416/41610)).

htm Accessed on the 29-07-10 . Instead of promotional ethically advertisement such as their customer led charitable donations of 2010.

Conclusion

Over the last ten years the banking industry have gain substantial profits which have been shared by the shareholders and senior management, but it is the taxpayer who has been called on to rescue the banks that have failed. The banking industry importance to all stake holders and the economy means it is extremely difficult for the UK government to permit a failing bank actually to go bankrupt.

However there are increasing number of customers who are taking into account a firm's behaviour in their purchasing behavioural decisions when buying products and services. The research of the Co-operative bank revealed many philosophical ethics frameworks at work within the bank and a degree of consistency with these ethical policies. The bank is seen by more stakeholders as model of an ethical business and are leading the way in ethical financial services, it long history of close relationships with its customers and ethically led marketing have appeal to most stake holders.

The Co-Operative bank is still a profitable business; their ethical questionnaires to customers show the bank building stake holder's confidence, trust and ethically led marketing approaches seem to be working. However the Co-operative is still a business and will make unethical decisions at times.