

Deceptive Advertising: A Corporate Social Responsibility Perspective

Samuel Bonsu

Walden University, USA

dr.samuelbonsu@outlook.com

Abstract

Corporate social responsibility (CSR) is a framework designed to mitigate the negative consequences of the business process and improve the wellbeing of consumers and all other stakeholders including the environment. Causing no harm to humans and their environment is the basic and explicit message entailed in CSR. The scope of CSR as discussed ad nauseam in scholarly literature exiguously covers deceptive advertising and its harmful consequences to society and substantially focuses on the nature of production in manufacturing companies. Deceptive advertising causes harmful effects to consumers; misleads consumers into making inappropriate choices that may be detrimental to their health, and may cause financial problems as consumers may spend money on less valuable and unhealthy products and services. The purpose of CSR is to mitigate the detrimental effects of the business process on consumers such as manifested in deceptive advertising. In this article, the author discusses cases of deceptive advertisement and highlights the importance of the understanding and practice of CSR in curtailing the problem of deceptive advertising.

Keywords: Deceptive advertising, harm, consumers, societal problems, CSR.

Introduction

Advertising is done to improve a business' market capitalization and enhance investment and profit accrual. Statistics presented by Guttman (2019) show that revenue spent on advertising in the U.S. amounted to \$223 billion in 2018 and estimated to increase to \$240.68 billion in 2019. This statistic undergirds the importance that organizational leaders attach to advertising in their pursuit of growth and sustainability. In a competitive market, businesses employ variable and savvy strategies including creative advertising, to gain the attention of consumers and improve sales. Doing business without advertising has been compared to dancing in the dark--nobody can see how good you may be.

In their quest to outcompete each other, deceptive advertising, an illegal act which the Federal Trade Commission defines as, "any false or misleading description or representation of facts" about a product or service (Preston, 1990), has been employed to improve customer demand thus profit. Deceptive advertising may be manifested in different elements of the product and service being offered to the consumer including pricing, value, availability, and other promotional offerings such as warranties, servicing plan, interest rates, etc.

An era of corporate scandals and irresponsible acts, and increasing public vigilance and pressure on businesses to be socially responsible, due to technology ubiquity may have contributed to the embrace of responsible business and societal programs such as CSR. As Brammer et al. (2012) assessed, corporations are held accountable for responsible behavior in this era than ever before. CSR a framework to mitigate harms caused by businesses in the society may be employed to improve understanding of and curtail the detrimental effects of deceptive advertising. Kang, Lee, and Huh (2010) identified that big companies in the world have improved their CSR activities. This is important in that, the legal, ethical, economic, and societal

problems caused by deceptive advertising may be curtailed by CSR which according to Carroll (2016) entails ethical, economic, philanthropic, and legal dimensions and purposed to mitigate societal problems. This study reveals that deceptive advertising like other unethical business behaviors is in the purview of CSR. Understanding and employing CSR initiatives may eliminate the phenomenon of deceptive advertising.

CSR and Deceptive Advertising

There are various laws in the U.S. primarily enforced by agencies such as EPA (environmental protection agency) and (FDA) food and drug administration, to protect the wellbeing of consumers. Despite these laws, programs such as CSR and other ethical standards have been designed to create understanding and spur initiatives to improve the wellbeing of society. This may be due to government inefficiency, or as Barley (2007) noted, the high level of political power of corporations to influence politicians to turn a blind eye on irresponsible behaviors.

According to Bakan (2005), corporations seek to pursue profit maximization notwithstanding the detrimental effects on societal wellbeing that may cause in the process. Corporations and for that matter businesses have the purpose of creating and providing goods and services to improve the wellbeing of society (Byrne, 2009), however, corporations seek to pursue their private interests (Rhodes, 2016) to maximize profit as they strategize to circumvent any legal barriers and ethical standards therein. Deceptive advertising is one such example of the strategic deception engaged in by businesses.

Deceptive advertising is an illegal act, however its practice may be recurrent as may be other illegal activities of businesses especially in countries where certain laws are weakly enforced, not well defined, or absent. In the absence of weak and unenforced laws, CSR viewed

as a de facto law with universal implications (Sheehy, 2015), may be relied upon to improve wellbeing especially in an era of widespread global-warming discussions, urbanization, and socio-cultural integration and awareness mainly attributed to technological improvements. Brammer et al. (2012) identified that corporations' accountability for responsible behavior has become imperative in the modern era. This may be because the public can be relied upon as whistleblowers to ensure that socially responsible behaviors are upheld by corporate leaders as demonstrated in the case of Volkswagen whereupon Rhodes (2016) identified that public institutions, not governmental agencies, uncovered the gas emission scandal. CSR is the recognized law and standard of operation by business leaders globally (ISO 26000, 2010) thus significant in mitigating deceptive advertising, a practice that may cause health and financial problems to consumers.

The Quintessence of Deceptive Advertising

Deceptive advertising may be manifested in hidden prices wherein a lower price is advertised however other fees such as handling, shipping, and processing are added to inflate the final price. This practice may also be termed "bait and switch". In certain cases, scientific claims of the product may not be proven or may be exaggerated. For example, a caffeinated drink may be advertised as a special drink to improve physical energy and mental alertness, however, these claims may be inherent benefits of caffeine as opposed to any special ingredients added by the producers. In other cases, certain ingredients may cause addiction and result in fatalities however a business may fail to disclose such information in their quest to improve sales and maximize profit.

Embellishing of claims may also be considered deceptive advertising. Lyon and Montgomery (2015) identified that business leaders embellish their "going green" and other CSR

practices just to win public favor and increase demand. As advised by Chen and Gariou (2015), there's the need for corporate leaders to avoid the embellishing of their CSR claims and be realistic about its virtues in promoting business growth and development. In the 21st century era of advanced technology, modernization, and health awareness realistic CSR may suffice to avoid public backlash, which may result in low demand, legal ramification, and business closure.

Volkswagen, before being caught for violating the clean air act, received an award for their outstanding business ethics in environmental-friendly production and their CSR programs, which was highly touted on their websites (Rhodes, 2016). It is imperative to note that the Volkswagen emission scandal was discovered by public organizations, a non-governmental agency (the international council on clean transportation) and concerned scientists of the University of West Virginia, as opposed to the government (Rhodes, 2016) thus undergirding the power of societal members in holding corporations and other businesses accountable for their social responsibility programs.

Curbing Deceptive Advertising Utilizing CSR

Deceptive advertising has legal ramifications, economic implications, and unethical consequences. The nature of CSR according to Carroll (2016), entails legal, economic, ethical and philanthropic elements. Understanding and upholding the nature of CSR may curb illegal and unethical conduct such as deceptive advertisement, and promote philanthropy and other goodwill gestures by corporate leaders and improve economic returns. In essence, engaging in deceptive advertising will result in legal issues in the form of fines, business closure, jail time, etc. These legal ramifications have negative economic consequences on the business. The public may deem a business that engages in deceptive advertising unethical thus withhold support and demand which may lead to low economic returns on investment and profit.

The understanding and practice of CSR may ensure that businesses avoid engaging in deceptive advertising and operate legally and ethically for higher economic returns. The economic virtues of CSR were underscored by Liu and Wu (2016) who discovered in their research that CSR improved the worth of organizations. Parsa, Lord, Putreva, and Kreeger (2015) indicated in their research that consumers would rather pay higher prices for the products and services of businesses that engage in CSR activities. This may be because consumers realize the profit accrued will be used for the common good of societal members.

Cases of Deceptive Advertising

The negative consequences of deceptive advertising are costly financially to all parties involved and affected. In certain cases such as Volkswagen's nitrogen oxide gas emission scandal, the consequences are death and chronic diseases to humans and other lives. Legal action may result in jail time, fines, and business closure for the perpetrators of the crime of deceptive advertising and its negative effect. In other cases, the negative consequences of deceptive advertising may be transformed into positive outcomes such as the production of electrical and other environmentally-friendly cars, as the case in the Volkswagen emission scandal.

The Volkswagen Scandal

In 2015 the FTC charged automakers Volkswagen Group of America for a deceptive advertising claim about the emission of Nitrogen Oxide from its V.W Jetta engine cars (Rechtin, 2016). V.W group of America lied to the public by claiming its Jetta diesel cars "reduced nitrogen oxide emission by 90%" instead, the emission of NOx gas was 40 times the legal limit (Jung & Sharon, 2019). The United States Environmental Protection Agency (USEPA) on 18TH September 2015 accused Volkswagen of violating the Clean Air Act after discovering the

installation of “defeat device” an emission control tool that activates only during emission test inspection to suppress the actual amount of nitrogen oxide emitted (Rhodes, 2016).

Volkswagen was an epitome of integrity, environmental-friendly manufacturing, and corporate social responsibility before the gas emission scandal of 2015. In 2012 Volkswagen received an award from the World Forum for Ethics, for outstanding ethics in business in recognition of its CSR initiatives (Rhodes, 2016). In 2009 and 2010 Volkswagen won the “green car” of the year award from the Green Car Journal for its Jetta TDI Clean Diesel and Audi A3 TDI Clean Diesel respectively (Blackwelder et al. 2016).

Volkswagen’s strategic violation of the Clean Air Act by deliberately installing the “defeat device”, buttresses Bakan’s (2005) assessment that corporations seek to maximize profit without regard to societal wellbeing. Lyon and Montgomery’s (2015) claim that corporations engage in greenwashing rather than realistic business ethics programs were proven by Volkswagen's blatant disregard for the environment, consumers, and society by violating the Clean Air Act.

The question herein is that, at what level are CSR programs being practiced and what impact are those practices having on societal wellbeing? Another question may be "do corporate leaders understand the economic imperatives of CSR?" Making donations to the homeless shelter and picking up trash may in part be important CSR initiatives, however deceitful advertising to maximize profit at the expense of societal wellbeing are at variance with and negates any other CSR initiatives. CSR may be viewed as a holistic structure involving the improvement of wellbeing and the avoidance of any harm to consumers and society as a whole. This may not be mistaken for “improving wellbeing by not causing harm.”

Negative Economic Consequences

As a result of Volkswagen's gas emission scandal, the company's market capitalization plummeted by 40% (Jung & Sharon, 2019). The gas emission scandal cost Volkswagen over \$32 billion as a result of settlements from lawsuits (Jacobs & Kalbers, 2019). The buyback programs of the V.W. Jetta TDI clean diesel and Audi A3 clean diesel cost Volkswagen \$10 billion and the automaker is expected to invest \$2 billion in green energy and electric cars (Atiyeh, 2019).

Detriment to Society

It was projected by MIT scientists that there would be 59 premature death in the U.S. as a result of the Volkswagen nitrogen oxide gas emission scandal that occurred between 2008 and 2015, and a related social cost of \$450 million (Barrett et al., 2015). According to the authors' projection, about 130 more death and a related \$840 million in social cost would have resulted by the end of 2016, if the problem was not curtailed. Premature death in Europe was estimated at 1200 people and a related health cost of 1.9 billion Euros (Chossiere, et al. (2017).

The Purdue Pharma Scandal

Purdue Pharma engaged in deceptive marketing including advertising of its prescription Opioid drug OxyContin claiming it was less addictive than other Opioid drugs (Zee, 2008). Purdue Pharma falsely claimed the risk of addiction of OxyContin was less than one percent thus less likely to be abused by patients (Maier, 2003). Purdue Pharma deliberately engaged in deceptive advertising to gain competitive advantage thus maximize profit without regard to the wellbeing of humans. The consequences of Purdue Pharma's false claims have contributed to the dire Opioid crisis in America. The legal, economic, health and social cost as a result of Purdue Pharma's false advertising claims could be curtailed with an understanding and practice of the nature and purpose of CSR that according to Carroll (2016) is the legal, economic, ethical, and philanthropic practices of corporate leaders to improve the wellbeing of society. An

understanding of and efficient practice, without embellishing, of CSR, may curtail the phenomenon of deceptive advertising.

As assessed by many scholars, there are favorable economic returns in engaging in CSR (Carroll, 2016; Pour et al. 2014). Avoiding legal charges as a result of the harmful consequences associated with the process of production and the products and services, the increase in demand by the public as a result of their recognition and support of the ethical and philanthropic virtues of a company will yield positive economic returns. The legal cost incurred by Purdue Pharma for its part in the opioid drug epidemic which according to the United States Center for Disease Control, caused the death of 400,000 Americans between 1999-2017, could be about \$12 billion (Spector & DiNapoli, 2019). The tarnishing of the reputation of Purdue Pharma as a result of the legal charges and death to people from their deceptive claims may lead to a decline in sales thus profit.

Other Cases

There are many other cases of deceptive advertising thus calling into question corporate leaders' understanding and practice of CSR. Dannon Corporation, makers of Activia Yogurt engaged in deceptive advertising by making scientifically unproven claims about the efficacy of its product in improving digestive health, leading to a \$21 million settlement with the FTC (Fair, 2016). Essentially customers who bought Activia Yogurt to boost their immune system were deprived of their money and improvement in health.

According to Fair (2018), the FTC has employed several measures to stop deceptive advertising aimed at promoting weight loss products. Marketing Architects an advertising agency settled a \$2 million lawsuit by the FTC and Maine Ag for deceptive claims. The deceptive ads by Marketing Architects and many others may show testimonials of people who have tried a product

and gained successful results. However, the people providing the testimonies are paid to lie about their use of the product. Many tactics have been employed by advertising agencies some of which according to Fair (2018) include a prior warning that "the following message is not a commercial", or a public service message warning about the problem of obesity before disclosing the "deceptive efficacy" of the product.

Conclusion

Deceptive advertising is detrimental to consumers, the general public, and the businesses that engage in it. Although corporate leaders have embraced CSR and are held accountable for their social behaviors presently than ever before, there are still doubts about its effective practices to improve societal wellbeing as corporate leaders engage in deceptive advertising, including embellishing or greenwashing. It is important to identify herein that CSR practices such as contributing to workers' and their children's education and health care, picking up trash in hospitals are effective, however avoiding deceptive advertising which may result in death, chronic diseases, and high social cost may be more important and imminent. The understanding of CSR as a holistic initiative with a central message of avoiding harm and improving societal wellbeing is imperative to curtailing deceptive advertising. Deceptive advertising causes harm to consumers as cited in the cases involving Volkswagen and Purdue Pharma. The effective practice of CSR devoid of embellishing claims is important towards curtailing the practice of deceptive advertising.

References

- Atiyeh, C. (2019). Everything you need to know about the VW Diesel-emission scandal.
Retrieved from <https://www.google.com/amp/s/www.caranddriver.com/amp1539250/everything-you-need-to-know-about-the-vw-diesel-emissions-scandal/>
- Bakan, J. (2005). *The Corporation: The pathological pursuit of profit and power* (1st ed.).
New York: Simon and Shuster Inc.
- Barrett, S. R. H., Speth, R. L., Eastham, S. D., Dedoussi, I. C., Ashok, A., Malina, R., and Keith, D. W. (2015). Impact of the Volkswagen emissions control defeat device on U.S. public health. Retrieve from <http://bit.ly/2WyLLIP>.
- Barley, S. (2007). Corporations, democracy, and the public good.
Journal of Management Inquiry, 16, 201-215
- Blackwelder, B., Coleman, K., Colunga-Santoyo, S., Harrison, J., & Wozniak, D. (2016). The Volkswagen Scandal. Case Study University of Richmond: Robins School of Business.
Retrieved from <https://scholarship.richmond.edu/robins-case-network/17/>
- Brammer, S., Jackson, G., & Matten, D. (2012). Corporate social responsibility and institutional theory: New perspectives on private governance. *Socio-Economic Review*, 10, 3-28.
- Byrne, T. P. (2009). False profits: Reviving the corporation's public purpose. *UCLA L. Rev. Disclosure*, 57, 25. Retrieved from <https://www.uclalawreview.org/false-Profits-reviving-the-corporation%E2%80%99s-public-purpose/>
- Carroll, A. B. (2016). Carroll's pyramid of CSR: Taking another look.
International Journal of Corporate Social Responsibility, 1(3).
doi: 10.1186/s40991-016-004-6.

- Chen, E. & Gariou, I. (2015). Does corporate social responsibility have different value implications for different shareholders? *Financial Research Letters*, 14, 29-35.
doi: 10.1016/j.fri.2015.07.001
- Chossiere, G. P., Malina, R., Ashok, A., Dedoussi, I.C., Eastham, S. D., Speth, R. L., and Barrett, S. R. H. (2017). Public impact of excess NOx emissions from Volkswagen diesel passenger vehicles in Germany. *Environmental Research Letters*, 12, 3.
Retrieved from <http://bit.ly/2KGpdyk>.
- Fair, L. (2016). FTC challenges Dannon's claims for Activia Yogurt and DanActive.
Retrieved from <https://www.ftc.gov/news-events/blogs/business-blog/2010/12/ftc-challenges-dannons-claims-activia-yogurt-danactivia>.
- Fair, L. (2018). Ad agency to pay \$2 million for role in deceptive weight loss and "free offers"
Retrieved from <https://www.ftc.gov/news-events/blogs/business-blog/2018/02/ad-agency-pay-2-million-role-deceptive-weight-loss-free>
- Guttmann, A. (2019). Advertising spending in the U.S. 2015-2020.
Retrieved from <https://www.statista.com/statistics/272314/advertising-spending-in-the-us/>
- International Standard Organization 26000, (2010). *ISO 26000-Social responsibility*.
Retrieved from <http://www.iso.org/iso-26000-social-responsibility.html>
- Jung, J. C. & Sharon, E. (2019). The Volkswagen emissions scandal and its aftermath.
Doi: <http://doi.org/10.1002/joe.21930>.
- Jacobs, D. & Kalbers, L. P. (2019). The Volkswagen diesel emissions scandal and accountability
The CPA Journal, 89(7)
- Kang, K. H., Lee, S., & Huh, C. (2010). Impacts of positive and negative corporate social responsibility activities on company performance in the hospitality industry.

International Journal of hospitality management, 29(1), 72-82.

Liu, S. & Wu, D. (2016). Competing by conducting good deeds: The peer effect of corporate social responsibility. *Finance Research Letters*, 16(c), 47-54.

doi: 10.1016/j.frl.2015-10.013

Lyon, T. P. & Montgomery, A. W. (2015). The means and end of greenwash.

Organization and Environment, 28(2), 223-249. doi: 10.1177/1086026615575332

Parsa, H. G., Lord, K. R., Putreva, S. & Kreeger, J. (2015). Corporate social and environmental Responsibility in services: Will consumers pay for it? *Journal of Retailing and Consumer Services*, 22, 250-260. doi: 10.1016/j.jretconser.2014.08.006.

Preston, I. L. (1990). The definition of deceptiveness in advertising and other commercial speeches. *Cath. U.L. Rev.* 10, 33.

Retrieved from <http://scholarship.law.edu/lawreview/vol39/issue4/s>

Pour, B. S., Nazaria, K., & Emami, M. (2014). Corporate social responsibility: A literature Review. *African Journal of Business Management*, 8(7), 228-234.

doi: 10.5897/AJBM12.106

Rechtin, M. (2016). FTC charges Volkswagen with false advertising.

Retrieved from <https://www.consumerreports.org/volkswagen/ftc-charges-volkswagen-with-false-advertising/>

Rhodes, C. (2016). Democratic business ethics: Volkswagen's emissions scandal and the disruption of corporate sovereignty. *Organization Studies*, 37(10), 1501-1518

doi: 10.1177/0170840616641984.

Sheehy, B. (2015). Defining corporate social responsibility: Problems and solutions.

Journal of Business Ethics, 13(3), 625-648. doi: 10.1007/s 10551-014-2281-x

Spector, M. & DiNapoli, J. (2018). Purdue Pharma in discussion on \$10 billion- \$12 billion offer to settle opioid lawsuits: sources. Retrieved from

<https://www.google.com/amp/s/mobile.reuters.com/article/amp/idUSKCN1VH261>

Zee, A. V. (2008). The promotion and marketing of OxyContin: Commercial triumph, public health tragedy. doi:10. 2105/AJPH.2007.131714

Retrieved from: <https://www.ncbi.nlm.nih.gov/m/pubmed/18799767/>