BUSINESS ETHICS AS AN ELEMENT OF COMPETITIVE MARKETING STRATEGY

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ABSTRACT

This paper enumerates the ethical violations in marketing management and identifies their implications on the firm's ability to satisfy customer needs and compete effectively in the business. The author proposes that organisations should strategically redefine their marketing mix by integrating business ethics with the elements of its marketing mix strategy to gain competitive advantage in the market place. The paper outlines an approach to incorporate ethical aspects in each of the elements of marketing mix strategy.

INTRODUCTION

The societal marketing concept like the marketing concept recognises profit as a major business motive and counsels firms to market goods and services that will satisfy consumers under circumstances that are fair to consumers and that enable them to make intelligent purchase decisions, and cautions firms to avoid marketing practises that have deleterious consequences for society (Schwartz, 1971). This concept requires from business a commitment to the solution of the social problems of the world and argues that if profits are viewed in sufficiently long-run and indirect terms, then the human concept can be said to contribute towards business survival and profitability. In short, it means that to practise the societal marketing concept, firms have to be socially responsible.

Social responsibility essentially is the ethical actions of the firm in respect of individual and public well-being, trust and truthfulness in dealing with others and justice for injuries from products and services. Caroll (1981) distinguishes social responsibility and business ethics on the basis that the former is primarily an organisational or corporate concern, while the latter is the concern of the individual manager or business decision-maker. This indicates that to be socially responsible, marketers must first be ethical. As such, ethics should be the focus of all marketers in their marketing strategy, only through such ethical marketing actions can the firm be called socially responsible or seen to be practising the societal marketing concept.

ETHICS

The role of ethics in marketing is to provide the broad framework within which business life must be understood. Corporations are part of society that consists of something more than a market. Some people argue that doing what is right is somehow contrary to doing what is good for business. But Garfield (1992) argued that profits and ethics are not oil and water: the two mix well in peak performing individuals and organisations. This is because the ultimate benefit of ethics is its contribution to an organisation's reputation and hence image. Nothing is more dangerous to a business than a tarnished image. The fact is that a tarnished image has direct consequences, for sales, for profits, for morale, for the day-to-day running of the business. People prefer to deal with those whom they trust. A poll conducted by Opinion Research Corporation in the United States shows that a company's reputation often determines which products 89% of adults will buy - and which they will not buy (Garfield, 1992). Hence, there is no doubt that ethical practice is good business. This can be supported by the success of many organisations which, to some extent, has been attributed to the firm's level of ethics. For instance, Levi Strauss patriarch, Walter Haas states that *'When we do what we believe is proper, the company gains. I don't know how to translate that value into a number that appears on a financial statement, but I know that we wouldn't want to be in business and we would not be the leader in our industry if we did not enjoy this kind of relationship with our people'* (Garfield, 1992).

The Body Shop, a skin and hair-care store is also a living proof that a company thoroughly committed to ethical behaviour can also be a financial success. The company is most well known for selling well-being which forms the basis of the company's marketing strategy. The company rejects promising cosmetic products because of its stand against animal testing. Other ethical behaviour also include refusing to make extravagant claims for their skin and hair care products, all derived from natural ingredients, other than they cleanse and polish (Oates, 1988). In the process, Body Shop is already a legend in the United Kingdom. For a decade, sales and profits continued to grow, on average 50% a year despite the onset of a recession in retailing (Burlingham, 1990).

These examples demonstrate that ethical behaviour promotes improved performance in business. A firm that is concerned with ethical practices will maintain a long-term perspective in all of its dealings. This will do a lot to ensure the long-run success of the organisation; it also means that the societal marketing concept will perforce be considered (Friedman and Friedman, 1988). It is therefore clear that ethics can be used as an element of marketing strategy for gaining competitive advantage as businesses have a controllable resource in the marketing mix. It is the company's choice of marketing mix variables that should include ethical considerations. Ethical aspects in marketing mix must be understood before one can go on to show how ethics can be integrated as an element of marketing strategy for gaining competitive advantage.

ETHICAL VIOLATIONS IN MARKETING

Very often the media brings to the notice of the general public incidents of ethical violations in different elements of the marketing mix. It is important to understand what constitutes ethical violations for each of the marketing mix elements - product, place, price and promotion.

Product of one of the most successful advertising campaigns in history, the 'Marlboro man' revolutionised the image of Marlboro cigarettes, making it a top selling brand year in, year out (Shaw and Barry, 1989). Everybody knows that smoking is hazardous to one's health. Ethical violations for product can be observed in terms of product safety, product quality, and labelling and packaging. According to Davies (1992), '......the impact of ethical violations can be arrayed along a continuum which reflects the potential degree of harm an ethical product claim violation produces at the individual or societal level.' One end of the continuum reflects ethical product claim violations that have slight immediate long-term or harmful consequences for either the individual consumer or society at large. For instance, a detergent with a new ingredient and the implied promise of better cleaning, which does not in fact clean better, merely disappoints the user and deprives him or her of a small amount of financial resources. Neither the individual nor society suffers any severe or long-term harm. This reflects ethical violation in terms of product quality - that is quality of product does not measure up to the claims made about it. At the intermediate stage in the continuum are marketing claims that, if not consumer truthful, have the potential for a strong negative impact at the individual but not the general societal level. For instance, implying that a consumer will be healthier or live longer if he or she eats one product versus another, or will be safer when selecting one automobile tyre versus another when, in fact, no such result is likely to occur are examples of claims occurring at this intermediate stage, having severe detrimental consequences for the individual but society as a whole suffers only marginally. This reflects ethical violation concerning product safety. The extreme end of the continuum consists of ethical claim violations which have the potential to produce severe harm at both the individual and societal level. Rarely do products fit into this category but one such set of claims has recently arisen - those related to environmental or 'green' marketing.

As for ethical violations for labelling and packaging, they centre around marketer's general responsibility to provide clear, accurate and adequate information. Despite the millions of dollars spent on advertising, a product's label and package remains the consumer's primary source of product information. Yet labels are often hard to understand or misleading and what they omit to say may be more important than what they do say. Packaging shapes can exploit certain optical illusions. Tall and narrow cereal boxes look larger than short, squat ones which actually contain more cereal. A representative study on supermarket shoppers has proven that some shoppers are fooled by such things as labelling and packaging (Weiss,1968). Language abuse partly accounts for consumer bewilderment in the market place. Frequently, shoppers are mystified by terms such as large, extra large, and economy size; by net quantities of the contents (ounces, pints, quarts, liters, and grams); as well as by special product terms, such as those applied to meat, like prime, choice, graded or ungraded (Shaw and Barry, 1989).

Ethical violations relating to place include actions leading to consumers not able to obtain the firm's product from easily accessible outlets. Direct marketing as a rapidly growing field raises ethical issues tending to focus on privacy, confidentiality and intrusion. A firm operating parallel imports, diverting its products to unauthorised channels, playing one channel intermediary against another, hoarding products aimed to create

artificial shortage in the market place, and establishing unauthorised channels of distribution for its products or services are some of the examples of unethical conduct by a firm.
Examination of pricing from the perspective of ethics essentially involves understanding if the price of the product being sold really reflect its value and whether or not consumers getting their money's worth from the purchase of a product. Although it is generally true that prices do reflect the costs of materials, labour, operating expenses, in many cases non cost factors such as location and psychological factors help shape the price. For many consumers, higher prices mean better products. Manufacturers arbitrarily raise the price of a product to give the impression of superior quality or that the buyer is getting something special. But often the price is higher than the product's extra quality. For example in the case of jeanswear, Levi's jeans may cost only $50 while an Giorgio Armani jeans may cost $300. Does that mean that Levi's jeans is inferior in quality? The answer is definitely no, because all that the consumer is paying for is the brand name. Consumers pay more as they often assume that the brand name or the higher price implies a better product. Another ethically dubious practise is that of manufacturers who print a suggested retail price on their packages than what they know the retailer will charge. When the retailer marks a new price over the suggested price, customers receive false impression that the item is selling below its customary price. Retailers themselves are on questionable ethical ground when they use special pricing codes, or fail to put a price on, or post it near products, thus hindering consumers from comparing prices easily (Shaw & Barry, 1989).
Lately, more attention has been devoted to price fixing, which despite its prevalence, is widely recognised as violation of the 'rules of the game' in a market system whose ideal is open and fair price competition. Recently, TNT Ltd. and Ansett Freight Express in Australia were hit with combined penalties of $6.5 million over long run price-fixing allegations (Jackson, 1994).
Since advertisers are trying to persuade people to buy their products, and since straight product information is not necessarily the best way to do this, there is a natural temptation to adumbrate, confuse, misrepresent or even lie. In an attempt to persuade, advertisers are prone to exploit ambiguity, to conceal facts, to exaggerate and to employ psychological appeals. When advertisements are ambiguous, they can be deceiving. In all aspects of advertising, much potential ethical danger lies in the interpretation. For instance, for years consumers have inferred from its advertisement that Listerine mouthwash effectively fought bacteria and sore throats. In 1978, the FTC ordered Listerine to run a multimillion dollar disclaimer. In such cases, advertisers and manufacturers invariably deny intending the inference that consumers draw. But sometimes the advertisement is so ambiguous that a reasonable person could not infer anything else (Shaw and Barry, 1989).
The ethics of government promoting gambling activity through advertising Lotto is another form of deceptive advertising. These promotions incite people to trust that they are indirectly helping the poor by saying part of the proceeds goes to charity. In actual fact, most of the income from Lotto goes into state revenue. Furthermore, Government through such advertisements implicitly endorse gambling by showing people having the joy of winning but the amount of odds to win the big prize is not disclosed. Advertisers can also mislead through exaggeration; that is making claims unsupported by evidence. For example, claims that a particular brand of pain reliever provides 'extra pain relief' or is 50% stronger than of a competitor's brand contradict evidence which indicates that all analgesics are effective to the same degree. Therefore, consumers must be able to differentiate between deception and puffery.
Use of fear appeals and marketing to the elderly is another example of unethical practice in advertising. Waddell (1976) and Koeskc and Srivastava (1977) pointed out that the elderly are commonly perceived as a vulnerable group, more susceptible to unscrupulous business practises than younger groups and exhibit strong fear of victimisation. Koeske and Srivastava (1977) proposes two possible reasons for the fewer incidences of complaining among the elderly consumer group. Firstly, the elderly may have a less sophisticated view of the marketplace as such they may be more tolerant of unfair business practises. Alternatively, the elderly may have just be conditioned not to protest against unfair practises due to years of unsuccessful complaining. Other reasons that reflect their vulnerability may include their efficiency to process information, how they acquire information, how they get access to information and the proneness to anxiety.
Advertisements aimed at children are another clear case of manipulation. Children, particularly the younger age group, tend to be very impressionable. They believe most of what they hear and see and are unable to distinguish clearly truth from fancy, and have very little critical skill or experience.

BUSINESS ETHICS AND MARKETING STRATEGY

Marketing strategy primarily involves development of a marketing program for effective allocation and coordination of marketing resources and activities to accomplish the firm's objectives within a specific product-market. With an understanding of what constitutes ethical violations in each of the marketing mix elements, marketers can initiate actions to encourage ethically responsible behaviour. However, it is important to recognise that the achievement of social responsibility through ethics is an obligation not only of the marketer, but also of the consumer. Hence marketing efforts should also be aimed at informing consumers about their obligation and influence their decisions. The marketing mix should be strategically redefined to include societal considerations. A firm can improve its competitive position in the market place by integrating business ethics with the elements of its marketing mix strategy. Approaches to incorporate ethics in each of the elements of marketing mix are outlined below.

ETHICS AND PRODUCT MIX

Product safety should be one of the prime element in a firm's product design strategy. Marketing strategists should abandon the commonly held misconception that accidents occur exclusively as a result of product misuse or abuse. Product planning and strategy should incorporate close contact with manufacturing to ensure that the manufacturing process is monitored continuously to ensure product safety.
Continuous monitoring and investigation of consumer complaints should form part of the product strategy. Shaw and Barry (1989) illustrated the case of a company which successfully acted ethically concerning product safety to ensure the safety of its consumers. In the early 1960's, a few of the radios sold by JC Penny were reported to have caught fire in customers homes. JC Penny tested the radios and discovered a defective resistor in a few of them, less than 1%. Nonetheless, the company informed the manufacturer, withdrew the entire line of radios, ran national ads informing the public of the danger and offered immediate refunds. This was before the Consumer Product Safety Commission even existed. A firm's product planning should incorporate systems and protocols to recall from the market without delay unsafe/defective products.
Environmental considerations such as pollution and waste of resources, should be part of product strategies even if profits suffer in the short-term. Altering products from time to time to take advantage of consumer's increasing concern for the environment and change in firm's attitude to voluntarily to stay ahead of tightening regulations reflecting public attitudes on environment should be part of a firm's product policy.
Product strategies of a firm should bear a general responsibility to ensure that the quality of a product measures up to the claims made about it and to reasonable consumer expectations. One way that businesses can meet this responsibility is through warranties, obligations that sellers assume to purchasers.
Labelling and packaging strategy of a firm should include methods to ensure clear and specific identification of the product in an appropriate part of the label. The net quantity contents should be prominently located. In addition, the label should contain clear, accurate and adequate consumer information including information to those people whose health necessitates certain dietary restrictions.

ETHICS AND PLACE MIX

A firm's strategy for reaching its products and services to consumers should exclude the practice of *tying* - refusing to sell to an intermediary (ie., wholesaler, retailer, etc.) a desired product unless the intermediary undertakes to purchase another product of the company; in an effort to use the market power of one product to help another. Distribution strategies should abdicate *enforced exclusive dealing* - refusing to sell to the distributor or refusing to grant the distributor the same price unless the latter agrees not to carry competing brands.
A firm's place strategy should focus on providing to consumers it's products in easily accessible outlets. This is far more important when the firm's products are critical (eg. daily necessities, life saving drugs, etc.,) to consumers. Place strategies of firms engaged in non-store retailing and direct marketing should incorporate systems and protocols to ensure privacy of consumers and confidentiality of customer information. Activities such as parallel imports, diverting products to unauthorised channels, playing one channel intermediary against another, hoarding products aimed to create artificial shortage in the market place, and establishing unauthorised channels of distribution for their products or services should be kept

out of an organisation's distribution strategy. A firm's distribution planning should incorporate systems and protocols for effective after-sale service and handling of consumer's complaints.

ETHICS AND PRICING MIX

From an ethical point of view, prices should be just but for prices to be fair, consumers must be in a position to have perfect knowledge which more than often are denied because it is too costly to provide complete information. As such, pricing strategy of a firm should embody the practice of pricing products according to factors that affect its prices and exclude unscrupulous price fixing activities. The emphasis of pricing strategy should be on long term profitability and customer relationships over short-term gains, at the same time maintaining adequate return to shareholders. Pricing strategies should restrain deceptive or misleading pricing practices, price discrimination, misleading pricing tactics, phony list prices, phony sales and price fixing conspiracies within industries.

ETHICS AND PROMOTION MIX

According to Abratt and Sacks (1988) the golden rule for marketers to display ethical behaviour is 'avoid messages that exploit buyer emotions or take advantage of unsophisticated elements of the population'. In its efforts to persuade people to buy their products, an organisation's promotion strategy should not lose sight of providing product information. In formulating promotion strategies firms should ensure that ambiguity, concealing facts, exaggeration and employing psychological appeals have no place in advertising and promotional programs. Advertisements targeted to the poor and uneducated should be far more responsible and should not suppress information that is unflattering to the products. An organisation's promotion strategy should exclude high-pressure sales tactics, misleading credit sales, use of fear appeals, coercion and manipulation in advertising and subliminal advertising. Promotional programs aimed at children should be thoroughly scrutinised for accuracy, truthfulness and relevance.

CONCLUSIONS

In recent years marketing received several criticisms of being unethical, wasteful, deceptive and that it stimulates excessive demand. These charges are justified in some situations. When the marketing actions of a firm are manifestly at variance with public well being the law usually intervenes. This will blemish the reputation of the firm. Hence the scope of marketing need to be expanded to encompass business ethics. A business should work toward improving marketing's contributions to society by following marketing ethics and by practicing social responsibility. A firm can improve its image and competitive position when people view the firm invest in well being of society, insist on honesty in its dealings and seek the just solution. Hence organisations should strategically redefine their marketing mix to include societal considerations in order to satisfy the needs and wants of the various publics of the organisation - customers, employees, suppliers, society and in the long run, ensure accomplishment of the objectives of the organisation. An organisation can improve its competitive position in the market place by integrating business ethics with the elements of its marketing mix strategy. Marketers can effectively influence consumer decisions through the design and implementation of an ethical marketing mix. Consequently, organisations must look beyond financial performance to judge their success in satisfying customers. However, it is important to recognise that our economic systems are structured in a way that the resources are guided by financial incentives. The imposition of ethical constraints inconsistent with those financial incentives creates a paradox, the more ethical constraints to business decisions, the less efficient the system becomes in its ability to offer precisely the products deemed ethically more important. Ethical considerations are important, but some kind of incentives must be provided to make sure they are realised. Marketing strategy devoid of ethical business practices and reasonable financial incentives, is not likely to promote organisational success

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