Chapter 5
Ethics in Business Practice: Marketing Management

The function and practice of marketing has been criticized because it is claimed that it deliberately creates partial truths about products and services and exploits the fears and weaknesses of fellow human beings.

Learning Objectives

Ethics are a collection of principles of right conduct that shape the decisions people or organizations make. Practicing ethics in marketing means deliberately applying standards of fairness, or moral rights and wrongs, to marketing decision making, behavior, and practice in the organization.

In a market economy, a business may be expected to act in what it believes to be its own best interest. The purpose of marketing is to create a competitive advantage. An organization achieves an advantage when it does a better job than its competitors at satisfying the product and service requirements of its target markets. Those organizations that develop a competitive advantage are able to satisfy the needs of both customers and the organization.

As our economic system has become more successful at providing for needs and wants, there has been greater focus on organizations' adhering to ethical values rather than simply providing products. This focus has come about for two reasons. First, when an organization behaves ethically, customers develop more positive attitudes about the firm, its products, and its services. When marketing practices depart from standards that society considers acceptable, the market process becomes less efficient – sometimes it is even interrupted. Not employing ethical marketing practices may lead to dissatisfied customers, bad publicity, a lack of trust, lost business, or, sometimes, legal action.

The historical background for marketing ethics is derived from early concerns during the turn of the twentieth century concerning antitrust and consumer protection, especially adulterated food products. From the beginning of advertising, there have always been concerns about misrepresentations and purposeful deception of consumers.

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Frank Chapman Sharp started teaching a course in business ethics at the University of Wisconsin in 1913, and Sharp and Fox (1937) published a textbook on business ethics. The book was based on the concept of "fair service," and the authors stated "it will be possible to reduce our study of fair service to the principles of fair salesmanship" (Sharp and Fox 1937). The book could have been titled "Marketing Ethics" and had chapters on commercial coercion, let the buyer beware, the limits of persuasion, fair pricing, and the ethics of bargaining. During the 1960s, American society turned to causes. An antibusiness attitude developed as many critics attacked the vested interests that controlled the economic and political sides of society – the so-called military-industrial complex. The 1960s saw the decay of inner cities and the growth of ecological problems, such as pollution and the disposal of toxic and nuclear wastes. This period also witnessed the rise of consumerism – activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers. In 1962, President John F. Kennedy delivered a "Special Message on Protecting the Consumer Interest," in which he outlined four basic consumer rights: the right to safety, the right to be informed, the right to choose, and the right to be heard. These came to be known as the Consumers' Bill of Rights (Ferrell et al. 2005).

During this period of time, Robert Bartels (1967) contributed the first comprehensive model for ethics in marketing. This first academic conceptualization of the variables that influence marketing ethics decision making tried to determine the logical basis for marketers to determine what is right or wrong. It presented a schematic plan for analyzing the variables inherent in the ethics of decision making and provided a framework for social and personal ethics in marketing decisions. The model did a good job in delineating variables that influence ethical decision making, including participants, cultural influencers, role expectations, and the complexity of ethical decision making. During this same period of time, Richard Farmer (1967) published an article, "Would You Want Your Daughter to Marry a Marketing Man?" that maintained that much of marketing is unethical and irrelevant. This article was received so well that in 1977, Farmer published an article entitled, "Would You Want Your Son to Marry a Marketing Lady?" and in 1987 published another article entitled, "Would You Want Your Granddaughter to Marry a Taiwanese Marketing Man?" The titles of these articles indicate that possibly marketing ethics was not considered a serious academic research area. The 1967 Bartels article provided a foundation for empirical research that followed in the 1970s.

In the 1970s, significant research was conducted to describe the beliefs of managers about marketing ethics. Carroll (1975) found that young managers would go along with their supervisors to show loyalty in dealing with matters related to judgments on morality. A follow-up study by Bowman (1976) supported these findings. Ferrell and Weaver (1978) provided insights into organizational relationships that influence marketing mangers' ethical beliefs and behavior. The findings indicated that respondents perceived that the ethical standards of their peers and top management were lower than their own standards. Empirical research in the 1970s set the stage for frameworks that describe ethical decision making within the context of a marketing organization.

Ferrell and Gresham's (1985) "A Contingency Framework for Understanding Ethical Decision Making in Marketing" emphasized the interaction of the individual and organization, including organization culture, coworkers, and opportunity to explain how ethical decisions are made. Most of the propositions in this model have been tested to provide a grounded understanding of ethical decision making. Hunt and Vitell's (1986) "A General Theory of Marketing Ethics" is widely accepted and also provides an empirically grounded model to illustrate how ethical decision making occurs in an organization. Research followed in both marketing and management literature that helped test the Ferrell and Gresham and Hunt and Vitell models (Hunt and Vitell 2005).

In the 1980s, business academics and practitioners acknowledged business ethics as an important field of study. Industry developments, such as the Defense Industry Initiative on Business Ethics and Conduct, established a method for discussing best practices and working tactics to link organizational practice and policy to successful ethical compliance. In the 1990s, the government also provided support and rewards for ethics programs through the Federal Sentencing Guidelines for Organizations, approved by Congress in 1991. The Guidelines broke new ground by codifying into law incentives to reward organizations for taking action to prevent misconduct. A special task force provided a report for updating and refining the guidelines in 2003 (US Sentencing Commission 2003). In 2005, a federal amendment to the Federal Sentencing Guidelines added oversight of ethics and compliance programs to the responsibilities of board of director positions. The amendment places more responsibility on board members to monitor and audit ethics programs, including marketing ethics.

By its very nature, marketing ethics is controversial, and there is no universally accepted approach for resolving questions. Ethical issues address a problem, situation, or opportunity that requires an individual, group, or organization to choose among several actions that must be evaluated as right or wrong (Ferrell et al. 2005). The organization and stakeholders define marketing ethical issues that must be identified and resolved to build trust and effective relationships with stakeholders. Because marketing ethics sometimes deals with subjective moral choices, this requires decisions about the moral standards to apply and the definition of ethics issues (Murphy et al. 2005). However, many groups in society, including government, are defining ethical and legal issues and proactive approaches to deal with these issues. For example, millions of blogs or personal web logs exist on the Internet without any formal code of ethics or regulation. Many firms, such as Audi, have their own blogs with many stakeholders requesting the formation of an ethics committee to create unified standards. Organizations are being asked to prevent and control misconduct by implementing ethical compliance programs. Ethics brings many rewards to organizations that nurture it, but managing ethics requires activity and attention on several levels – complying with the law, setting ethical standards, and dealing with the complex decisions related to trade-offs between the bottom line and ethical conduct. For example, the Securities and Exchange Commission is looking into retailers such as Saks, Inc., and other major department stores investigating collections or "charge backs" to manufacturers. Manufacturers often guarantee a certain profit margin or compensate retailers for items, which did not sell well. Saks may have improperly collected over $21 million from its vendors (D'Innocenzio 2005).

High ethical standards require both organizations and individuals to conform to sound moral principles. Fair trade has emerged to link ethically minded consumers with marketers concerned with disadvantaged producers in developing nations. Starbucks works to treat coffee farmers fairly in their business relationships by paying premium prices, long-term contracts, affordable credit, direct purchasing, and investing in social projects in coffee communities (see http://www.starbucks.com/aboutus/StarbucksAndFairTrade.pdf; accessed July 5, 2005).

However, general special factors must be considered when applying ethics to marketing. First, to survive, marketers must contribute to profits or other organizational objectives. Second, marketers must balance their desire for success against the needs and desires of society. Maintaining this balance often requires compromises or trade-offs. To address these unique aspects, society has developed rules – both legal and implicit – to guide marketers in their efforts to reach their objectives in ways that do not harm individuals or society as a whole.

External stakeholder interests, concerns, or dilemmas help trigger ethical issue intensity. For example, the National Do Not Call Registry has tremendous impact on telemarketers' business practices. Organizational culture (internal stakeholders) and individual moral philosophies and values influence the recognition of ethical issues and marketing ethics decisions. New Belgium Brewing Company, the third largest craft beer brewer in the USA, uses only wind energy and cogeneration as well as a vigorous recycling initiative. In addition, the company practices open-book management. The decisions or outcomes are evaluated by both internal and external stakeholders.

There is much overlap between marketing ethics and business ethics because the basic frameworks that describe ethical decision making in an organization include decisions that encompass marketing. In other words, within the context of an organization, there is an ethical component to business decisions, regardless of whether it is marketing or some other functional area component. External stakeholder interests, concerns, or dilemmas help trigger ethical issue intensity.

For example, PETA has encouraged KFC and other fast-food restaurants to make the ethical treatment of animals a priority. Organizational culture (internal stakeholders) and individual moral philosophies and values influence the recognition of ethical issues and marketing ethics decisions. The decisions or outcomes are evaluated by both internal and external stakeholders. While it is impossible to describe precisely how or why an individual or a work group may make a specific decision, we can generalize about average or typical behavior patterns within organizations.

First, as previously discussed, marketing can identify the importance of stakeholders, stakeholder issues, and gather information to respond to significant individuals, groups, and communities. Next, in the decision-making process, marketers should identify the importance or relevance of a perceived issue – i.e., the intensity of the issue (Jones 1991). The fast-food industry is being pressured by government agencies, consumers, and special interest groups to offer healthier menu options, particularly for children.

The intensity of a particular issue is likely to vary over time and among individuals and is influenced by the organizational culture, values, and norms; the special characteristics of the situation; and the personal pressures weighing on the decision. McDonald's restaurants were the targets of negative publicity associated with the release of the movie Super Size Me. In response, the company introduced more salads and healthful portions and alternatives. Individual factors are obviously important in the evaluation and resolution of ethical issues, and familiarity with principal, theoretical frameworks from the field of moral philosophy is helpful in determining ethical decision making in marketing (Murphy et al. 2005). Personal moral development and philosophy, organizational culture, and coworkers determine why different people perceive issues with varying intensity (Robin et al. 1996).

Stakeholder orientation has the potential to redefine the strategic concept of market orientation by including the interests of all stakeholders in marketing decisions. Marketing can be viewed more as a network of relationships providing skills and knowledge to all stakeholders (Vargo and Lusch 2004). From this perspective marketing ethics would be an important part of the strategic planning process (Greenley et al. 2004).

The role of normative theory (Dunfee et al. 1999) and cognitive moral development (Goolsby and Hunt 1992) continues to be a part of the pluralistic approach used to discover and evaluate marketing ethics. Both descriptive and normative researchers agree that marketers do develop guidelines and rules for ethical conduct based on accepted norms and moral philosophies. Integrative social contract theory (ISCT) (Dunfee et al. 1999), based on norms as the foundation of rules within communities, provides a direction for future research. Stakeholder theory can be linked with ISCT to examine multiple conflicting norms and discovery of norms that should have priority in marketing decisions.

Case Study Five: Philip Morris: Unethical Marketing Practices

The caselet discusses the deceptive advertising campaigns for cigarette products. It focuses on the advertising strategy followed by Philip Morris, a leading cigarette manufacturing company in the world. It shows how the company resorted to various business strategies to tackle the restrictions imposed on tobacco advertising.

Continuing with their unethical practices, they have grown into enormous multinational conglomerates. Considering the health hazards that use of tobacco causes to society and also the growing concern among the public, the US government imposed certain restrictions on the advertising of tobacco-related products in order to prevent children and teenagers from falling a prey to the perils of smoking.

The government's intervention forced the tobacco companies to try out new techniques and strategies to sell their products. The imposition of restrictions on tobacco advertising did little to help the government prevent these companies from selling their products to young people.

Fair and Handsome!

In 2007, leading Bollywood actor, Shahrukh Khan, was roped in by Emami Ltd (Emami) to endorse its fairness cream for men, "Fair and Handsome." The ads renewed the smoldering debate on the ethics of skin-lightening products. For most Indians, as for South Asians as a whole, a fair complexion has been a much desired *asset, and their quest for a lighter skin had prompted many fast-moving consumer goods (FMCG) behemoths to venture into the business of manufacturing and marketing skin-lightening products, such as fairness creams, lotions, cold creams, and soaps.*

5.1 Questions: Ethics in Marketing

1. Define the nature and scope of marketing ethics from both a descriptive and normative perspective.
2. What can be found in examining the history of marketing ethics that could be used in understanding marketing ethics today?
3. How does the contingency framework for understanding ethics in a marketing organization assist in designing an effective program to maintain and improve ethics in marketing?
4. What is the interrelationship between contract law and ethics in building and sustaining marketing exchanges?
5. Discuss the relationship between corporate ethical values and organizational performance in marketing.

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