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COMMENTARY

Addressing socio-ecological issues in marketing: environmental, social and governance (ESG)

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Abstract
This commentary addresses the Social and Ecological Thought (SET) framework based on virtue ethics (Dyck & Manchanda, in *AMS Review*, 2021). The basis of this framework is to replace utilitarian values that focus on profit maximization. The Financial Bottom Line (FBL) is believed to be a mainstream utilitarian philosophy. In addition, the Triple Bottom Line (TBL) is considered inadequate to address socio-ecological issues because there is a major focus on financial performance. After addressing some of the limitations in the SET framework, the Environmental, Social and Governance (ESG) framework is presented as a more relevant alternative. ESG provides a lens for creating priorities for socio-ecological comparative performance based on industry, investors' and peer index scores. There is a strong correlation between ESG performance and profits. Compelling evidence is provided that suggests there is no conflict between socio-ecological responsibility and financial success.

Keywords Socio-ecological · Virtue ethics · Financial bottom line · Environmental · Social & governance · ESG

Overview

Dyck and Manchanda (2021) have developed an interesting and provocative framework for applying virtue ethics to marketing. They address socio-ecological challenges related to sustainability and consumption behavior that has negative consequences on society. Generating theory to create strategies to reduce negative environmental impact, social inequalities and wasteful consumption while achieving financial success is important (Hunt, 2017). Sheth et al. (2011) introduced the concept of mindful consumption as a consumer-centric approach to sustainability. Dyck and Manchanda (2021) have similar objectives but develop a framework based on moral philosophy. They believe that utilitarian values to maximize profits do not address socio-ecological issues and that virtue ethics is necessary for optimizing social and ecological well-being. The purpose of this commentary is to question the relevance and viability of their Social and Ecological Thought (SET) framework based on virtue ethics and to provide an alternative framework: Environmental, Social and Governance (ESG).

The SET framework attempts to develop a moral foundation for marketing. This framework rejects utilitarian ethics and describes how the Financial Bottom Line (FBL) focusing on profit maximization is unable to address ecological and social issues. Triple Bottom Line (TBL), although more sustainable than FBL, is believed to be inadequate to address socio-ecological challenges. Their comprehensive literature review of sustainable marketing and virtue ethics is linked to changing the philosophy and purpose in implementing the 4Ps of marketing. It is proposed the virtues of self-control, justice, practical wisdom and courage can change marketing strategy to better society. It is my position that this framework is timely and addresses important problems but is not realistic. There is no guidance for implementation in an organizational environment. I propose that Environmental, Social, and Governance (ESG) is an optimal way to address these important issues. First, I will review the SET, FBL, and TBL and then provide support for ESG to address socio-ecological issues in marketing.

Background

A holistic understanding of the ethical foundation for decision-making requires more than adopting one moral philosophy. Hunt and Vitell (1986) provide a model of

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ethical decision making that has been empirically tested to establish that decisions include teleological and deontological moral interaction. Teleology is a utilitarian component of ethical decisions. Deontology relates to normative values such as virtue ethics values. These two individual philosophical perspectives interact in ethical decision making. Moral philosophies provide a general system of principles or values that individuals use in determining what is right or wrong. Moral philosophies are person-specific, while marketing ethics related to socio-ecological challenges in the context of marketing includes organizational principles and values that guide individual and group behavior. While individuals use their moral philosophies in making decisions, there will always be ethical diversity in any organization; therefore, there will need to be principles-specific values that guide the organization.

Dyck and Manchanda (2021) suggest that marketing adopt SET based on virtue ethics applied to the marketing 4Ps. This narrow focus on virtue ethics ignores the complexity and sources of decisions in marketing meeting its objectives. Individuals can evaluate ethical or unethical decisions, in terms of their morals, but in the context of an organization, many other variables will influence the decision (Ferrell et al., 2022). Therefore the SET framework is best suited for individual decision-making. On the other hand, an organization could adopt virtues as values to guide decision making. Translating these values into the marketing mix decisions would involve organizational participation involving marketing and all the other functional areas. There would be different opinions on how to implement values such as practical wisdom, courage and self-control. These values appear to exist more for individuals than the marketing function. While virtue ethics could be aspirational, it will be difficult, if not impossible, to translate into marketing mix decisions based on this philosophy.

The firm has an obligation to all stakeholders including investors and customers. The marketing concept requires the use of information to develop a marketing mix based on the needs and wants of customers that also accomplishes the goals of the organization. The SET framework suggests the reverse. It is suggested not to bring products to the market that serve merely to make a profit. Products are only allowed if they serve society. There will always be some socio-economic challenges in the production and marketing of products customers want and need. It is not the responsibility of marketing to tell customers what they want and need. On the other hand, the firm has an obligation to act ethically and be responsible for minimizing the social and environmental damage caused by its operations and products. Firms and investors have developed guidelines for accomplishing this through the development of values as well as ethics and compliance programs.

SET issues and problems

A major assumption in the SET framework is that most firms operate using mainstream utilitarian values and assumptions. The Ferrell and Gresham (1985) ethical decision-making framework supports the role of corporate culture and subcultures influencing decisions. Utilitarian philosophy is a type of "consequentialism" that seeks the greatest good for the greatest number of people. In theory, utilitarians consider all of the potential costs and benefits for all of the people affected by a decision. "Rule utilitarians" make decisions based on rules and principles. A good example of a rule could be a negative impact on the environment is wrong. So, a rule utilitarian could accomplish many socio-ecological objectives based on principles or rules (Ferrell et al., 2022). Unlike virtue ethics, rule utilitarians would not automatically accept virtues such as fairness, gratitude or self-control but instead promote greater utility. While utility in economics relates to satisfaction with the outcome or product, utility from a socio-ecological perspective could relate to usefulness or value that a customer may receive from a positive impact on the environment. Therefore, firms could find utility in selling products that minimize pollution or prevent over-consumption. For example, Patagonia's Worn Wear recycling program would be an example of creating utility in selling clothes that minimize their negative impact on the environment.

"Act utilitarians" focus on actions rather than values to govern ethical behaviors. They look at an act to access the greatest utility. Therefore, they could reject virtue ethics values such as truthfulness and would be willing to bend the truth if there was more utility in the outcome. On the other hand, if the act of recycling provided more utility to the firm, then a program to encourage recycling could be implemented. If act utilitarians believe that financial returns are most important, then the greatest utility would come from financial success. Therefore, utilitarian values are very complex with different types of philosophies in making decisions. In addition, individual decisions can differ depending on whether they make a personal decision at home or a decision at work. The ethical culture and compliance systems at work provide different goals and pressures that remove the freedom of the individual to determine the 4Ps in the marketing mix, for example.

Dyck and Manchanda (2021, p. 18) state "as long as marketing remains grounded in mainstream utilitarian values and assumptions to optimize financial success, it will be unable to adequately address key ecological and social issues…" There is no empirical support and just opinions of others that provide the foundation for this allegation (Hoffman, 2018; Laczniak & Murphy, 2019). The support for assuming all marketing is based on profits is in overreach based on many firms that use ethics and social responsibility as their competitive advantage. Whole Foods and Starbucks promote sustainability as an important part of their business.

Marketing does not have a moral philosophy. It is a value-neutral discipline providing concepts and techniques based on the development of successful exchange relationships with customers. Individuals that plan and perform marketing activities could embrace utilitarian values that have negative socio-ecological consequences. A marketing strategy is based on selecting a target market and developing a marketing mix. All organizations have values that drive these decisions. The suggestion that marketing can embrace the four cardinal virtues (self-control, justice, practical wisdom and courage) in developing the 4Ps and address socio-ecological challenges appears to be unrealistic. It is very inspirational but very impractical. In fact, the 4P framework provides the assumption that the marketing functions in the organization have complete control over these variables. Dyck and Manchanda (2021, p. 6) suggest that pricing decisions should use virtue ethics values to "proactively ensure that all stakeholders are treated fairly by managing the flow of financial and other resources related to a product" ignores the fact that pricing is determined by many functional areas. Pricing intersects with finance, accounting, and top management involvement in setting the price of a product. It would be almost impossible for an organization that has so much functional involvement to adopt virtue ethics as a corporate strategy. Product development and place (distribution) are often determined outside the marketing function. While it is taught that place is a marketing decision the supply chain involves many intermediaries and third parties. Many distribution decisions are not controllable. Firms are responsible for earning a profit to be sustainable and individuals that make marketing mix decisions can use virtue ethics as their values to be socially responsible.

Financial bottom line

The Financial Bottom Line (FBL) is believed to not be well suited to address the socio-ecological crisis according to Kotler (2011) and Wilkie and Moore (2012). Their concern is that marketing encourages overconsumption. This thinking is based on the belief that utilitarian values make firms only concerned about the FBL. There is no doubt that in contributing to economic growth and firm success, providing products customers need and want, there has been environmental degradation, economic inequality, and social issues as well as many other issues. So far, there is no perfect social or economic system, and there will always be some negative side effects to developing social and economic prosperity. These problems do not exist because of the adoption of a utilitarian FBL philosophy. The issues are very complex with no easy solutions. As discussed, act utilitarianism is an enlightened approach that is based on principles and values to benefit the greatest good. It is a practical and flexible philosophy that many firms use in their approach to socio-ecological issues. Few, if any, firms try for profit maximization because this is impossible due to many constraints that provide checks and balances in economic systems, government regulation, effective corporate governance, and stakeholders requiring balance to serve the interests of society. In fact, the most ethical and socially responsible firms have been found to be the most profitable firms. The results show firms that implement socially responsible activities are more profitable in economic terms (Hategan et al., 2018). Ethisphere's list of most ethical companies consistently outperforms a comparable index of large cap companies (The Ethisphere Institute, 2021). This is because they have been found to have an ethical corporate culture with a strong ethics and compliance program that shows concern for all stakeholders. This questions the view that most firms maximize their profits with an FBL approach.

Triple bottom line

As Dyck and Manchanda (2021) point out, the Triple Bottom Line (TBL) is an approach to measuring social, financial and environmental factors (or people, places and planet), recognizing that firms have a responsibility to make a positive impact on all stakeholders. The TBL takes into account customers, employees, shareholders, community and the natural environment. It is an attempt to create a more universal standard for evaluating socio-ecological challenges. There is evidence that proactively addressing these stakeholders on socio-ecological issues increases a firm's financial well-being (Dixon-Fowler et al., 2013). There is concern that firms place "superior financial performance" above social and environmental factors. It is believed that virtue ethics overcomes the weaknesses of the TBL approach to socio-ecological issues. Therefore, TBL is viewed as inferior to virtue ethics.

TBL is not a moral philosophy. It is a practical framework to develop and measure approaches to resolve socio-ecological issues. It is suggested that more abstract values are a better guide to addressing marketing mix issues. But all evidence indicates firms that use this approach to address issues are more socially responsible. While the TBL has been used in academic and business circles it has been replaced by a more widely used metric to access socio-ecological performance. Environmental, Social and Governance (ESG) has become the most widely used measure to address these issues. This is an index to monitor and report the socio-ecological performance of the firm. Note that ESG does not have financial or profits in its name. The focus is on being responsible to society.

Environmental, social and governance (ESG)

The ESG framework provides a lens for firms to create priorities in these areas relative to their industry, investors' priorities, peer comparisons, cultural/leadership priorities for the organization. The three dimensions of ESG are the following:

- Environmental considerations relate to issues such as climate change, natural resources, recycling, pollution and the sustainability of the ecosystem.
- Social considerations relate to the treatment of key stakeholders. Key issues include diversity, employees (human capital), product impact and social issues including opportunities to improve the quality of life.
- Governance considerations relate to corporate governance and productive ethics and social responsibility. Issues include business ethics programs, regulatory compliance and negative behavior such as bribery, anti-trust and corruption.

The ESG framework is often related to investment decisions, and many investors want to invest in ESG index funds provided by investment firms such as Vanguard. Investors buying shares in a firm can obtain their ESG score. Many stock analysts use the index to avoid investing in firms that are not responsible for their socio-ecological impact. Bloomberg evaluates firms with ESG data service by collecting public ESG information disclosed by the firm's sustainability reports, annual reports and other public sources (Ferrell et al., 2022). These multiple data points provide an overall rating that is available to compare with the ESG performance of other firms. The rating can inform a firm about their performance as well as other stakeholders about positive and negative qualities of their ethics and social responsibility. As investors become more interested in investing in firms that are responsible for their socio-ecological impact, rules on disclosure are developing. For example, new European rules require fund managers, including those in the United States, to disclose climate, diversity and governance data for investments by funds that are marketed in the European Union (Eaglesham & Hirtenstein, 2021). Lenders are also scrutinizing sustainability metrics when providing loans to companies or underwriting bonds (Chin & Holger, 2021).

ESG is a practical way to understand and improve socio-ecological challenges. Similar to TBL, it is not based on moral philosophy and is more of a direct empirical approach to planning and improving performance. The variables in the index provide direct guidance to evaluate a firm. Mishra (2020) provides a summary of the relationships of ESG to financial performance.

- High ESG rating is positively related to profitability and valuation and negative to volatility
- High ESG ratings are associated with stocks that outperform
- Hight ESG rating indicates firms that are less cyclical and more likely to be in technology, health care and consumer non-durable sectors.

There is a strong relationship between ESG and financial performance. This means that ESG performance creates value. In other words, attention to ESG is not a narrow utilitarian philosophy to maximizing profits without considering socio-ecological challenges. It is the opposite. The case for socio-ecological concerns seems to be a strong driver of profits. Henisz et al. (2019) reported five ways ESG creates value:

- ESG can achieve better access to resources with stronger community and government relations. It can attract customers with more sustainable products.
- ESG has been found to lower energy consumption and reduce water intake.
- ESG sustainability can earn subsidies and government support. There is improved regulatory freedom.
- ESG can boost employee motivation and attract talent through greater social credibility.
- ESG enhances investment returns better in allocating capital and avoids environmental issues related to investments.

ESG provides a compelling argument that socio-ecological issues are not just being grafted on to mainstream utilitarian values. This approach challenges the view that socio-ecological issues are vulnerable when firms achieve financial success. If profits have been linked to addressing and solving socio-ecological issues, then profits are not in conflict with solving important problems in society.

ESG data would suggest that focusing on the marketing mix would be too narrow and limited and a more holistic and integrated firm-wide strategy is needed to solve the issues of socio-ecological challenges. Many of the decisions in the 4Ps are made in other functional areas or by top management. The 4Ps were created to teach principles of marketing and with the assumption that the Chief Marketing Officer can control all aspects of these variables. It oversimplifies how marketing decisions are made in the real world. ESG focuses on governance as the function that has the most impact on socio-ecological challenges. The assumption is that the Board of Directors approves strategy and provides leadership that can accomplish desired social and ecological objectives.

Conclusions

Dyck and Manchanda (2021) maintain that the primary goal of marketing, even sustainable marketing, is to enhance the firm's profit using mainstream utilitarian ethics. This commentary questions the assumption that adoption of the SET virtue ethics framework would solve the problem. Virtue ethics stresses individual values and a way of life related to self-control, justice, practical wisdom and courage. Virtue ethics is a moral philosophy that each individual in a firm would need to embrace to develop a marketing strategy based on these values. Organizations do not usually adopt moral philosophies and there is much diversity in the moral philosophy of individuals. While virtue ethics can be aspirational, it is not a realistic philosophy for developing the marketing mix.

The assumption that the marketing function uses the FBL approach to maximize financial success, making it unable to address key ecological and social issues, is not based on any empirical evidence. In fact, firms that rank high on the ESG index are more profitable. Because marketing is the business function that drives revenue, there is much pressure to develop marketing strategies to achieve success. But many of the decisions to address socio-ecological challenges are outside the marketing function. Many of the elements in the marketing mix are not controllable by marketing. Utilitarian values are viewed as the reason marketing cannot address socio-economic challenges. The Hunt and Vitell (1986) ethical decision making framework demonstrates individuals have both teleological and deontological moral intersections. Rule utilitarians make decisions based on principles and can include rules on socio-ecological challenges as well as financial success. In reality, utilitarian values are individual and there is much diversity among those that have this perspective. Dyck and Manchanda (2021) contribute by pointing out the socio-ecological issues associated with marketing activities. Virtue ethics could be a real asset to solve these issues for individuals making marketing decisions. But ESG is a more practical and realistic approach for organizations.

ESG was introduced as a framework that businesses and investors are using to address sustainable marketing. ESG metrics can guide firms to address these issues. The ESG index indicates that addressing socio-ecological challenges makes a firm more profitable. This index that is widely used by investors provides compelling evidence that there is no conflict between being socially and ecologically responsible and financial success.

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