

## **LECTURE NOTES**

### **CHAPTER OPENING EXAMPLE**

#### **THERE IS MORE BREWING AT ASAHI THAN BEER**

- Asahi has spent a lot of effort over the past two decades trying to convince people not to abuse its products.
- A fund to support efforts to prevent underage drinking was set up and ¥10 million are distributed every year.
- As a responsible corporate citizen, Asahi actively participates in cultural and community activities, even though they are not directly associated with its food-related business operations, such as the Asahi Arts Festival, Asahi Art Collaboration Exhibition and the Asahi Arts Square.
- Asahi encourages and supports employee volunteerism and organizes and promotes social programs.
- In June 2004, Asahi started a water resource conservation program at the Shikoku Brewery to help develop forestlands. It currently recycles 100 percent of the 300,000 tons of waste materials and by-products generated in the manufacturing of beer.

## **I. NATURE AND SIGNIFICANCE OF MARKETING ETHICS [LO1]**

**Ethics** are the moral principles and values that govern the actions and decisions of an individual or group. They serve as guidelines on how to act rightly and justly when faced with moral dilemmas.

### **A. Ethical/Legal Framework in Marketing**

- Need to distinguish between legality and ethicality of marketing decisions.
- **Laws** are society's values and standards that are enforceable in the courts.
- There are numerous situations where judgment plays a large role in defining ethical and legal boundaries. Often, actions that are technically legal could be viewed as unethical, and sometimes actions considered to be ethical may not be seen as legal.

### **B. Current Perceptions of Ethical Behavior**

- There has been a public outcry about the unethical practices of businesspeople. A Golin/Harris survey of 800 Asians in Tokyo, Hong Kong, Taipei and Singapore found:
  - a. 72 percent believed "recent events have caused a crisis of confidence and trust in the way we do business"
  - b. 86 percent agreed that "from now on I will be more careful about which companies I trust."
- Another survey covering 800 senior executives in 59 companies in the Chinese cities of Shanghai, Qingdao, Jinan, Changzhou, and Hangzhou shows that:
  - c. 27 percent were found to be dissatisfied with the ethical standards of their peers,
  - d. 47 percent felt that their superiors were not sufficiently committed to ethical practices,
  - e. 39 percent were dissatisfied with the ethical climate of their enterprise, and
  - f. 34 percent believed the relationship between their company and the customers was characterized purely by the self interest of the firm
- There are at least 4 possible reasons the state of perceived business ethical conduct is at its present level:
  - a. Increased pressure on businesspeople to make decisions in a society characterized by diverse value systems.
  - b. Growing tendency for business decisions to be judged publicly by groups with different values and interests.

- c.** The public's expectations of ethical business behavior has increased.
- d.** Ethical business conduct may have declined.

## LEARNING REVIEW

### 1. What are ethics?

Answer: Ethics are the moral principles and values that govern the actions and decisions of an individual or group. They serve as guidelines on how to act rightly and justly when faced with moral dilemmas.

### 2. What are four possible reasons for the present state of ethical conduct in the United States?

Answer: (1) Pressure on businesspeople to make decisions in a society with diverse value systems. (2) Business decisions being judged publicly by groups with different values and interests. (3) The public's expectations of ethical business behavior have increased.

(4) Ethical business conduct may have declined.

## II. UNDERSTANDING ETHICAL MARKETING BEHAVIOR [LO2]

Researchers have identified several factors that influence ethical marketing behavior.

### A. Societal Culture and Norms

- *Culture* refers to the set of values, ideas, and attitudes that are learned and shared among members of a group.
  - a. Culture serves as a socializing force that determines what is considered to be morally right and just.
  - b. Moral standards can be different in different cultures, which can create moral dilemmas between different societies.
- Societal values also affect ethical and legal relationships among individuals, groups, business institutions, and organizations.
- The unauthorized use, reproduction, or distribution of another's intellectual property (copyright, trademark, or patent) is both unethical and illegal.
  - a. The owners of intellectual property lose billions each year, such as those in the music, movie, and software industries.
  - b. The advent of the Internet and file-sharing programs has increased the practice of downloading copyrighted music and movies without paying the owner of this property.

## B. Business Culture and Industry Practices

- *Business cultures* “comprise the effective rules of the game, the boundaries between competitive and unethical behavior, [and] the codes of conduct in business dealings.”
- Business culture affects ethical conduct both in the exchange relationship between sellers and buyers and in the competitive behavior among sellers.

### 1. Ethics of Exchange.

- a. Ethical exchanges between buyer and seller should result in both parties being better off after a transaction.
- b. Prior to the 1960s, business culture believed in the legal concept of *caveat emptor*, or “let the buyer beware.”
- c. Subsequently, the **Consumer Bill of Rights** in many countries codify the ethics of exchange between buyers and sellers, such as the right to:
  - **Safety.** The Consumer Product Safety Commission in many Asian countries such as Japan routinely monitors the safety of consumer products.
  - **Be informed.** Marketers have an obligation to give consumers complete and accurate information about offerings. This right applies to the solicitation, protection, and disclosure of consumers’ personal information over the Internet and subsequent use by marketers.
  - **Choose.** Freedom of choice in the form of practices by firms that do not limit the availability of new product to consumers, such as supermarkets demanding slotting fees or free goods to stock items on their shelves.
  - **Be heard.** Consumers should have access to public-policy makers to make complaints about offerings.

### 2. Ethics of Competition.

Two kinds of unethical competitive behavior are most common: (1) economic espionage and (2) bribery.

- a. **Economic espionage** is the clandestine collection of trade secrets or proprietary information about a company’s competitors. The practice:
  - Is both illegal and unethical and carries serious criminal penalties.

- Includes trespassing, theft, fraud, misrepresentation, wiretapping, searching competitors' trash, and violations of written and implicit employment agreements with noncompete clauses.

## Web Link

### The Corruption Perceptions Index

- Transparency International ranks countries on the basis of their perceived level of bribery to win or retain business.
- Go to [www.transparency.org](http://www.transparency.org) and click on the “Corruption Perceptions Index” to find out where the U.S. and other countries stand.
  - c. The prevalence of economic espionage and bribery in international marketing has prompted laws to curb these practices.

### C. Corporate Culture and Expectations

*Corporate culture* is the set of values, ideas, and attitudes that is learned and shared among the members of an organization.

- The culture of a company is demonstrated by the dress, manner of work, and compensation of its employees.
  - Corporate culture is apparent in formal codes of ethics and the ethical actions of top management and co-workers.
1. **Codes of Ethics.** A **code of ethics** is a formal statement of ethical principles and rules of conduct.
    - a. Many companies have some sort of ethics code and some large companies have corporate ethics officers.
    - b. Ethics codes and committees address contributions to government officials and political parties, relations with customers and suppliers, conflicts of interest, and accurate recordkeeping.
    - c. The lack of specificity is one of the major reasons for the violation of ethics codes.
    - d. The American Marketing Association has provided a detailed code of ethics at [www.marketingpower.com](http://www.marketingpower.com).

### 2. Ethical Behavior of Top Management and Co-Workers.

- a. Workers sometimes violate ethics codes because of how they perceive the behavior of top management and co-workers.
  - Many executives have been rewarded for engaging in ethically troubling behavior.
  - Some employees who have refused to engage in unethical behavior have been punished or received a diminished status in the firm.
- b. Numerous states have laws protecting **whistle-blowers**, employees who report unethical or illegal actions of their employers.

#### **D. Personal Moral Philosophy and Ethical Behavior**

- Ethical choices are based on the personal moral philosophy of the decision maker. A person's moral philosophy is:
  - a. Learned through the process of socialization with friends, family, and by formal education.
  - b. Influenced by the societal, business, and corporate culture.
- Two moral philosophies have a direct bearing on marketing practices:

##### **1. Moral Idealism.**

- a. **Moral idealism** is a personal moral philosophy that considers certain individual rights or duties as universal, regardless of the outcome.
- b. This philosophy exists in the Consumer Bill of Rights and is favored by consumer interest groups.
- c. A fundamental duty is to do no harm. Example: 3M's Scotchgard.

##### **2. Utilitarianism.**

- a. **Utilitarianism** is a personal moral philosophy that focuses on the "greatest good for the greatest number," by assessing the costs and benefits of the consequences of ethical behavior.
- b. If the benefits exceed the costs, then the behavior is ethical. If not, then the behavior is unethical.
- c. This philosophy underlies these economic tenets of capitalism and is embraced by many business executives. Example Nestlé's Good Start.

## **LEARNING REVIEW**

**3. What rights are included in the Consumer Bill of Rights?**

Answer: The rights to safety, to be informed, to choose, and to be heard.

**4. Economic espionage includes what kinds of activities?**

Answer: Economic espionage includes trespassing, theft, fraud, misrepresentation, wiretapping, searching competitors' trash, and violations of written and implicit employment agreements with noncompete clauses.

**5. What is meant by moral idealism?**

Answer: Moral idealism is a personal moral philosophy that considers certain individual rights or duties as universal, regardless of the outcome.

### **III. UNDERSTANDING SOCIAL RESPONSIBILITY IN MARKETING [LO3]**

- **Social responsibility** is the idea that organizations are part of a larger society and are accountable to that society for their actions.
- Like ethics, agreement on the nature and scope of social responsibility is often difficult to come by, given the diversity of values in different societal and corporate cultures.

#### **A. Concepts of Social Responsibility**

- 1. Profit Responsibility.** Holds that companies have a simple duty—to maximize profits for their owners or stockholders.

Milton Friedman says, “There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”

- 2. Stakeholder Responsibility.** Focuses on the obligations an organization has to those who can affect achievement of its objectives (consumers, employees, suppliers, and distributors) and arose out of criticism of the profit responsibility view.
- 3. Societal Responsibility.** Refers to obligations that organizations have (1) to the preservation of the ecological environment and (2) to the general public.
  - a. Green marketing** consists of efforts to produce, promote, and reclaim environmentally sensitive products. Many green marketing efforts are voluntary, have been implemented with little or no additional cost to consumers, and resulted in cost savings to companies.

- b. The International Standards Organization (ISO) has developed the initiative **ISO 14000**, which consists of worldwide standards for environmental quality and green marketing practices and are embraced by 157 countries, including the U.S., the European Union, and many Pacific Rim countries.
- c. Companies also engage in **cause marketing**, which occurs when the charitable contributions of a firm are tied directly to the customer revenues produced through the promotion of one of its products.
  - Cause marketing differs from a firm's standard charitable contributions, which are outright donations.
  - Cause marketing programs incorporate all three concepts of social responsibility by addressing public concerns and satisfying consumer needs as well as enhancing the firm's sales and profits.

#### **B. The Social Audit: Doing Well by Doing Good**

- A **social audit** is a systematic assessment of a firm's objectives, strategies, and performance in terms of social responsibility.
- A social audit consists of five steps:
  1. Recognition of a firm's social expectations and the rationale for engaging in social responsibility endeavors.
  2. Identification of social responsibility causes or programs consistent with the company's mission.
  3. Determination of organizational objectives and priorities for programs and activities it will undertake.
  4. Specification of the type and amount of resources necessary to achieve social responsibility objectives.
  5. Evaluation of social responsibility programs and activities undertaken and assessment of future involvement.
- Corporate attention to social audits will increase as companies seek to achieve sustainable development and improve the quality of life in a global economy.
- **Sustainable development** involves conducting business in a way that protects the natural environment while making economic progress.
  - a. Green marketing is an ecologically responsible initiative.
  - b. Other initiatives focus on working conditions at offshore manufacturing sites that produce goods for U.S. companies focus on quality-of-life issues.

- Companies that show societal responsibility have been rewarded for their efforts. Research shows that these companies:
  - a. Benefit from favorable word-of-mouth among consumers.
  - b. Typically outperform less responsible companies on financial performance.

**C. Turning the Table: Consumer Ethics and Social Responsibility [LO4]**

- Consumers also have an obligation to act ethically in the exchange process and in the use and disposition of products.
- Some consumers engage in unethical practices. The cost to marketers in lost sales and prevention expenses is huge:
  - a. Misredeeming coupons: US\$1 billion each year.
  - b. Fraudulent insurance claims: US\$10 billion annually.
- Research on unethical consumer behavior indicates that these acts are rarely motivated by economic need. Instead, consumers believe that:
  - a. They can get away with the unethical behavior and it is worth doing.
  - b. The act is justified since “everybody does it.”
- Consumers purchase, use, and disposition of environmentally sensitive products relate to social responsibility because they:
  - a. Are sensitive to ecological issues.
  - b. May be unwilling to sacrifice convenience and pay potentially higher prices to protect the environment.
  - c. Lack the knowledge to make informed decisions dealing with the purchase, use, and disposition of products.
- Consumers are confused over which products are “green” or environmentally safe as marketers’ rush to produce them.

**LEARNING REVIEW**

**6. What is meant by social responsibility?**

Answer: Social responsibility means that organizations are part of a larger society and are accountable to that society for their actions.

**7. Marketing efforts to produce, promote, and reclaim environmentally sensitive products are called \_\_\_\_\_.**

Answer: green marketing

**8. What is a social audit?**

Answer: A social audit is a systematic assessment of a firm's objectives, strategies, and performance in the domain of social responsibility.

## APPLYING MARKETING KNOWLEDGE

**1. What concepts of moral philosophy and social responsibility are applicable to the practices of Asahi described in the introduction to this chapter? Why?**

Answer: Asahi would seem to be applying a utilitarian ethical philosophy because it has apparently weighed the benefits of its programs to reduce litter and solid waste and its advocacy to promote responsible drinking against its costs (decrease in sales revenues). The company has applied the societal responsibility concept of social responsibility, given its focus on the general public.

**2. Five ethical situations were presented in this chapter: (a) a group of music companies and retailers' decision to set fee schedules, (b) the use of a computer program by auto dealers to arrange financing, (c) smoking in China, (d) downloading movies, and (e) the pricing of Cerezyme for the treatment of a rare genetic illness. Where would each of these situations fit in Figure 4-1?**

Answers: These ethical/legal situations can be assigned in a quadrant of the ethical-legal continuum framework shown in Figure 4-1:

**a. The decision of a group of music companies and retailers to set price schedules**

The world's five largest music companies (Vivendi Music Group, Sony Music, BMG Music, Warner Music, and EMI Group) and three biggest music retailers (Musicland Stores, Trans World Entertainment, and Tower Records) were accused of engaging in a practice known as "minimum advertised pricing" to artificially inflate CD prices between 1995 and 2000.

According to prosecutors, this price fixing is considered illegal. The companies eventually agreed to pay US\$143 million to settle the CD price-fixing case. They also agreed to pay US\$67 million to compensate customers who bought the potentially overpriced CDs.

**b. The use of a computer program by auto dealers to arrange financing. A**

California firm sells auto dealers a computer program that shows car buyers that they should finance a purchase of a car rather than paying cash for it. The program

omits the effect of income taxes and misstates the interest earned over the loan period. The finance option always provides a net benefit over the cash option. Company employees agree that the program misleads buyers but say that the firm will provide car dealers what they want if it doesn't violate the law.

This practice is **unethical** since it misleads customers and perhaps should be illegal. However, given the facts presented, the computer program is **legal**.

- c. **Smoking in China.** China is the world's largest producing tobacco country. It has 300 million smokers and about 700,00 Chinese die annually from smoking-related diseases. China restricts tobacco imports. U.S. trade negotiators want to allow U.S. tobacco companies to market their products in China.

The practice of U.S. trade representatives negotiating a trade agreement with China is **legal** because cigarettes are currently a legal product in both the U.S. and China. While some may view the promotion of a product that causes substantial number of deaths and illnesses as being grossly **unethical**, others may see it as **ethical** in a global economy.

- d. **Downloading movies.** A group of students recorded movies at a local theater and then uploaded them to a website that could be downloaded and viewed by others on their computers for free over the Internet through peer-to-peer networks.

Statutes in many countries prohibit the unauthorized recording, distribution, and/or exhibition of copyrighted material such as motion pictures. Thus, this practice is both **illegal** and **unethical** because it is against the law to violate an organization's copyrights.

- e. **The pricing of Cerezyme for the treatment of a rare genetic illness.** Genzyme, the maker of Cerezyme, adheres to the profit responsibility concept of social responsibility. The view holds that management's principle duty is to maximize profits for their shareholders "within the rules of the game." As a result, the firm charges a very high price for its drug in part to recover high manufacturing costs. However, it does give the drug away free to patients without insurance.

The practice of charging a premium price to recover costs and earn a profit to maximize shareholder profits is both **legal** and **ethical** in the capitalist system of the U.S. The firm does make a small concession to the profit responsibility concept it adheres to by giving some patients the drug for free.

- e. **NOTE.** There are very few instances where a marketing practice is both ethical and illegal, unless one is describing a "Robin Hood" situation. However, in such instances, it is best to change the laws through legislation to make an illegal but ethical practice legal.

<b>ETHICALITY</b>	<b>ETHICAL</b>	<b>X</b>	<b>Smoking in China?</b> <b>Cerezyme for treatment of rare illness</b>
	<b>UNETHICAL</b>	<b>Medical society to set fee schedules</b> <b>Recording movies</b>	<b>Smoking in China?</b> <b>Auto dealers financing computer program</b>
		<b>ILLEGAL</b>	<b>LEGAL</b>
		<b>LEGALITY</b>	

3. **The American Marketing Association Code of Ethics shown in Figure 4-3 details the rights and duties of parties in the marketing exchange process. How do these rights and duties compare with the Consumer Bill of Rights?**

Answers: The Consumer Bill of Rights codified the ethics of exchange between buyers and seller. The four rights advocated are the right to: (1) safety, (2) be informed, (3) choose, and (4) be heard. The American Marketing Association (AMA) recently updated its Code of Ethics. The comparisons between the two are presented below:

### **Consumer Bill of Rights**

#### **The right to safety**

#### **The right to be informed**

#### **The right to choose**

#### **The right to be heard**

### **AMA Code of Ethics**

- “Marketers must do no harm.”
- “We will represent our products in a clear way in selling, advertising, and other forms of communication; this includes the avoidance of false, misleading, and deceptive promotion.”
- “We will explain significant product or service risks, component substitutions or other foreseeable eventualities that could affect customers or their perceptions of the purchase decision.”
- “We will fully disclose list prices and terms of financing as well as available price deals and adjustments.”
- “We will reject manipulations and sales tactics that harm customer trust.”
- “We will not engage in price fixing, predatory pricing, price gouging, or ‘bait-and-switch’ tactics.”
- “We will listen to the needs of our customers and make all reasonable efforts to monitor and improve their satisfaction on an ongoing basis.”
- “We will accept constructive criticism from our customers and other stakeholders.”

#### **4. Compare and contrast moral idealism and utilitarianism as alternative personal moral philosophies.**

Answer: Moral idealism considers individual rights or duties as universal regardless of the outcome. Utilitarianism focuses on the “greatest good for the greatest number” by assessing the costs and benefits of the consequences of ethical behavior. It is important to note that moral idealism does not consider costs, benefits, or consequences, as does utilitarianism. However, utilitarianism does not consider rights or duties outside the context of ethical behavior.

#### **5. How would you evaluate Milton Friedman’s view of the social responsibility of a firm?**

Answer: Friedman is a proponent of the profit responsibility concept of social responsibility. As such, he believes that a firm’s simple duty is to maximize profits for

its owners or stockholders so long as it engages in open and free competition without deception or fraud. This view is narrow because it focuses solely on the firm and not the other constituencies of the firm. On the other hand, the ethical stance reflected in the avoidance of deception or fraud does illustrate a broader view of the firm's relationship with its constituencies.

**6. The text lists several unethical practices of consumers. Can you name others? Why do you think consumers engage in unethical conduct?**

Answers: There are numerous unethical practices of consumers. The list below is suggestive of such behavior:

- a. Opening and eating a snack item while shopping in a grocery store.
- b. Seeing that a new, higher-priced sticker has been placed on a product, a consumer peels off the new sticker and then pays the lower price.
- c. Seeing that a billing error is made on a store account in his/her favor, a consumer does not report this error to the store.
- d. Standing in a long line, a sales clerk scans a product a consumer wants to purchase and the computerized cash register doesn't have the product or its price in the database. The clerk asks the consumer if he/she knows what the price is so the clerk doesn't have to call a supervisor for a price check. The consumer tells the clerk it costs \$1.50 when he/she knows it actually costs \$2.50.\*
- e. Having two consumers share free coffee refills or all-you-can-eat buffet meals when only paying for one drink or meal.\*
- f. Failing to alert a store clerk when the clerk mistakenly rings up a charge of \$5.99 on an item priced at \$6.99, and the consumer knows the correct price.

\*Source: A. M. Rogers, "Consumer Ethics." Article on the Liberty Haven website (see <http://www.aboutus.org/LibertyHaven.com/>). Research by Robert E. Wilkes (*Journal of Marketing*, October, 1978) indicates that consumers engage in unethical conduct for several reasons. One view is that "business deserves it;" while other unethical acts "aren't criminal and don't really hurt anyone."

**7. Cause marketing programs have become popular. Describe two such programs with which you are familiar.**

Answer: Students are likely to provide a variety of answers to this question, many of which are local or regional in nature. The most visible national cause programs are associated with the (PRODUCT)<sup>RED</sup> global program to fight AIDS in Africa and the Susan G. Komen Breast Cancer Foundation’s Race for the Cure.

**BUILDING YOUR MARKETING PLAN**

**Consider these potential stakeholders that may be affected in some way by the marketing plan on which you are working: shareholders (if any), suppliers, employees, customers, and society in general. For each group of stakeholders:**

- 1. Identify what, if any, ethical and social responsibility issues might arise.**
- 2. Describe, in one or two sentences, how your marketing plan addresses each potential issue.**

Not a part of a traditional marketing plan, the “stakeholder analysis” attempts to outline the potential impact on key stakeholder groups of potential future company actions reflected in the marketing plan. For example, if a small manufacturer faces increasing environmental laws that can substantially increase costs, its effect on employees, suppliers, and customers might be described briefly. Ideas from the stakeholder analysis may be woven into the plan’s situation analysis.

**SLN 4-1: SUPPLEMENTAL LECTURE NOTE**

**The Five Most Common Kinds of Economic Espionage**

Economic espionage is the clandestine collection of trade secrets or proprietary information about a company's competitors. The five most common kinds of economic espionage and measures that firms use to contain them are described below:

<b>Kind of Espionage</b>	<b>Description</b>	<b>Security Measures</b>
<b>1. Dumpster diving</b>	Economic spies pick through corporate garbage to find valuable information.	If an item is proprietary or sensitive, shred or burn it before discarding it.

<p>2. <b>Elicitation</b></p>	<p>Business and scientific seminars, international trade shows, and unsolicited telephone calls all present opportunities for eliciting sensitive company information.</p>	<p>Since company personnel may not know whom they are talking to, they are instructed to be careful about divulging information.</p>
<p>3. <b>Electronic interception</b></p>	<p>Economic snooping conducted via telecommunications or computer intrusions using hardware available at any electronics vendor.</p>	<p>Hire an electronics security consultant to identify possible sources of intrusions. Transmit data by mail, the safest route.</p>
<p>4. <b>Traditional theft</b></p>	<p>Breaking into a company facility to copy corporate files or stealing an executive's luggage or laptop computer.</p>	<p>Install burglary systems at company facilities; executive should hand carry sensitive information.</p>
<p>5. <b>Insider treason</b></p>	<p>Economic spying conducted by company employees.</p>	<p>Employees should be alert to suspicious behavior.</p>