CASE 4-6 Making Socially Responsible and Ethical Marketing Decisions: Selling Tobacco to Third World Countries

Strategic decisions move a company toward its stated goals and perceived success. Strategic decisions also reflect the firm's social responsibility and the ethical values on which such decisions are made. They reflect what is considered important and what a company wants to achieve.

Mark Pastin, writing on the function of ethics in business decisions, observes:

> There are fundamental principles, or ground rules, by which organizations act. Like the ground rules of individuals, organizational ground rules determine which actions are possible for the organization and what the actions mean. Buried beneath the charts of organizational responsibility, the arcane strategies, the crunched numbers, and the political intrigue of every firm are sound rules by which the game unfolds.

The following situations reflect different decisions made by multinational firms and governments and also reflect the social responsibility and ethical values underpinning the decisions. Study the following situations in the global cigarette marketplace carefully and assess the ground rules that guided the decisions of firms and governments.

EXPORTING U.S. CIGARETTE CONSUMPTION

In the United States, 600 billion cigarettes are sold annually, but sales are shrinking rapidly. Unit sales have been dropping about 1 to 2 percent a year, and sales have been down by almost 5 percent in the last six years. The U.S. Surgeon General's campaign against smoking, higher cigarette taxes, non-smoking rules in public areas, and the concern Americans have about general health have led to the decline in tobacco consumption. Faced with various class-action lawsuits, the success of states in winning lawsuits, and pending federal legislation, tobacco companies have stepped up their international marketing activities to maintain profits.

Even though companies have agreed to sweeping restrictions in the United States on cigarette marketing and secondhand smoke and to bolder cancer-warning labels, they are fighting as hard as ever in the Third World to convince the media, the public, and policymakers that similar changes are not needed. In seminars at luxury resorts worldwide, tobacco companies invite journalists, all expenses paid, to participate in programs that play down the health risks of smoking. It is hard to gauge the influence of such seminars, but in the Philippines, a government plan to reduce smoking by children was "neutralized" by a public relations campaign from cigarette companies to remove "cancer awareness and prevention" as a "key concern." A slant in favor of the tobacco industry's point of view seemed to prevail.

At a time when most industrialized countries are discouraging smoking, the tobacco industry is avidly courting consumers throughout the developing world using catchy slogans, obvious image campaigns, and single-cigarette sales that fit a hard-pressed customer's budget. The reason is clear: The Third World is an expanding market. As an example, Indonesia's per capita cigarette consumption quadrupled in less than ten years. Increasingly, cigarette advertising on radio and television is being restricted in some countries, but other means of promotion, especially to young people, are not controlled.

China, with more than 300 million smokers, produces and consumes about 1.4 trillion cigarettes per year, more than any other country in the world. Estimates are that China has more smokers than the United States has people. Just 1 percent of that 1.4 trillion cigarette market would increase a tobacco company's overseas sales by 15 percent and would be worth as much as $300 million in added revenue.

American cigarette companies have received a warm welcome in Russia, where at least 50 percent of the people smoke. Consumers are hungry for most things Western, and tobacco taxes are low. Unlike in the United States and other countries that limit or ban cigarette advertising, there are few effective controls on tobacco products in Russia. Russia, the world's fourth largest cigarette market, has proved to be an extremely profitable territory for British American Tobacco (BAT). BAT Russia, established in 1949, sold 65 billion cigarettes in Russia in 2005, giving it almost one-fifth of market share.

ADVERTISING AND PROMOTION

In Gambia, smokers send in cigarette box tops to qualify for a chance to win a new car. In Argentina, smoking commercials fill 20 percent of television advertising time. And in crowded African cities, billboards that link smoking to the good life tower above the sweltering shantytowns. Such things as baby clothes with cigarette logos, health warnings printed in foreign languages, and tobacco-sponsored contests for children are often featured in tobacco ads in Third World countries. Latin American tobacco consumption rose by more than 24 percent over a ten-year period.

Critics claim that sophisticated promotions in unsophisticated societies entice people who cannot afford the necessities of life to spend money on a luxury—and a dangerous one at that. The sophistication theme runs throughout the smoking ads. In Kinshasa, Zaire, billboards depict a man in a business suit stepping out of a black Mercedes as a chauffeur holds the door. In Nigeria, promotions for Graduate brand cigarettes show a university student in his cap and gown. Those for Gold Leaf cigarettes have a barrister in a white wig and the slogan, "A very important cigarette for very important people." In Kenya, a magazine ad for Embassy cigarettes shows an elegant executive officer with three young men and women equivalent to American yuppies. The most disturbing trend in developing countries is advertising that associates tobacco with American affluence and culture. Some women in Africa, in their struggle for women's rights, defiantly smoke cigarettes as a symbol of freedom. Billboards all over Russia feature pictures of skyscrapers and white sandy beaches and slogans like "Total Freedom" or "Rendezvous with America." They aren't advertising foreign travel but American cigarette brands.

Every cigarette manufacturer is in the image business, and tobacco companies say their promotional slant is both reasonable and common. They point out that in the Third World a lot of people cannot understand what is written in the ads anyway, so the ads zero in on the more understandable visual image. "In most of the world, the Marlboro Man isn't just a symbol of the Wild West; he's a symbol of the West." "You can't convince people that all Americans don't smoke." In Africa, some of the most effective advertising includes images of affluent white Americans with recognizable landmarks, such as the New York City skyline, in the background. In much of Africa, children as young as five are used to sell single cigarettes, affordable to other children, to support their own nicotine habits. Worldwide nearly one-fourth of all teenage smokers smoked their first cigarette before they were 10 years old.

The scope of promotional activity is enormous. In Kenya, a major tobacco company is the fourth-largest advertiser. Tobacco-sponsored lotteries bolster sales in some countries by offering as prizes expensive goods that are beyond most people's budgets. Gambia has a population of just 640,000, but a tobacco company lottery attracted 1.5 million entries (each sent in on a cigarette box top) when it raffled off a Renault car.

Evidence is strong that the strategy of tobacco companies is to target young people as a means of expanding market demand. Report after report reveals that adolescents receive cigarettes free as a means of promoting the product. For example, in Buenos Aires, a Jeep decorated with the yellow Camel logo pulls up in front of a high school. The driver, a blond woman wearing khaki safari gear, begins handing out free cigarettes to 15- and 16-year-olds on lunch recess. Teens visiting MTV's websites in China, Germany, India, Poland, and Latin America were given the chance to click on a banner ad that led them to a questionnaire about their exposure to cigarette ads and other marketing tools in their countries. Some 10,000 teens responded to the banner ads. "In the past week, more than 62 percent of teenagers in these countries have been exposed to tobacco advertising in some form," the 17-year-old SWAT (Students Working against Tobacco) chairman told Reuters. "The tobacco companies learned that marketing to teens and kids worked in this country, but since they can't do it here anymore, they've taken what they learned to other countries." At a video arcade in Taipei, free American cigarettes are strewn atop each game. "As long as they're here, I may as well try one," says a high school girl.

In Malaysia, *Gila-Gila,* a comic book popular with elementary school students, carries a Lucky Strike ad. Attractive women in cowboy outfits regularly meet teenagers going to rock concerts or discos in Budapest and hand them Marlboros. Those who accept a light on the spot also receive Marlboro sunglasses.

According to the American Lung Association Tobacco Policy Trend Alert, the tobacco industry is offering candy-flavored cigarettes in an attempt to continue to target teens.[1] Advertising and promotion of these products uses hip-hop imagery, attractive women, and other imagery to appeal to youth in similar ways that Joe Camel did a decade ago. Marketing efforts for candy-flavored cigarettes came after the Master Settlement Agreement prohibited tobacco companies from using cartoon characters to sell cigarettes. Researchers recently released the results of several surveys that showed that 20 percent of smokers ages 17 to 19 smoked flavored cigarettes, while only 6 percent of smokers ages 17 to 20 did.

In Russia, a U.S. cigarette company sponsors disco parties where thousands of young people dance to booming music. Admission is the purchase of one pack of cigarettes. At other cigarette-sponsored parties, attractive women give cigarettes away free.

In many countries, foreign cigarettes have a status image that also encourages smoking. A 26-year-old Chinese man says he switched from a domestic brand to Marlboro because "You feel a higher social position" when you smoke foreign cigarettes. "Smoking is a sign of luxury in the Czech Republic as well as in Russia and other Eastern countries," says an executive of a Czech tobacco firm that has a joint venture with a U.S. company. "If I can smoke Marlboro, then I'm a well-to-do man."

The global tobacco companies insist that they are not attempting to recruit new smokers. They say they are only trying to encourage smokers to switch to foreign brands. "The same number of cigarettes are consumed whether American cigarettes or not," was the comment of one executive.

Although cigarette companies deny they sell higher tar and nicotine cigarettes in the Third World, one British tobacco company does concede that some of its brands sold in developing countries contain more tar and nicotine than those sold in the United States and Europe. A recent study found three major U.S. brands with filters had 17 milligrams of tar in the United States, 22.3 in Kenya, 29.7 in Malaysia, and 31.1 in South Africa. Another brand with filters had 19.1 milligrams of tar in the United States, 28.8 in South Africa, and 30.9 in the Philippines. The firm says that Third World smokers are used to smoking their own locally made product, which might have several times more tar and nicotine. Thus, the firm leaves the tar- and nicotine-level decisions to its foreign subsidiaries, who tailor their products to local tastes.

C. Everett Koop, the retired U.S. Surgeon General, was quoted in a recent news conference as saying, "Companies' claims that science cannot say with certainty that tobacco causes cancer were flat-footed lies" and that "sending cigarettes to the Third World was the export of death, disease, and disability." An Oxford University epidemiologist has estimated that, because of increasing tobacco consumption in Asia, the annual worldwide death toll from tobacco-related illnesses will more than triple over the next two decades.

Perhaps 100 million people died prematurely during the 20th century as a result of tobacco, making it the leading preventable cause of death and one of the top killers overall. According to the World Health Organization, each year smoking causes 4 million deaths globally, and it expects the annual toll to rise to 10 million in 2030.

GOVERNMENT INVOLVEMENT

Third World governments often stand to profit from tobacco sales. Brazil collects 75 percent of the retail price of cigarettes in taxes, some $100 million a month. The Bulgarian state-owned tobacco company, Bulgartabac, contributes almost $30 million in taxes to the government annually. Bulgartabac is a major exporter of cigarettes to Russia, exporting 40,000 tons of cigarettes annually.

Tobacco is Zimbabwe's largest cash crop. One news report from a Zimbabwe newspaper reveals strong support for cigarette companies. "Western anti-tobacco lobbies demonstrate unbelievable hypocrisy," notes one editorial. "It is relatively easy to sit in Washington or London and prattle on about the so-called evils of smoking, but they are far removed from the day-to-day grind of earning a living in the Third World." It goes on to comment that it doesn't dispute the fact that smoking is addictive or that it may cause diseases, but "smoking does not necessarily lead to certain death. Nor

is it any more dangerous than other habits." Unfortunately, tobacco smoking has attracted the attention of a particularly "sanctimonious, meddling sector of society. They would do better to keep their opinions to themselves."

Generally, smoking is not a big concern of governments beset by debt, internal conflict, drought, or famine. It is truly tragic, but the worse famine becomes, the more people smoke—just as with war, when people who are worried want to smoke. "In any case," says one representative of an international tobacco company, "People in developing countries don't have a long enough life expectancy to worry about smoking-related problems. You can't turn to a guy who is going to die at age 40 and tell him that he might not live up to 2 years extra at age 70." As for promoting cigarettes in the Third World, "If there is no ban on TV advertising, then you aren't going to be an idiot and impose restrictions on yourself," says the representative, "and likewise, if you get an order and you know that they've got money, no one is going to turn down the business."

Cigarette companies figure China's self-interest will preserve its industry. Tobacco provides huge revenues for Beijing because all tobacco must be sold through the China National Tobacco Company monopoly. Duty on imported cigarettes is nearly 450 percent of their value. Consequently, tobacco is among the central government's biggest source of funding, accounting for more than $30 billion in income in 2005. China is also a major exporter of tobacco.

FOCUS ON DEVELOPING MARKETS

Lawsuits, stringent legislation against advertising, laws restricting where people can smoke, and other antismoking efforts on the part of governments have caused tobacco companies to intensify their efforts in those markets where restrictions are fewer and governments more friendly. As part of a strategy to increase its sales in the developing world, Philip Morris International (PMI) was spun off from Philip Morris USA in 2008 to escape the threat of litigation and government regulation in the United States. The move frees the tobacco giant's international operations of the legal and public-relations headaches in the United States that have hindered its growth. Its practices are no longer constrained by American public opinion, paving the way for broad product experimentation.

A new product, Marlboro Intense, is likely to be part of an aggressive blitz of new smoking products PMI will roll out around the globe. The Marlboro Intense cigarette has been shrunk down by about a half inch and offers smokers seven potent puffs apiece, versus the average of eight or so milder draws. The idea behind Intense is to appeal to customers who, due to indoor smoking bans, want to dash outside for a quick nicotine hit but don't always finish a full-size cigarette. The CEO of PMI says there are "possibly 50 markets that are interested in deploying Marlboro Intense."

Other product innovations include sweet-smelling cigarettes that contain tobacco, cloves and flavoring—with twice the tar and nicotine levels of a conventional U.S. cigarette. Marlboro Mix 9, a high-nicotine, high-tar cigarette launched in Indonesia in 2007, and a clove-infused Mix 9 will be exported to other southeast Asian markets next. Another iteration of the Marlboro brand, the Marlboro Filter Plus, is being sold in South Korea, Russia, Kazakhstan, and Ukraine. It touts a special filter made of carbon, cellulose acetate, and a tobacco plug that the company claims lowers the tar level while giving smokers a smoother taste.

One of PMI's immediate goals is to harness the huge potential of China's smoking population, as well as some of that country's own brands, which it has agreed to market worldwide. With some 350 million smokers, China has 50 million more cigarette buyers than the U.S. has people, according to Euromonitor.

While smoking rates in developed countries have slowly declined, they have shot up dramatically in some developing counties where PMI is a major player. These include Pakistan (up 42 percent since 2001), Ukraine (up 36 percent), and Argentina (up 18 percent).

ANTISMOKING PROMOTIONS

Since the early 1990s, multinational tobacco companies have promoted "youth smoking prevention" programs as part of their "Corporate Social Responsibility" campaigns. The companies have partnered with third-party allies in Latin America, most notably nonprofit educational organizations and education and health ministries to promote youth smoking prevention. Even though there is no evidence that these programs reduce smoking among youths, they have met the industry's goal of portraying the companies as concerned corporate citizens.

In fact, a new study proves that youth smoking prevention ads created by the tobacco industry and aimed at parents actually increase the likelihood that teens will smoke. The study, "Impact of Televised Tobacco Industry Smoking Prevention Advertising on Youth Smoking-Related Beliefs, Intentions and Behavior," published in the December 2006 issue of the *American Journal of Public Health,* sought to understand how the tobacco industry uses "youth smoking prevention" programs in Latin America. Tobacco industry documents, so-called social reports, media reports, and material provided by Latin American public health advocates were all analyzed. The study is the first to examine the specific effect of tobacco company parent-focused advertising on youth. It found that ads that the industry claims are aimed at preventing youth from smoking actually provide no benefit to youth. In fact, the ads that are created for parental audiences but also are seen by teens are associated with stronger intentions by teens to smoke in the future.

Brazil has the world's strictest governmental laws against smoking, consisting of highly visible antismoking campaigns, severe controls on advertising, and very high tax rates on smoking products. Despite these obstacles, the number of smokers in Brazil continues to grow. In 2006, there were approximately 44 million smokers in the country, up from 38 million in 1997. Factors driving this trend include the low price of cigarettes, which are among the lowest in the world; the easy access to tobacco products; and the actions taken by the powerful tobacco companies to slow down antismoking legislation in Brazil.

ASSESSING THE ETHICS OF STRATEGIC DECISIONS

Ethical decision making is not a simplistic "right" or "wrong" determination. Ethical ground rules are complex, tough to sort out and to prioritize, tough to articulate, and tough to use.

The complexity of ethical decisions is compounded in the international setting, which comprises different cultures, different perspectives of right and wrong, different legal requirements, and different goals. Clearly, when U.S. companies conduct business in an international setting, the ground rules become further complicated by the values, customs, traditions, ethics, and goals of the host countries, which each have developed their own ground rules for conducting business.

Three prominent American ethicists have developed a framework to view the ethical implications of strategic decisions by

American firms. They identify three ethical principles that can guide American managers in assessing the ethical implications of their decisions and the degree to which these decisions reflect these ethical principles or ground rules. They suggest asking, "Is the corporate strategy acceptable according to the following ethical ground rules?"

These questions can help uncover the ethical ground rules embedded in the tobacco consumption situation described in this case. These questions lead to an ethical analysis of the degree to which this strategy is beneficial or harmful to the parties and, ultimately, whether it is a "right" or "wrong" strategy, or whether the consequences of this strategy are ethical or socially responsible for the parties involved. These ideas are incorporated in the decision tree in Exhibit 1.

Principles	Question
Utilitarian ethics (Bentham, Smith)	Does the corporate strategy optimize the "common good" or benefits of all constituencies?
Rights of the parties (Kant, Locke)	Does the corporate strategy respect the rights of the individuals involved?
Justice or fairness (Aristotle, Rawls)	Does the corporate strategy respect the canons of justice or fairness to all parties?

Exhibit 1

A Decision Tree for Incorporating Ethical and Social Responsibility Issues into Multinational Business Decisions
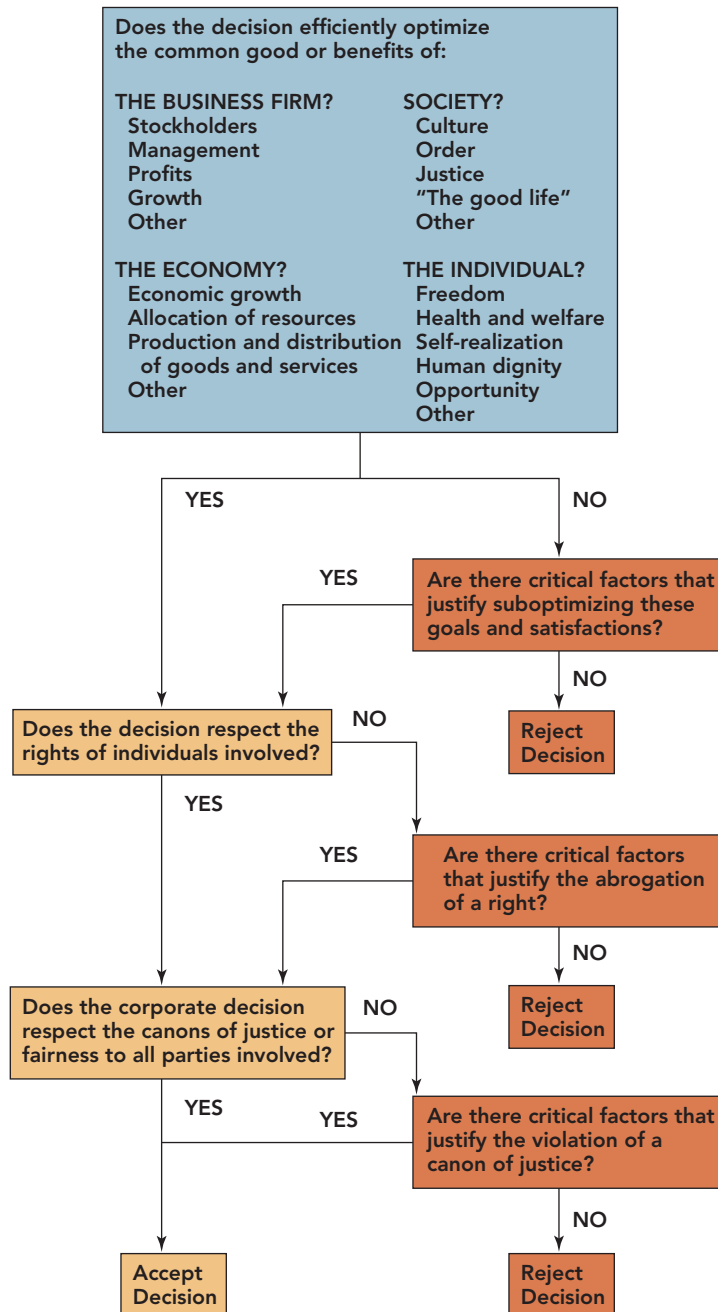
Laczniak and Naor discuss the complexity of international ethics or, more precisely, the ethical assumptions that underlie strategic decisions for multinationals.[2] They suggest that multinationals can develop consistency in their policies by using federal law as a baseline for appropriate behavior as well as respect for the host country's general value structure. They conclude with four recommendations for multinationals:

1. Expand codes of ethics to be worldwide in scope.

2. Expressly consider ethical issues when developing worldwide corporate strategies.

3. If the firm encounters major ethical dilemmas, consider withdrawal from the problem market.

4. Develop periodic ethics-impact statements, including impacts on host parties.

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[2]Gene R. Laczniak and Jacob Naor, "Global Ethics: Wrestling with the Corporate Conscience," *Business,* July–September 1985.

See www.who.int, the World Health Organization's website, for more details regarding the current tobacco controversy. See also www.getswat.com for a worldwide student initiative against smoking.

QUESTIONS

1. Use the model in Exhibit 1 as a guide and assess the ethical and social responsibility implications of the situations described.

2. Can you recommend alternative strategies or solutions to the dilemmas confronting the tobacco companies? To governments? What is the price of ethical behavior?

3. Should the U.S. government support U.S. tobacco company interests abroad?

4. Should a company be forced to stop marketing a product that is not illegal, such as cigarettes?

Sources: "Smoke Over the Horizon; U.S. Gains in Tobacco Control Are Being Offset Internationally," *The Washington Post,* July 23, 2006; "Death and Taxes: England Has Become the Latest in a Series of Countries to Vote for Restrictions on Smoking in Public Places," *Financial Management (UK),* April 1, 2006; "Trick or Treat? Tobacco Industry Prevention Ads Don't Help Curb Youth Smoking," *PR Newswire,* October 31, 2006; "China Exclusive: China, With One Third of World's Smokers, Promises a 'Non-Smoking' Olympics," *Xinhua News Agency,* May 29, 2006; "Tobacco Consumption and Motives for Use in Mexican University Students," *Adolescence,* June 22, 2006; "A Change in the Air: Smoking Bans Gain Momentum Worldwide," *Environmental Health Perspectives,* August 1, 2007; "Adams Won't Kick the BAT Habit: The Head of British American Tobacco Is Stoical About the Looming Ban on Smoking in Public Spaces: BAT will Adapt," *The Sunday Telegraph London,* June 10, 2007; "Heart Disease, Stroke Plague Third World," Associated Press (Online), April 4, 2006; "Get a Detailed Picture of the Tobacco Industry in Brazil," *M2 Press Wire,* December 20, 2007; Vanessa O'Connell, "Philip Morris Readies Global Tobacco Blitz; Division Spin-off Enables Aggressive Product Push; High-Tar Smokes in Asia," *The Wall Street Journal,* January 29, 2008; "The Global Tobacco Threat," *The New York Times,* February 19, 2008; "How to Save a Billion Lives; Smoking," *The Economist* (London,) February 9, 2008; "Whether Here or There, Cigarettes Still Kill People," *The Wall Street Journal,* February 4, 2008; World Health Organization, 2012.