MARKETING ETHICS IN THE 21ST CENTURY: IN PURSUIT OF PHRONESIS

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ABSTRACT

Criticisms of marketing now include contributions to unsustainable economic growth, resource depletion and environmental damage. These criticisms are examined in the context of the role of marketing within wider economic activity and the impact of growing calls for sustainability. We note consumers’ roles in sustainability, and contradictions evident in balancing economic growth and sustainability, together with the lack of standard ethical frameworks, codes of ethics that can be applied across cultures and the lack of effective enforcement mechanisms to ensure adherence to any existing codes. The need for cross cultural research to enable these issues to be addressed concludes the paper.

Introduction

The main criticisms of marketing, often focused on marketing communication as the most visible component of marketing activity have, in the past, centered on allegations that marketing was inherently deceptive, manipulative and caused people to buy things that they did not really need, including leading people into excessive debt (Rotfeld & Taylor, 2009). In the last few decades, while these criticisms are still made, the focus has changed to include criticisms of marketing for contributing to unsustainable economic growth and accompanying problems of resource depletion, environmental damage and accelerated climate change effects due to increased levels of greenhouse gases in the atmosphere (Dietz & Stern, 2008). To provide a foundation for assessing the validity of these more recent criticisms, we review the role of marketing, then what is meant by marketing ethics in real-world practice.

Standard definitions of marketing

Consider the definitions of marketing found in many textbooks. It is suggested that “the definition of our discipline shapes marketing’s boundaries for practitioners (public and private), scholars and educators” (Sheth & Uslay, 2007, p. 305). A review of the definitions used by some of the principal organisations therefore follows. Interestingly, none of the definitions listed contain any specific reference to ethics. While they vary somewhat, the central theme has been that marketing’s purpose centres on creating exchanges that satisfy individual and organizational goals. The definitions provided by the American Marketing Association (2008) have been adopted by associations in other countries, but changes in the AMA’s definitions to reflect the changing business environment are not always picked up by other

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associations. For example: The AMA’s 1985 definition was that Marketing is “the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives”. The definition changed in 2004 to: “Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.”

In 2007, the AMA again changed their definition to: “Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.” The Chartered Association of Marketers in the UK also changed their definition in 2007 to: “The strategic business function that creates value by stimulating, facilitating and fulfilling customer demand. It does this by building brands, nurturing innovation, developing relationships, creating good customer service and communicating benefits. By operating customer-centrically, marketing brings positive return on investment, satisfies shareholders and stakeholders from business and the community, and contributes to positive behavioural change and a sustainable business future.” The Marketing Association of Australia and New Zealand continue with an (undated) definition more akin to the AMA’s 2004 definition, i.e.: Marketing consists of activities that facilitate and expedite satisfying exchange relationships in a dynamic environment through the creation, distribution, promotion and pricing of products (goods, services and ideas).

The European Marketing Academy (EMAC) does not have a formal definition although a definition was proposed in 2006 in response to the AMA’s 2004 definition: “Marketing is a customer focus that permeates organizational functions and processes and is geared towards making promises through value proposition, enabling the fulfilment of individual expectations created by such promises and fulfilling such expectations through support to customers’ value-generating processes, thereby supporting value creation in the firm’s as well as its customers’ and other stakeholders’ processes”. (Grönroos, 2006, p. 407).

The pre-2007 definitions support the perception that marketing is successful if customers are satisfied, but what if that satisfaction ignores the potential for societal, such as the problems caused by excess alcohol consumption, or environmental harm. Should marketing always give the customer what they want? What are the long-term consequences of ‘consuming beyond the material and environmental limits of the plant’s resources?’ (Nahser, 2014, p. 127). What impact are the 2007 definition changes likely to have on marketing practice? Commentators have cautioned that if the growth of consumption patterns in developing countries mirror those of developed countries, there may be further negative consequences as improved standards of living are linked to resource consumption (Peattie & Peattie, 2009).

Ethics are implicit in service-dominant logic (S-DL) which holds that service is the fundamental basis for exchange and that customers co-create value (Williams & Aitken, 2011), however the notion of engaging in exchange in order to gain value comes back to what wants and needs are satisfied by exchanges and whether S-DL
should contain caveats regarding social and environmental impacts of consumption decisions.

The Wider Economic Focus on Growth
The comments above illustrate a paradox for marketers which has its foundations in the way that economic growth and prosperity is measured, i.e. via Gross Domestic Product (GDP) which is usually defined as: the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports (Salvaris, 2013). Included in this definition, are such things as production of weapons and cigarettes. Not included are things such as air or water pollution and environmental damage resulting from production, and all the products and services that are produced but not sold through commercial markets. The standard definition of a recession is a period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters (Nunes, Drèze & Han (2011). Thus if production decrease, there is a reduction in business profits, incomes: individual and household spending reduces and unemployment rises. Marketing is seen as playing a major role during periods of recession in stimulating demand for goods and services – but this can result in the original criticisms being levelled against marketing activity, i.e. that marketing manipulates people into buying things they do not need and potentially encourages individual debt through credit facilities.

The Misuse of GDP Data
The fact that GDP is not a good measure of economic growth, wellbeing or prosperity has been known for decades: “It is a great historical irony that no one was more aware of the limitations and the potential for misuse of the GDP than its chief inventor. For Simon Kuznets, American economist and Nobel Prize Laureate, GDP was never intended as a measure of overall social wellbeing. Kuznets famously remarked that ‘the welfare of a nation can scarcely be inferred from a measurement of national income as defined by the GDP’. Nor was growth itself necessarily a good thing, he said: ‘Goals for “more” growth should specify growth of what and for what’ (Kuznets 1934, p. 7). Yet despite this clear warning, and by default over many years, GDP has come to be used as the key measure of national progress and political success, especially by politicians and economists” (Salvaris, 2013, p. 81). Despite such criticisms, GDP is still used to measure economic success or failure and thus national well-being. GDP trend data has political and social power, being reported in all major media and subject to detailed analysis.

While a global movement to develop new means to measure sustainable well-being or composite indices that include economic, social and environmental measures does exist (Colman, 2010), GDP remains the predominant measure of prosperity. As part of this, marketers must consider the validity of the criticisms directed at marketing activity and consider how to reconcile the satisfaction of consumer wants and needs with long-term measures that include environmental and resource factors – and the needs of future generations, i.e. sustainability. This is often framed as a ‘triple bottom line’ approach, i.e. incorporating economic, social and environmental impacts (Stuart, 2011). This is linked to corporate social responsibility, a management approach
designed to show an organisation’s commitment to the social environment in which it operates, with the following assumptions:

1) corporations should think beyond making money and pay attention to social and environmental issues;

2) corporations should behave in an ethical manner and demonstrate the highest level of integrity and transparency in all their operations;

3) corporations should be involved with the community they operate in terms of enhancing social welfare and providing community support through philanthropy or other means” (Bannerjee, 2008, p. 62 (emphasis in original)). While the aims are laudable, critics dismiss it as nothing more than ‘smoke and mirrors’ (Prasad & Holzinger, 2013), given that the aim of CSR is to increase loyalty and brand reputation and thus ultimately, achieve financial returns for the organisation. There is evidence that an increasing number of consumers will support firms that can demonstrate environmental and societal responsibility (Hoffman & Hutter, 2012) and, conversely, punish those that are seen to behave irresponsibly.

**What does the focus on sustainability mean for marketers and marketing ethics?**

There are several dimensions to sustainability. Economic sustainability is important for the long term survival of organisations. They must generate sufficient revenue to cover their current and likely future costs and provide a financial return for their owners or shareholders.

There is a much wider definition of sustainability, focussed on environmental sustainability, which impacts on the way all enterprises, commercial or non-profit, operate and that has the potential to change the way in which enterprises operate. It is based on the recognition firstly that continued pursuit of economic growth based on the exploitation of finite resources is unsustainable (Burroughs, 2010). Secondly, there is increasing recognition that human activity has disrupted many of the ecological systems on which people depend. For example, it is estimated that “60 per cent of ecosystem services, involving climate regulation, fresh water provision, fisheries and many other services were either being degraded or used unsustainably” (Assadourian, 2010, p. 187). These problems are not captured by GDP data.

Consider the following definitions of sustainability: The first two are focussed on externalities; the third considers both inputs into production and externalities resulting from that production. The forth definition encompasses economic sustainability as well as production inputs and externalities, including effects on society as well as the environment.

“A way of doing business that creates profit while avoiding harm to people and the planet” (Centre for Sustainable Enterprise, 2010, p. 86). “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development, 1987, p. 55). “Consumption that can continue indefinitely without the degradation of natural, physical, human and intellectual capital” (Costanza, 1991, p.72). “Sustainability ... translates into a 'triple bottom line' responsibility, with the implication that
assessment of business results should be based not only on economic performance but should take into account the environment and social impact as well” (Sheth, Sethia, & Srinivas, 2011, p. 21). These definitions bring with them a number of complications that deserve careful consideration. Reducing demand for products and services (‘demarketing’), rather than encouraging them, presents a significant challenge for marketers, given its focus on meeting consumer needs. Widespread reduction of demand for products or services could trigger the factors that are usually seen during recessions.

Even if demand levels remain static or even increase, organisations must consider environmental sustainability in conjunction with economic sustainability, with implications for the sourcing of raw ingredients, production processes and overall market orientation. From the organisational perspective, there are several reasons for a company to support environmental sustainability. While some organisations still see the issue of sustainability as being at odds with profitability, there is ample evidence that a sustainability focus leads to both organisational and technological innovations that yield positive returns. For example, a commitment to environmental sustainability has resulted in companies such as General Electric with significant cost savings through greater efficiency, reduced waste and increased appeal to some market sectors (Connelly, Ketchen & Slater, 2011). There is the added issue of changing consumer perceptions about sustainability. Consumer pressure has also forced companies to improve their environmental sustainability practices. For example, an integrated social media campaign evolved in 2010 in response to a Greenpeace article criticising Nestlé for sourcing palm oil (used in confectionery products such as Kit Kat) from non-sustainable sources that were accused of depleting areas of rainforest that were habitat for orang-utans (Coombs & Holladay, 2012). Pressure is being maintained by organisations such as Greenpeace and Sustainable Brands to get other major manufacturers to move to sustainable sourcing: in late 2013, Unilever pledged to change to traceable, sustainable sources of palm oil (1.5 million tons annually) for its products by the end of 2014 (Hower, 2013).

Consumers’ Roles in Sustainability
There are two parties to a marketing exchange – the marketer and the customer or consume. Consumer perspectives are complex; if all things are equal, most consumers will select environmental sustainability; but the decision process becomes more complex when price, quality and status dimensions are considered (Connelly, Ketchen & Slater, 2011); if the comparison and purchase process is too complex, environmental sustainability criteria are likely to be disregarded (Jones, Clarke-Hill & Comfort, 2008). Further research is needed into how these factors vary across population segments and in the types of potential programmes that will engage the public in order to change individual and community behaviours to adapt to changing environmental conditions and more sustainable societies.

What are practical marketing ethics in the 21st century?
The preceding sections have illustrated the much wider extent of ethical issues facing marketers. At this point, we need to be clear regarding what we mean by practical marketing ethics. To answer this, we need to work through from a general definition of ethics, through to business ethics and then finally to marketing ethics specifically. Unfortunately, there is no single definition of ethics – different disciplines have
provided a range of definitions over time and the advent of the Internet has seen definitions multiply. Many of these definitions are either abstract or refer to ‘right’ versus ‘wrong’ decisions, but these latter definitions do not recognise that there may be different perspectives about the latter.

In terms of ethical choices that may be encountered in everyday life, the following example may help to illustrate the type of issues covered by ethical decision making: “Typically defined as the study of standards of conduct and moral judgment. It is particularly useful to us when it helps us to resolve conflicting standards or moral judgments. It is not as simple as deciding what is right and what is wrong. The toughest ethical dilemmas arise when two seemingly right principles are in conflict” (Andreasen, 2001, p. x). This definition implies some sort of explicit governance mechanism, but this does not operate in the formal manner that the legislative system uses. Transgression of ethical norms may result in nothing more than mild criticism from colleagues – or it may result in major adverse media coverage, with potentially damaging effects on company and brand reputations.

Ethics are seen as an important part of marketing decision making. The perception of what was ethical to market has changed considerably over time. For example, some historical articles describe in detail the marketing of slaves and the way these ‘human assets’ were recorded in financial statements (‘human capital accounting’) (Steen, Welch & McCormack, 2011). In the 21st century, we find the concept repellent, but up until the mid-19th century, it was an acceptable business practice in many countries. More recently, tobacco advertising began to be restricted only in the mid-1960s, being totally banned in many countries only in the 1980s and 1990s – and many developing countries do not yet have such bans in place. Examples of historical advertisements in Figure 1 illustrate the messages being conveyed versus what we now know about the negative health impacts of smoking:

Figure 1 Historical tobacco advertisements

There are those who suggest that aggressive marketing tactics by the financial sector contributed to (some would say directly caused…) the Global Financial Crisis that began to impact many economies in 2007. The problems began with an increase in subprime lending, i.e. lending via credit, especially via adjustable-rate mortgages, to people whose profiles indicated they were likely to have difficulty in making scheduled repayments of their loans. A high level of defaults on their mortgages is claimed to be a significant contributor to the Global Financial Crisis. After several years of steady increases, house prices began to fall. At the same time, interest levels increased, making it difficult for people to either refinance loans at what had been expected to be lower interest rates or to keep up with their monthly repayments. While the problem started in the USA, global investors who had purchased securities backed by mortgages were impacted, leading to a reduction in the purchase of these securities, tightening of credit around the world. Economic growth stalled and several countries went into recession, with substantial job losses, pushing families into poverty. Some pension funds were badly affected, impacting on current and future retirement incomes. Industry lost output both from the reduced workforce, and from reduced demand for products and services as people lost the ability to spend – or focussed on reducing debt rather than spending income (McKibbin & Stoeckel, 2010).
many economies have recovered or are recovering, the question remains: is it ethical for the financial sector to target consumers who may struggle to pay debts from credit card use or from mortgages? What is the responsibility of the consumer in making the decision to take on debt?

**The relationships between ethics, legislation, regulation and self-regulation**

We need to be clear about the relationship between legislation, regulation and ethics. Legislation refers to laws – these are universally binding and those who break laws will be prosecuted: penalties may involve fines, jail terms, or orders to cease specific activity which may prevent an organisation from continuing to trade. Few organisations deliberately violate laws as the penalties, both legal and reputational are clear. The exceptions such as major corporate financial failures illustrate the international financial and reputational costs to the organisations, their employees and their investors. The situation is not so clear in respect to regulation where industry itself is responsible for drafting, maintaining and enforcing regulations. Regulation is always subservient to legislation, being used to implement legislation and is usually ‘local’ in focus, such as applying only to a specific industry sector. Regulation can never be used as an alternative to law, or to supersede legal rulings. It may be enforceable by a governmental authority, or by industry bodies, i.e. self-regulation.

Many industries, including marketing, are self-regulating through the various industry associations that set standards for the behaviour of their members. In addition, the marketing communication / advertising sectors are self-regulating, setting their own rules. However, unlike more established professions, there is no means of taking action against those who transgress. For example, an accountant or doctor found to have committed a major breach of ethical provisions could be barred from practicing. The merits of self-regulation have been vigorously debated for decades. It has been noted that "it is too readily assumed that if the market fails, only government regulation can correct its shortcomings" and that "there are readily observable limits to what regulation, as a form of societal control, can achieve" (Boddewyn, 1989, p. 21). This raises the question, however, regarding what self-regulation can potentially achieve, whether it is, in reality achieving what can be reasonably expected of it and, if not, what changes to prevailing self-regulatory models should be investigated.

There is an apparent contradiction between advertising practitioners’ acknowledgements that they engage in various forms of stealth marketing coupled with, at times, actively seeking to breach regulatory provisions in order to garner publicity and practitioners’ apparent disbelief that tighter regulation might be warranted (Cronin, 2004). At best, self-regulatory provisions may be extended to cover evolving media forms. A reality that must be faced is that self-regulation will be replaced by more stringent legislative action which would be likely to restrict marketing activities for specific product categories and / or consumer groups. The potential inadequacy of current self-regulatory systems to adequately oversee and regulate hybrid media activity is acknowledged in the practitioner literature. Research in related areas such as advergames (Dahl, Eagle & Baez, 2008) has shown that marketing communications activity in media not subject to formal advertising codes lacks the responsible approach that could reasonably be expected and that much of this activity would be substantially in breach of the codes that apply to mass media should those codes be extended to other media forms.
Competing Theoretical Foundations and Frameworks
There are several competing ethical frameworks available, including deontology (focused on intentions) and teleology (focused on outcomes), each with different values (Carter et al., 2011). How do we guide development of Aristotle’s practical wisdom (phronēsis) in knowing how, when, where and in what way (Messikomer & Cirka, 2010, p. 58) to apply theories, frameworks and other factors in ethical decision making? The frameworks most commonly cited focus either on intentions (often termed deontology, from the Greek word for ‘duty’) or consequences (often termed teleology, from the Greek word for ‘ends’, but also referred to in the literature as consequentialism). Teleology is also frequently broken down into utilitarianism and egoism options (Hoffman, Frederick & Schwartz, 2001), with the latter not used in the business context. The selection of an ethical framework will impact on the development of marketing strategy. For example, activity that was driven by good intentions without potential negative consequences being considered would be acceptable under deontological reasoning but not under teleological reasoning. While space prevents a detailed analysis of all possible frameworks (see Eagle et al., 2013) we provide a brief overview of the main provisions of deontology and teleology, together with comments on the implications for marketing interventions of the adoption of the different frameworks.

Deontology (based on the work of 18th century philosopher Immanuel Kant). This framework focuses on intentions and holds that there are ethical ‘absolutes’ that are universally applicable, with the focus on means or intentions. Under deontology, it is accepted that actions intended to do good may have unintended negative consequences, such as creating fear or distress. This is contrary to teleological beliefs that interventions should do no harm, particularly to vulnerable groups who may not be the target of the activity.

Teleology / Consequentialism. Focuses on the outcomes or effects of actions and is usually divided into two sections:

a) Utilitarianism in which behaviour is ethical if it results in the greatest good for the greatest number, with a recent suggestion that utilitarianism could also be interpreted as the least harm for the greatest number of those affected (Payne & Pressley, 2013).

b) Egoism, in which the benefits to the individual undertaking action are stressed and the impact on other people is deemphasised.

Utilitarianism presents challenges when comparing alternative courses of action with different levels of potential impact, for example, a programme that provides minor benefits to all, versus one that provides major benefits to many but no impact, or negative impact on others. It also raises questions in relation to who has a mandate to decide whether any harm, or what level of harm might be acceptable. While stigmatising some groups would be unacceptable for many, it is suggested that it can legitimately be used for activities such as reducing smoking rates (Bayer, 2008).

Some authors suggest that there is no universal set of ethics that can apply across all sectors of society due to the increasing diversity of society and different perspectives that may be held within cultures or groups and therefore each group’s ethical perspective should be held to be equally valid. The implications of cross-cultural
ethics are beyond the scope of this paper, but warrant further research. A further problem is the lack of clear and unambiguous interpretation of the frameworks. For example, fear-based interventions, commonly used within social marketing activity such as road safety campaigns, would be acceptable under deontological reasoning, given their positive intentions. If they caused distress, teleological principles would render the approach unacceptable. Indeed, as several social advertisers have found, marketing communication regulators in many countries appear to operate under teleological principles, resulting in the advertising component of an intervention being withdrawn from the media entirely, or requiring modification before being rescheduled.

Codes of Ethics: Searching for phronēsis (practical wisdom)
We note the recent call for a “transcendental code of ethics” for all marketing professionals but suggest these authors grossly oversimplify the magnitude of the task as they merely list broad principles and present an authoritarian approach, such as “the inability of the marketing decision maker to understand that there may be ethical components to a decision being made must be overcome” (Payne & Pressley, 2013, p.69) without considering what ethical resources might be needed and how support for development and implementation of appropriate resources might be successfully achieved and what outcomes might be achieved as a result. Codes of Ethics (CoE), together with support from professional associations, possibly including specific ethics training, may thus help educate inexperienced practitioners and sensitise them to issues they may face in the future (Eagle et al., 2013), but they are not panaceas; the mere existence of a CoE will not prevent unethical behaviour.

One of the challenges for marketing is that, unlike members of an established, recognised, profession there is no mechanism whereby members potentially could lose the right to practice in their profession if found guilty by their peers of a significant transgression of professional ethics. Marketers are not subject to the same level of peer control; there is no requirement that they be licensed and membership of sector organisations is voluntary. The lack of overarching codified legislation and thus the inability to enforce standards or codes in the way that established professional groups are able to do is thus missing (Hunt & Vitell, 2006). Further research is needed into what types of ethical resources would be most useful to practitioners at all levels in marketing strategy and tactics decisions. In undertaking cross-cultural research, we note calls to move beyond the types of measures first used by Hofstede in the 1980s and the more recent GLOBE measures in order to improve the quality of research findings and its application to real-world practice (Tung & Verbeekem 2010); this includes calls to not use national boundaries as cultural separations and the recognition of differing cultures within a nation state based on topography (Low and Fletcher 2004). Ultimately, culture can be broken down to attitudes and beliefs that build to values; and it is at the scale we recommend the categorisation of culture.

Summary
We have highlighted the complexity of ethics within marketing, and their link to wider economic factors. The focus on ‘giving the customer what they want’ may be at odds with the increasing impetus to move towards a greater sustainability focus in all spheres of activity, which impacts consumers as well as organisations. The greater awareness of sustainability issues among consumers and their willingness to both
reward companies who act responsibly and to punish those that do not will impact on future marketing activity.

There are thus increasing reasons for organisations to act ethically in all aspects of their operations, not just marketing. Unfortunately, breaches of ethics and of consumer trust reoccur, with the ability of the industry to effectively self-regulate itself in an increasingly complex communications environment being increasingly questioned. While there are a number of ethical frameworks that are frequently cited in both academic and practitioner literature, guidance on which framework should be applied under specific circumstances is lacking and many frameworks remain statements of hope and good intent rather than offering clear guidance for the resolution of specific ethical problems. The lack of enforceable codes of ethics for the industry also remains problematic and this represents an area in which further cross-cultural research is needed.

References


Figure 1  Historical tobacco advertisements