

PAPER ASSIGNMENT

MARKETING STRATEGY

“Marketing Ethics and Social Responsibility in Strategic Planning”



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The Role of Ethics and Social Responsibility in Marketing Strategy

In response to customer demands, along with the threat of increased regulation, more and more firms have incorporated ethics and social responsibility into the strategic marketing planning process. Any organization's reputation can be damaged by poor performance or ethical misconduct. However, it is much easier to recover from poor marketing performance than from ethical misconduct. Obviously, stakeholders who are most directly affected by negative events will have a corresponding shift in their perceptions of a firm's reputation. On the other hand, even those indirectly connected to negative events can shift their reputation attributions. In many cases, those indirectly connected to the negative events may be more influenced by the news media or general public opinion than those who are directly connected to an organization. Some scandals may lead to boycotts and aggressive campaigns to dampen sales and earnings. Nike experienced such a backlash from its use of offshore subcontractors to manufacture its shoes and clothing. When Nike claimed no responsibility for the subcontractors' poor working conditions and extremely low wages, some consumers demanded greater accountability and responsibility by engaging in boycotts, letterwriting campaigns, and public-service announcements. Nike ultimately responded to the growing negative publicity by changing its practices and becoming a model company in managing offshore manufacturing.³ Due to the links between reputation, ethics, and marketing, we explore the dimensions of social responsibility and marketing ethics, examine research that relates ethics and social responsibility to marketing performance, and discuss their roles in the strategic marketing planning process.

Dimensions of Social Responsibility

Social responsibility is a broad concept that relates to an organization's obligation to maximize its positive impact on society while minimizing its negative impact. As shown in Exhibit 3.1, social responsibility consists of four dimensions or responsibilities: economic, legal, ethical, and philanthropic. From an economic perspective, all firms must be responsible to their shareholders, who have a keen interest in stakeholder relationships that influence the reputation of the firm and, of course, earning a return on their investment. The economic responsibility of making a profit also serves employees and the community at large due to its impact on employment and income levels in the area that the firm calls home. Marketers also have expectations, at a minimum, to obey laws and regulations. This is a challenge because the legal and regulatory environment is hard to navigate and interpretations of the law change frequently. Economic and legal concerns are the most basic levels of social responsibility for good reason: Without them, the firm may not survive long enough to engage in ethical or philanthropic activities.

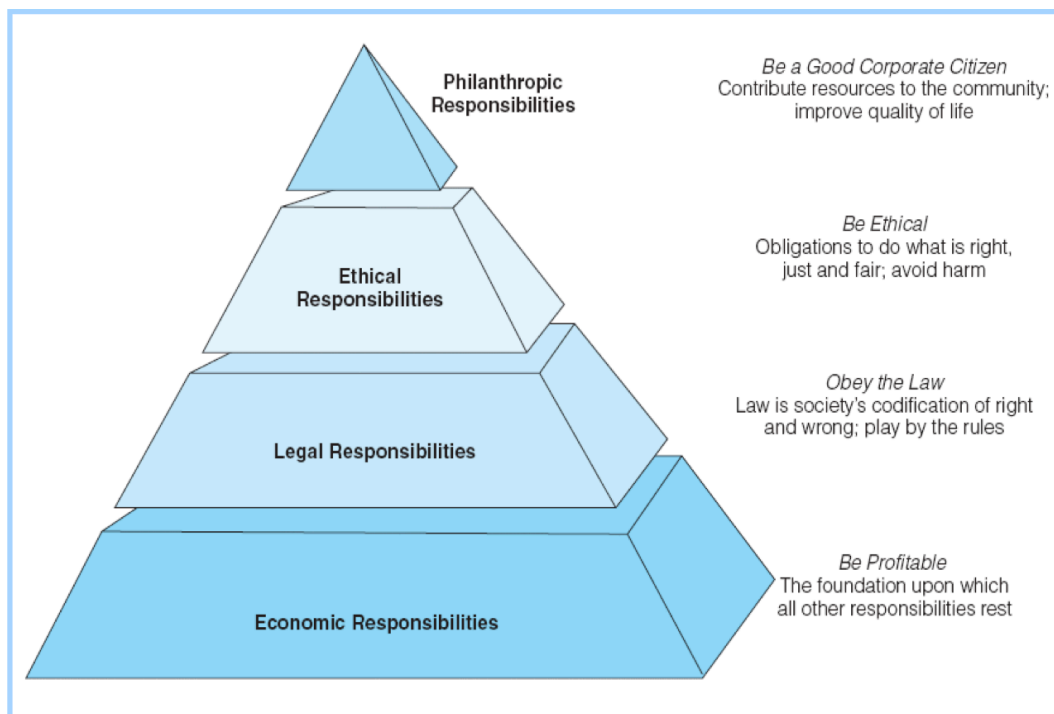


Exhibit 3.1

At the next level of the pyramid, marketing ethics refers to principles and standards that define acceptable marketing conduct as determined by the public, government regulators, private-interest groups, competitors, and the firm itself. The most basic of these principles have been codified as laws and regulations to induce marketers to conform to society's expectations of conduct. However, it is important to understand that marketing ethics goes beyond legal issues: Ethical marketing decisions foster trust, which helps build long-term marketing relationships.

Marketing ethics includes decisions about what is right or wrong in the organizational context of planning and implementing marketing activities in a global business environment to benefit (1) organizational performance, (2) individual achievement in a work group, (3) social acceptance and advancement in the organization, and (4) stakeholders. This definition of marketing ethics recognizes that ethical decisions occur in a complex social network within a marketing organization. Marketers are often asked by upper-level management to help make the numbers by reaching almost impossible sales targets. In fact, most marketing misconduct is done to help the organization. Being a team player and bending the rules to make targets may result in a promotion. On the other hand, it has destroyed the careers of some of those willing to do anything that they are asked to do.

Ample evidence shows that ignoring these issues can destroy trust with customers and prompt government intervention. When firms engage in activities that deviate from accepted principles to further their own interests, continued marketing exchanges become difficult, if not impossible. The best way to deal with such problems is during the strategic planning process, not after major problems materialize. For example, Google's plan to scan millions of books into an online database has already met with major conflicts. The goal was to make out-of-print books more readily available to consumers, but Google did not take into account other stakeholder groups. The company had to settle a \$125 million lawsuit with book publishers who claimed the actions would infringe on their copyrights. Antitrust regulators are also investigating Google's plan because of concern that Google's control over millions of out-of-print books may give them too much power.

Discussing and addressing these potential problems during the strategic planning process could save a company millions in the long term. As a result, more and more companies have created extensive ethics and compliance programs to identify problems early on. For instance, Lockheed Martin, a technology aerospace manufacturer and global security company, has a comprehensive ethics program. The company has a President and Vice President of Ethics and Business Conduct—positions that are increasingly common in large companies—and publishes a manual explaining its ethics program to both employees and other stakeholders. Lockheed also publishes an Ethics Directory that contains contact information for ethics officers who are responsible for covering each company within Lockheed.

Ethical and socially responsible behavior requires commitment. For this reason, many other firms simply ignore these issues and focus instead on satisfying their economic and legal responsibilities, with an eye toward the overall bottom line of profit maximization. Although the firm may do nothing wrong, it misses out on the long-term strategic benefits that can be derived from satisfying ethical and philanthropic responsibilities. Firms that choose to take these extra steps concern themselves with increasing their overall positive impact on society, their local communities, and the environment, with the bottom line of increased goodwill toward the firm, as well as increased profits.

Many firms try hard to align their philanthropy with marketing and brand image. During major crises, like Hurricane Katrina or the more recent financial meltdown, firms are given an opportunity to make their philanthropic programs more responsive and visible to the public. For example, to help Americans get through the most recent economic downturn, Walmart partnered with Visa to offer reloadable, prepaid Visa cards for \$3 instead of the original \$9, a move that company officials stated would save their customers over \$500 million in service

fees. The Walmart Foundation also donated \$3.6 million to The United Way and One Economy to help bring free tax preparation and filing services to low- to moderate-income families. Walmart's initiative is not only designed to help its targeted customers, many of whom have low or moderate incomes, but also improves Walmart's image as an increasingly socially responsible company. In fact, during the most recent recession, Walmart was one of the few companies that saw increased sales. As Walmart has demonstrated, socially responsible behavior is not only good for customers, employees, and the community, but it also makes good business sense.

Philanthropic activities make very good marketing tools. Thinking of corporate philanthropy as a marketing tool may seem cynical, but it points out the reality that philanthropy can be very good for a firm. Coca-Cola, for example, partners with the Erb Institute for Global Sustainable Enterprise at the University of Michigan and the World Wildlife Fund to create internship programs for MBA/MS students. The selected interns work with business and nonprofit leaders to come up with solutions to the challenges of freshwater conservation. Since major corporations have often been at odds with environmental organizations in the past, Coca-Cola's partnership with the World Wildlife Fund markets the fact that it is willing take these stakeholders' concerns seriously to improve the environment for both current and future generations.

Marketing Ethics and Strategy

Marketing ethics includes the principles and standards that guide the behavior of individuals and groups in making marketing decisions. Marketing strategy must consider stakeholders—including managers, employees, customers, industry associations, government regulators, business partners, and special-interest groups—all of whom contribute to accepted standards and society's expectations. The most basic of these standards have been codified as laws and regulations to encourage companies to conform to society's expectations of business conduct. Exhibit 3.2 lists some of the more common ethical issues that occur in marketing. The standards of conduct that determine the ethics of marketing activities require both organizations and individuals to accept responsibility for their actions and to comply with established value systems. Repeated ethical misconduct in a particular business or industry sometimes requires the government to intervene, a situation that can be expensive and inconvenient for businesses and consumers. Early in the 21st century, many businesses appeared to be cleaning up their acts. However, misconduct in the financial and banking sectors, as well as high-profile failures of companies like GM during the 2008–2009 financial crisis, created a dramatic erosion of consumer confidence. As Exhibit 3.3 indicates, many consumers support increased government regulation of businesses. Not surprisingly, this sentiment peaked during the height of the financial crisis.

Table 4.3		Typical Ethical Issues Related to the Marketing Mix	
Product Issue Product information			Covering up defects in products that could cause harm to a consumer; withholding critical performance information that could affect a purchase decision.
Distribution Issue Counterfeiting			Counterfeit products are widespread, especially in the areas of computer software, clothing, and audio and video products. The Internet has facilitated the distribution of counterfeit products.
Promotion Issue Advertising			Deceptive advertising or withholding important product information in a personal selling situation.
Pricing Issue Pricing			Indicating that an advertised sale price is a reduction below the regular list price when in fact that is not the case.

Exhibit 3.2

Marketing deceptions, such as lying or misrepresenting information, were a key reason for the increase in support of government regulation. Such practices increased consumer distrust of some businesses and industries, such as the mortgage industry, and contributed to economic instability during the crisis. Misleading consumers, investors, and other stakeholders not only caused the ruin of established companies like Lehman Brothers, but also led to the arrests of major company officials and the loss of billions of investors' dollars. Without a shared view of appropriate and acceptable business conduct, companies often fail to balance their desires for profits against the wishes and needs of society.

Balancing profits with the wishes of society often leads to major challenges that could require changing a company's marketing strategy. As illustrated in Beyond the Pages 3.2, changes, compromises, or trade-offs in marketing strategy are often needed to address public concerns. If a balance is not maintained, more regulation can result to require responsible behavior of all marketers. Therefore, many best practices evolve to ensure ethical conduct that avoids the inflexibility and expense of regulation.

Society has developed rules—both legal and implied—to guide firms in their efforts to earn profits through means that do not harm individuals or society at large. When companies deviate from the prevailing standards of industry and society, the result is customer dissatisfaction, lack of trust, and legal action. The economic downturn has caused the public's trust of business to plummet. A survey by Transparency International revealed that 53 percent of respondents view the private sector as corrupt. Another study of 650 U.S. consumers revealed

that 32 percent see the financial sector as greedy and impersonal, 26 percent see it as opportunistic, and 22 percent see it as distant. Given that so much of a company's success depends on the public's perceptions of the firm, a firm's reputation is one of its greatest assets. The value of a positive reputation is difficult to quantify, but it is very important and once lost can be difficult to regain. A single negative incident can influence perceptions of a firm's image and reputation for years afterward. Corporate reputation, image, and branding are more important than ever and are among the most critical aspects of sustaining relationships with key stakeholders. Although an organization does not control its reputation in a direct sense, its actions, choices, behaviors, and consequences do influence its reputation. For instance, ExxonMobil receives low ratings from the public when gasoline prices spike, as the company has repeatedly set records for all-time-high profits.

Despite corporate governance reforms and a growing commitment to ethics and social responsibility in some sectors, the overall reputation of American corporations continues to slip. According to the Edelman Trust Barometer, only 38 percent of Americans say they trust business, down 20 percentage points from previous years and the lowest since the poll began. American trust in the banking industry is particularly low, with only 36 percent saying that they trust banks. This number is down from 69 percent in previous polls. Reputation is such an important but fragile asset that it may take these industries years to earn back consumer trust.

Some businesspeople choose to behave ethically because of enlightened self-interest or the expectation that "ethics pays." They want to act responsibly and be good citizens, and assume that the public and customers will reward the company for its ethical behavior. Avon, for example, is a company that achieves success, contributes to society, and has ethical management. Andrea Jung, Avon's Chairperson and CEO, operates in the high-risk area of direct selling, without scandals or major ethical issues. In 2008, Jung was named number six among Fortune's 50 Most Powerful Women. Avon markets itself as "the company for women" and engages in many philanthropic activities to benefit women. The Avon Foundation Breast Cancer Crusade has contributed \$585 million to 50 countries between 1992 and 2008 and utilizes such high-profile names as actress Reese Witherspoon to broadcast its message. Avon even won approval to conduct direct selling in China—the first approval for a U.S. company since China banned the practice in 1998.

The Challenges of Being Ethical and Socially Responsible

Although most consider the values of honesty, respect, and trust to be self-evident and universally accepted, business decisions involve complex and detailed

discussions in which correctness may not be so apparent. Both employees and managers need experience within their specific industry to understand how to operate in gray areas or to handle close calls in evolving areas, such as Internet privacy. For example, how much personal information should be stored on a firm's website without customers' permission? In Europe, the European Union Directive on Data Protection prohibits selling or renting mailing lists—consumers' data cannot be used without their permission. In the United States, firms have more freedom to decide how to collect and use customers' personal data, but advancing technology raises new questions every day. Issues related to personal privacy, unsolicited e-mail, and misappropriation of copyrighted intellectual property cause ethical problems. Protecting trademarks and brand names becomes more difficult as e-commerce has expanded.

Individuals who have limited business experience often find themselves required to make sudden decisions about product quality, advertising, pricing, sales techniques, hiring practices, privacy, and pollution control. For example, how do advertisers know when they make misleading statements as opposed to simple puffery or exaggeration? Bayer claims to be “the world's best aspirin”; Hush Puppies are “the earth's most comfortable shoes”; and Firestone (before its famous recall of 6.5 million tires) promised “quality you can trust.”¹⁴ The personal values learned through socialization from family, religion, and school may not provide specific guidelines for these complex business decisions. In other words, a person's experiences and decisions at home, in school, and in the community may be quite different from the experiences and the decisions that he or she has to make at work. Moreover, the interests and values of individual employees may differ from those of the company in which they work, from industry standards, and from society in general. When personal values are inconsistent with the configuration of values held by the work group, ethical conflict may ensue. It is important that a shared vision of acceptable behavior develop from an organizational perspective, to cultivate consistent and reliable relationships with all concerned stakeholders. A shared vision of ethics that is part of an organization's culture can be questioned, analyzed, and modified as new issues develop. However, marketing ethics should relate to work environment decisions and should not control or influence personal ethical issues.

It is imperative that firms become familiar with many of the ethical and social issues that can occur in marketing so that these issues can be identified and resolved when they occur. Essentially, any time that an activity causes managers, employees, or customers in a target market to feel manipulated or cheated, an ethical issue exists regardless of the legality of the activity. Many ethical issues can develop into legal problems if they do not become addressed in the planning process. Once an issue has been identified, marketers must decide how to deal with it. Exhibit 3.4 provides an overview of types of observed misconduct in

organizations. All marketers are subject to observing and preventing these types of ethical issues. Although Exhibit 3.4 documents many types of issues that exist in organizations, due to the almost infinite number of ways that misconduct can occur, it is impossible to list every conceivable ethical issue. Any type of manipulation, deceit, or even just the absence of transparency in decision making can potentially create harm to others.

Deceptive Practices in Marketing

When a marketing decision results in deception in order to advance individual or organizational interests over those of another individual, group, or organization, charges of fraud may result. In general, fraud is any false communication that deceives, manipulates, or conceals facts in order to create a false impression. It can be considered a crime, and convictions may result in fines, imprisonment, or both. Fraud costs U.S. organizations nearly 1 trillion dollars a year; the average company loses about 7 percent of total revenues to fraud and abuses committed by its own employees. Some of the most common fraudulent activities reported by employees include stealing office supplies and employee shoplifting, claiming to have worked extra hours, and stealing money. In recent years, both marketing and accounting fraud have become major ethical issues and front-page news stories. The negative publicity has taken its toll on public opinion of the marketing profession. Telemarketers, car salespeople, and advertising executives are now among the lowest-ranked marketing professions in terms of the public's perceptions of honesty and ethics.

Deceptive Communication and Promotion

Marketing practices that are false or misleading can destroy customers' trust in an organization. The Federal Trade Commission (FTC) monitors businesses for deceptive practices and takes disciplinary action when needed. It banned American Telecom Services from selling telephones and telephone services through retailers across the nation because the company was not providing promised rebates to tens of thousands of customers. The FTC also required Darden Restaurants, Inc.—owners of The Olive Garden and Red Lobster—to restore fees deducted from consumer gift cards and to prominently disclose fees and expiration dates in all advertising for future gift card offers after the company settled charges that it had engaged in deceptive practices associated with marketing its gift cards.¹⁸ No matter how vigilant, it is difficult for the FTC to catch all forms of deceptive marketing, particularly in the area of advertising.

False and deceptive communication and promotion are the most common and recurring issues in marketing deception. Research has shown that one out of every five advertisements contains misleading information.¹⁹ For example, Burger King staged a taste test that the company claims showed that participants preferred its

sandwiches to McDonald's. The problem with claims like these is that they are highly subjective, yet advertisers attempt to make the numbers seem scientific. Other abuses in promotion can range from exaggerated claims and concealed facts to outright lying. Exaggerated claims are those that cannot be substantiated, such as when a commercial states that a certain product is superior to any other on the market. For example, Papa John's International, Inc., invested years and millions of dollars into its "Better Ingredients, Better Pizza" advertising campaign. However, a Texas jury found that the slogan constituted deceptive advertising, and the judge ordered the company to stop using the claim in future advertising. The decision was eventually overturned on appeal and Papa John's still uses the slogan.

Another form of advertising abuse involves making ambiguous statements, in which claims are so weak that the viewer, reader, or listener must infer the advertiser's intended message. Because it is inherently vague, using ambiguous wording enables the advertiser to deny any intent to deceive. The verb help is a good example (as in expressions such as "helps prevent," "helps fight," or "helps make you feel"). Consumers may view such advertisements as unethical because they fail to communicate all the information needed to make a good purchasing decision or because they deceive the consumer outright. In another example, the Federal Trade Commission (FTC) and other agencies now monitor more closely the promotions for work-at-home business ventures. Consumers lose millions of dollars each year responding to ads for phony business opportunities such as those promising \$50,000 a year for doing medical billing from a home computer.

Another deceptive practice that has become more common is greenwashing, which involves misleading a consumer into thinking that a product or service is more environmentally friendly than it actually is. With customers spending approximately \$25 billion a year on green products, businesses are eager to cash in on the green craze. Yet some are willing to cut corners to do so. This generally takes the form of misleading product labels, which can range from making environmental claims that are required by law and are therefore irrelevant (for example, saying that a product is CFC free when CFCs have been banned by the government) to puffery (exaggerating environmental claims) to fraud.²¹ Firms need to be careful when using words like green, sustainable, or environmentally friendly so as not to mislead consumers and face potential litigation. The federal government has taken a tougher stand on environmental issues, and as greenwashing becomes more prevalent, it is likely that legal action will increase. Since 2000, the FTC has taken legal action against three companies for greenwashing. Because one-third of consumers rely exclusively on labels to decide whether a product is environmentally friendly, it is important that labels tell the truth.

Some organizations have developed a certification system to help consumers make informed decisions when buying supposedly green products. For example, the Carbon Trust offers a certification that validates claims about reducing carbon output. However, certification organizations are not always trustworthy either. Some of them charge a fee and do not hold products to rigorous standards. For the time being, the best way for consumers to be informed about eco-friendly products is to do their research before going shopping.

Communication in the context of personal selling can also mislead by concealing facts within a message. For instance, a salesperson anxious to sell a medical insurance policy might list a large number of illnesses covered by the policy but fail to mention that it does not cover some commonly covered illnesses. Fraudulent activity has dramatically increased in the area of direct marketing, in which companies use the telephone and nonpersonal media to communicate information to customers, who then purchase products via mail, telephone, or the Internet. Consumers report losses of \$1.2 billion annually resulting from fraud, many of them from direct-marketing scams. Of the roughly 1.2 million complaints received by the FTC each year, about 26 percent are associated with identity theft and 9 percent are associated with third-party and creditor debt collection.

Regulating Deceptive Marketing Practices

Many firms attempt to regulate themselves in an effort to demonstrate ethical responsibility and to preclude further regulation by federal or state governments. In addition to complying with all relevant laws and regulations, many firms choose to join trade associations that have self-regulatory programs. Although such programs are not a direct outgrowth of laws, many became established to stop or delay the development of laws and regulations that would restrict the associations' business practices. Some trade associations establish codes of conduct by which their members must abide or risk rebuke or expulsion from the association. Perhaps the best-known self-regulatory association is the Better Business Bureau (BBB). The BBB's 124 local bureaus across the United States and Canada oversee 3 million businesses and charities, and help resolve problems for millions of consumers each year.²⁴ Each bureau works to champion good business practices within a community although it usually does not have strong tools for enforcing its rules of business conduct. When a firm violates what the BBB believes to be good business practice, the bureau warns consumers through local newspapers or broadcast media. If the offending organization is a member of the BBB, it may be expelled from the local bureau. The BBB also has a website (<http://www.bbb.org>) to help consumers identify businesses that operate in an ethical manner. BBB members who use the site agree to binding arbitration with regard to online privacy issues.

Self-regulatory programs like the BBB have a number of advantages over government regulation. Establishment and implementation of such programs are usually less costly, and their guidelines or codes of conduct are generally more practical and realistic. Furthermore, effective self-regulatory programs reduce the need to expand government bureaucracy. However, self-regulation also has several limitations. Nonmember firms are under no obligation to abide by a trade association's industry guidelines or codes. Moreover, most associations lack the tools or authority to enforce their guidelines. Finally, these guidelines are often less strict than the regulations established by government agencies. Still, in many cases, government oversight is absolutely essential to ensure the public's trust. Beyond the Pages 3.3, for example, discusses how government intervention during ethical and legal lapses in the financial sector is essential to maintaining trust in our banking system.

Organizational Determinants of Marketing Ethics and Social Responsibility

Although individuals can and do make ethical decisions, they do not operate in a vacuum. Ethical choices in business are most often made jointly in committees and work groups or in conversations with coworkers. Moreover, people learn to settle ethical issues not only using the perspective of their individual backgrounds but also from others with whom they associate in the business environment. The outcome of this learning process depends on the strength of each individual's personal values, the opportunity for unethical behavior, and the exposure to others who behave ethically or unethically. Consequently, the culture of the organization—as well as superiors, peers, and subordinates—can have a significant impact on the ethical decision-making process.

Corporate or organizational culture may be conveyed formally in employee handbooks, codes of conduct, memos, and ceremonies, but it is also expressed informally through dress codes, extracurricular activities, and anecdotes. A firm's culture gives its members meaning and offers direction about how to behave and deal with problems within the firm. The corporate culture at American Express, for example, includes numerous anecdotes about employees who have gone beyond the call of duty to help customers in difficult situations. This strong tradition of customer service might encourage an American Express employee to take extra steps to help a customer who encounters a problem while traveling overseas.

On the other hand, a firm's or industry's culture may also encourage employees to make decisions that others may judge as unethical or it may not discourage actions that may be viewed as unethical. For example, increasing competition in the beer industry has led many firms to use more provocative advertising. Many consumer advocacy organizations have complained that beer industry ads push

too hard to attract young consumers who may be under the legal drinking age. After an investigation into beer and alcohol marketing practices, the FTC determined that industry self-regulation works when it comes to beer and alcohol advertising. The investigation found that 92 percent of the industry's ads were acceptable, and only a small percentage of beer and alcohol marketing was truly objectionable. One such case was an Anheuser-Busch campaign that aspired "to connect with fans of many sports" by using college-team colors on Bud Light cans. The FTC had serious concerns with the campaign in that it might promote underage and binge drinking on college campuses. Although there was no formal investigation of Anheuser-Busch, the FTC made it clear that these types of campaigns should not happen again.²⁶ Many stakeholders, including alcohol and drug policy special interest groups, criticized this ruling as not strict enough.

In marketing, we think of ethical climate as that part of a corporate culture that relates to an organization's expectations about appropriate conduct. To some extent, ethical climate is the character of an organization. Corporate policies and codes, the conduct of top managers, the values and moral philosophies of coworkers, and opportunity for misconduct all contribute to a firm's ethical climate. When top managers strive to establish an ethical climate based on responsibility and citizenship, they set the tone for ethical decisions. Such is the case at the White Dog Cafe in Philadelphia. Owner Judy Wicks grew her business from a coffee and muffin take-out joint in the first floor of her home to a 200-seat restaurant grossing \$5 million annually. Wicks pays a living wage to all restaurant employees, even the dishwashers; however, most employees at the White Dog Cafe make well above this amount. The restaurant uses 100 percent wind-powered electricity, and 10 to 20 percent of the profits are donated to the affiliated nonprofit, White Dog Community Enterprises, which works to build a more socially just and environmentally sustainable local economy in the greater Philadelphia region. Wicks says she uses "good food to lure innocent consumers into social activism."²⁷ Thus, the White Dog Cafe and White Dog Community Enterprises have established an ethical climate that promotes responsible conduct. Ethical climate also determines whether an individual perceives an issue as having an ethical component. Recognizing ethical issues and generating alternatives to address them are manifestations of ethical climate.

To meet the public's escalating demands for ethical marketing, firms need to develop plans and structures for addressing ethical considerations. Some directions for the improvement of ethics have been mandated through regulation, but firms must be willing to have in place a values and ethics system that exceeds minimum regulatory requirements. Although there are no universal standards that can be applied to organizational ethics programs, most companies develop codes, values, or policies to guide business behavior. It would be very naïve to think that simply having a code of ethics would solve any ethical dilemmas a firm might

face. In fact, the majority of firms that experience ethical or legal problems usually have stated ethics codes and programs. Often, the problem is that top management, as well as the overall corporate culture, has not integrated these codes, values, and standards into daily decision making.

Codes of Conduct

Most firms begin the process of establishing organizational ethics programs by developing codes of conduct (also called codes of ethics), which are formal statements that describe what an organization expects of its employees. According to a KPMG Integrity Survey, 82 percent of employees reported that their firm has a formal code of conduct such as codes of ethics, policy statements on ethics, or guidelines on proper business conduct. These codes may address a variety of situations from internal operations to sales presentations and financial disclosure practices.

A code of ethical conduct has to reflect the board of directors' and senior management's desire for organizational compliance with the values, rules, and policies that support an ethical climate. Development of a code of conduct should involve the board of directors, president, and senior managers who will be implementing the code. Legal staff should be called upon to ensure that the code has correctly assessed key areas of risk and that standards contained in the code buffer potential legal problems. A code of conduct that does not address specific high-risk activities within the scope of daily operations is inadequate for maintaining standards that can prevent misconduct. Exhibit 3.5 lists the key considerations in developing and implementing a code of ethical conduct.

As a large multinational firm, Texas Instruments (TI) manufactures computers, calculators, and other high-technology products. Its code of ethics resembles that of many other organizations. The code addresses issues related to policies and procedures; government laws and regulations; relationships with customers, suppliers, and competitors; the acceptance of gifts, travel, and entertainment; political contributions; expense reporting; business payments; conflicts of interest; investment in TI stock; handling of proprietary information and trade secrets; use of TI employees and assets to perform personal work; relationships with government officials and agencies; and the enforcement of the code. TI's code emphasizes that ethical behavior is critical to maintaining long-term success and that each individual is responsible for upholding the integrity of the company. TI's values and ethics statement puts it this way:

Our reputation at TI depends upon all of the decisions we make and all the actions we take personally each day. Our values define how we will evaluate our decisions and actions and how we will conduct our business. We are working in a difficult, demanding, ever-changing business

environment. Together, we are building a work environment on the foundation of integrity, innovation and commitment. Together, we are moving our company into a new century one good decision at a time. Our high standards have rewarded us with an enviable reputation in today's marketplace: a reputation of integrity, honesty and trustworthiness. That strong ethical reputation is a vital asset, and each of us shares a personal responsibility to protect, preserve and enhance it. Our reputation is a strong, but silent partner in all business relationships. By understanding and applying the values presented here, each of us can say to ourselves and to others, "TI is a good company and one reason is that I am a part of it." Know what's right. Value what's right. Do what's right.

To ensure that its employees understand the nature of business ethics and the ethical standards that the company expects them to follow, TI offers an "ethics quick test" to help them when they have doubts about the ethics of specific situations and behaviors:

- Is the action legal?
- Does it comply with our values?
- If you do it, will you feel bad?
- How will it look in the newspaper?
- If you know it's wrong, don't do it!
- If you're not sure, ask.
- Keep asking until you get an answer.

TI provides a toll-free number (1-800-33-ETHIC) for employees to call, anonymously, to report incidents of unethical behavior, or simply to ask questions.

Research has found that corporate codes of ethics often have five to seven core values or principles in addition to more-detailed descriptions and examples of appropriate conduct. Six core values are considered to be highly desirable in any code of ethical conduct: (1) trustworthiness, (2) respect, (3) responsibility, (4) fairness, (5) caring, and (6) citizenship.³¹ These values will not be effective without distribution, training, and the support of top management in making them a part of the corporate culture and the ethical climate. Employees need specific examples of how these values can be implemented.

Codes of conduct will not resolve every ethical issue encountered in daily operations, but they help employees and managers deal with ethical dilemmas by prescribing or limiting specific activities. Many firms have a code of ethics, but sometimes they do not communicate their code effectively. A code placed on a website or in a training manual is useless if the company doesn't reinforce it on a

daily basis. By communicating both the expectations of proper behavior to employees, as well as punishments they face if they violate the rules, codes of conduct curtail opportunities for unethical behavior and thereby improve ethical decision making. Codes of conduct do not have to be so detailed that they take into account every situation, but they should provide guidelines and principles capable of helping employees achieve organizational ethical objectives and address risks in an accepted manner.

Marketing Ethics and Leadership

There is increasing support that ethical cultures emerge from strong leadership. Many agree that the character and success of the most admired companies emanate from their leaders. The reason is simple: Employees look to the leader as a model of acceptable behavior. As a result, if a firm is to maintain ethical behavior, top management must model its policies and standards. In fact, maintaining an ethical culture is near impossible if top management does not support ethical behavior. For example, in an effort to keep earnings high and boost stock prices, many firms have engaged in falsifying revenue reports. Top executives in these firms encouraged the behavior because they held stock options and could receive bonus packages tied to the company's performance. Thus, higher reported revenues meant larger executive payoffs.

In the realm of marketing ethics, great leaders (1) create a common goal or vision for the company; (2) obtain buy-in, or support, from significant partners; (3) motivate others to be ethical; (4) use the resources that are available to them; and (5) enjoy their jobs and approach them with an almost contagious tenacity, passion, and commitment. Along with strong ethical leadership, a strong corporate culture in support of ethical behavior can also play a key role in guiding employee behavior. Ninety-four percent of respondents to a survey conducted by business consulting firm LRN said it was very important for them to work for an ethical company, with 82 percent saying they would prefer to be paid less if it meant working in an ethical corporate environment.³³ Organizational culture, coworkers and supervisors, as well as the opportunity to engage in unethical behavior, influence ethical decision making. Ethics training can affect all three types of influence. Full awareness of the philosophy of management, rules, and procedures can strengthen both the organizational culture and the ethical stance of peers and supervisors. Such awareness, too, arms employees against opportunities for unethical behavior and lessens the likelihood of misconduct. If adequately and thoughtfully designed, ethics training can ensure that everyone in the firm (1) recognizes situations that might involve ethical decision making, (2) understands the values and culture of the firm, and (3) can evaluate the impact of ethical decisions on the firm in the light of its value structure.

Stakeholders, Market Orientation, and Marketing Performance

One of the most powerful arguments for including ethics and social responsibility in the strategic planning process is the evidence of a link between social responsibility, stakeholders, and marketing performance.³⁵ An ethical climate calls for organizational members to incorporate the interests of all stakeholders, including customers, in their decisions and actions. Hence, employees working in an ethical climate will make an extra effort to better understand the demands and concerns of customers. One study found that ethical climate is associated with employee commitment to quality and intrafirm trust. Employee commitment to the firm, customer loyalty, and profitability have also been linked to increased social responsibility. These findings emphasize the role of an ethical climate in building a strong competitive position. For example, Burgerville, a regional fast food chain from Washington State, realized significant cost savings, decreased employee turnover, and higher sales after it began to cover 90 percent of healthcare costs for all employees who work over 20 hours per week. Burgerville has found that, while initial costs can be high, being ethical and taking care of its workers does pay off in the end.

As employees perceive an improvement in the ethical climate of their firm, their commitment to the achievement of high-quality standards also increases. They become more willing to personally support the quality initiatives of the firm. These employees often discuss quality-related issues with others both inside and outside of the firm, and gain a sense of personal accomplishment from providing quality goods and services. These employees exhibit effort beyond both expectations and requirements in order to supply quality products in their particular job or area of responsibility. Conversely, employees who work in less ethical climates have less commitment to providing such quality. These employees tend to work only for the pay, take longer breaks, and are anxious to leave every day whether or not they have completed their work.

Market Orientation

An ethical climate is also conducive to a strong market orientation. Market orientation refers to the development of an organizational culture that effectively and efficiently promotes the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance of the firm. Market orientation places the customer's interests first, but it does not exclude the interests of other stakeholders. Being market oriented means fostering a sense of cooperation and open information exchange that gives the firm a clearer view of the customer's needs and desires. Without a strong ethical climate, a competitive workplace orientation can emerge. A competitive orientation encourages personal success, which may come at the expense of openness and cooperation. Internal

competition between employees may encourage the achievement of financial performance levels, without regard for their potential effects on other stakeholders both inside and outside the firm. Consequently, employees are unlikely to incorporate the demands and concerns of society, business, or customers in their decisions.

Stakeholder Orientation

The degree to which a firm understands and addresses stakeholder demands can be referred to as a stakeholder orientation. This orientation contains three sets of activities: (1) the organization-wide generation of data about stakeholder groups and assessment of the firm's effects on these groups, (2) the distribution of this information throughout the firm, and (3) the organization's responsiveness as a whole to this intelligence.

Generating data about stakeholders begins with identifying the stakeholders who are relevant to the firm. Relevant stakeholder communities should be analyzed on the basis of the power that each enjoys as well as by the ties between them. Next, the firm should characterize the concerns about the business's conduct that each relevant stakeholder group shares. This information can be derived from formal research, including surveys, focus groups, Internet searches, or press reviews. For example, Accenture utilizes employee surveys to gauge success of their ethics and compliance program in addition to risk assessments and corporate investigations. Caterpillar incorporates an "Annual Assessment and Questionnaire" that is offered in 14 different languages to accommodate employees in over 50 countries. Employees and managers can also generate this information informally as they carry out their daily activities. Purchasing managers know about suppliers' demands, public relations executives about the media, legal counselors about the regulatory environment, financial executives about investors, sales representatives about customers, and human resources advisers about employees. Finally, the company should evaluate its impact on the issues that are important to the various stakeholders whom it has identified.

A stakeholder orientation is not complete unless it includes activities that address stakeholder issues. For example, Gap Inc. reported that although factory inspections are improving, it still struggles to ensure that all its factories are complying with company standards. Gap Inc. admits that it is rare for its factories to fully meet compliance standards, which requires regular factory inspections to ensure safe, fair working conditions. Factory assessors, known as Vendor Compliance Officers, visit factories and assess their performance by rating them on a five point rating system. Gap Inc. recognizes that it is in the company's best interest to work with factories to overcome compliance issues, rather than to simply stop using the factory entirely. However, if an offending factory refuses to

change its methods, The Gap will disband its relationship. It has revoked approval of hundreds of factories because they violated vendor codes of conduct. Gap Inc. also partners with the U.K.-based company Historic Futures, to provide a service to trace materials used in Gap products back to their source (the country of origin and factory). This partnership allows Gap Inc. to be even more aware of labor and environmental conditions in its supply chain. However, The Gap also realizes that it sometimes contributes to problems by making unreasonable demands on factories, such as changing production orders at the last minute. Hence, it continually strives to improve its supply chain decision making so that rush jobs on factories do not occur as often.

The responsiveness of the organization to stakeholder intelligence consists of the initiatives that the firm adopts to ensure that it abides by or exceeds stakeholder expectations and has a positive impact on stakeholder issues. Such activities are likely to be specific to a particular stakeholder group (for example, family-friendly work schedules) or to a particular stakeholder issue (for example, pollution-reduction programs). These responsiveness processes typically involve the participation of the concerned stakeholder groups. Kraft, for example, includes special-interest groups and university representatives in its programs to become sensitized to present and future ethical issues.

A stakeholder orientation can be viewed as a continuum in that firms are likely to adopt the concept to varying degrees. To gauge a given firm's stakeholder orientation, it is necessary to evaluate the extent to which the firm adopts behaviors that typify both the generation and dissemination of stakeholder intelligence and responsiveness to it. A given organization may generate and disseminate more intelligence about certain stakeholder communities than about others and, as a result, may respond to that intelligence differently.

Marketing Performance

A climate of ethics and social responsibility also creates a large measure of trust among a firm's stakeholders. The most important contributing factor to gaining trust is the perception that the firm and its employees will not sacrifice their standards of integrity. In an ethical work climate, employees can reasonably expect to be treated with respect and consideration by their coworkers and superiors. Furthermore, trusting relationships with key external stakeholders can contribute to greater efficiencies and productivity in the supply chain, as well as a stronger sense of loyalty among the firm's customers. A Cone Cause Evolution study revealed that two-thirds of Americans consider a company's business practices when making purchasing decisions, with 85 percent claiming that they would switch products or services should a company be revealed to be unethical. Boycotting a company for ethical misconduct is also a common form of consumer

disciplinary action. For example, due to the forest burning practices of palm oil farmers, activists and consumers boycotted Cadbury because of the company's use of palm oil in their chocolate products.

Research indicates a strong association between social responsibility and customer loyalty in that customers are likely to keep buying from firms perceived as doing the right thing. Research by the brand and marketing agency BBMG revealed that about three out of four Americans prefer to buy goods and services from firms that are socially responsible and good corporate citizens.⁴³ One explanation for this observation may be that good-citizen firms are responsive to customers' concerns and have a sense of dedication to treating them fairly. By gauging customer satisfaction, continuously improving the quality and safety of products, and by making customer information easily accessible and understandable, ethical and socially responsible firms are more likely to serve customers' needs satisfactorily.

Firms that do not develop strategies and programs to incorporate ethics and social responsibility into their organizational cultures will pay the price with potentially poor marketing performance, the potential costs of civil or criminal litigation, and damaging negative publicity when the public discovers questionable activities. On the other hand, firms that do incorporate ethics and social responsibility into their strategic plans are likely to experience improved marketing performance. Unfortunately, because many firms do not view marketing ethics and social responsibility as organizational performance issues, many firms do not believe that these issues need to be considered in the strategic planning process. Individuals also have different ideas as to what is ethical or unethical, leading them to confuse the need for workplace ethics with the right to maintain their own personal values and ethics. Although many corporations and individuals do not fully understand the concept of ethics, and many more do not know how to include it in business strategy, it is possible and desirable to incorporate ethics and social responsibility into the planning process.

Incorporating Ethics and Social Responsibility into Strategic Planning

Many firms integrate ethics and social responsibility into their strategic planning through ethics compliance programs or integrity initiatives that make legal compliance, ethics, and social responsibility an organization-wide effort. Such programs establish, communicate, and monitor a firm's ethical values and legal requirements through codes of conduct, ethics offices, training programs, and audits. Although many firms take considerable time and effort in creating their own codes of conduct, many do not. Krispy Kreme, once a high-flying company, experienced a financial implosion when two executives tried to manage earnings to meet Wall Street expectations. The company's stock, which had traded for

\$105/share in November 2000 before two-for-one stock splits, fell to \$5/share by January 2006.⁵⁵ Though Krispy Kreme ousted the corrupt executives and worked to bring its financials up to date, the company suffered significant losses, which only worsened with the 2008–2009 financial crisis. As of 2009, Krispy Kreme Doughnut shares were selling at around \$2/share on the New York Stock Exchange, leading analysts to question the future viability of this once popular doughnut chain. A 2008 poll by Harris Interactive found many scandal-plagued firms at the bottom of its annual survey of perceived corporate reputation, including AIG, Halliburton Company, General Motors Corporation and Washington Mutual. The annual survey measures the sixty most visible corporate reputations on twenty attributes. The Big Three automakers, General Motors Corporation, Chrysler and Ford Motor Company had the largest decrease in credibility scores from the prior year. In addition to the automotive industry's reputation downfall, the financial services industry tied with the tobacco industry for the lowest reputation ranking.

The marketing plan should include distinct elements of ethics and social responsibility as determined by top-level marketing managers. Marketing strategy and implementation plans should be developed that reflect an understanding of (1) the risks associated with ethical and legal misconduct, (2) the ethical and social consequences of strategic choices, and (3) the values of organizational members and stakeholders. To help ensure success, top managers must demonstrate their commitment to ethical and socially responsible behavior through their actions—words are simply not enough. In the end, a marketing plan that ignores social responsibility or is silent about ethical requirements leaves the guidance of ethical and socially responsible behavior to the work group, which risks ethical breakdowns and damage to the firm.