PREFACE

Commerce is by its very nature a normative enterprise. It is concerned with creating value for owners and other constituencies, ranging from the firm's immediate stakeholders, such as employees, customers, and suppliers, to the entire society within which the business operates. As a field of study, business ethics aims to specify the principles under which businesses must operate to behave ethically. Thus, business ethics focuses on issues such as those that have recently attracted so much public scrutiny: executive compensation, honesty in accounting, transparency, treatment of stakeholders, and respect for the environment. These are, in fact, perennial questions that accompany the long history of human economic activity and that will also be present through an indeterminate future.

Marketing ethics is the systematic study of how moral standards are applied to marketing decisions, behaviors, and institutions. Because marketing is a process inherent to most organizations, marketing ethics should be viewed as a subset of business ethics; thus, much of what is written about business ethics applies to marketing ethics as well. When the words "marketing ethics" appear in the general media or business press, the reports typically describe a marketing strategy, tactic, or policy that some constituency feels is "unfair" or "exploitive" or "deceptive." Often, the subsequent discussion turns to how marketing practices might become more consumer-friendly, socially compatible, or put in philosophical terms, how marketing might be normatively improved.

FORMAT

This guide to marketing ethics provides key terms and concepts related to marketing ethics in a short, easy-to-use format. It is intended to act as a companion

for marketing courses or as a reference for students and practitioners who would like to learn more about the basics of ethical marketing.

The text is divided into five sections that contain important keywords that relate to those sections: *Business Ethics, Ethics and the Marketing Mix, Ethics and the Promotional Mix,* and *Special Topics in Marketing Ethics.* Each keyword entry is written by a scholar drawn from the fields of business and marketing ethics and is a comprehensive essay on such crucial topics as ethical issues in pricing, green marketing, and deceptive advertising. Each essay includes a list of references and suggested readings for each article so that readers can find more information on issues of particular interest to them. The AMA Code of Ethics is included in the Appendix of the book as a reference for current and future practitioners.

ACKNOWLEDGMENTS

PART I

Business Ethics

BUSINESS ETHICS

Although defining business ethics has been somewhat problematic, several definitions have been proposed. For example, Richard De George defines the field broadly as the interaction of ethics and business, and although its aim is theoretical, the product has practical application. Manuel Velasquez defines the business ethics field as a specialized study of moral right and wrong. Unfortunately, a great deal of confusion appears to remain within both the academic and the business communities, as other related business and society frameworks, such as corporate social responsibility, stakeholder management, sustainability, and corporate citizenship, are often used interchangeably with or attempt to incorporate business ethics. Relative to other business and society frameworks, however, business ethics appears to place the greatest emphasis on the ethical responsibilities of business and its individual agents, as opposed to other firm responsibilities (e.g., economic, legal, environmental, or philanthropic).

A BRIEF HISTORY OF BUSINESS ETHICS

The subject of business ethics has been around since the very first business transaction. For example, the Code of Hammurabi, created nearly 4,000 years ago, records that Mesopotamian rulers attempted to create honest prices. In the fourth century BCE, Aristotle discussed the vices and virtues of tradesmen and merchants. The Old Testament and the Jewish Talmud discuss the proper way to conduct business, including topics such as fraud, theft, proper weights and measures, competition and free entry, misleading advertising, just prices, and environmental issues. The New Testament and the Koran also discuss business ethics as it relates to poverty and wealth. Throughout the history of commerce, these codes have had an impact on business dealings. The U.K. South Sea Bubble of the early 1700s, labeled as the world's first great financial scandal, involved the collapse of the South Sea Company. During the 19th century, the creation of monopolies and the use of slavery were important business ethics issues, which continue to be debated until today.

In recent times, business ethics has moved through several stages of development. Prior to the 1960s, business was typically considered to be an amoral activity; concepts such as ethics and social responsibility were rarely explicitly mentioned. During the 1960s, a number of social issues in business began to emerge, including civil rights, the environment, safety in the workplace, and consumer issues. During the late 1970s, the field of business ethics began to take hold in academia, with several U.S. schools beginning to offer a course in business ethics by 1980. From 1980 to 1985, the business ethics field continued to consolidate, with the emergence of journals, textbooks, research centers, and conferences. From 1985 to 1995, business ethics became integrated into large corporations, with the development of corporate codes of ethics, ethics training, ethics hotlines, and ethics officers. From 1995 to 2000, issues related to international business activity came to the forefront, including issues of bribery and corruption of government officials, the use of child labor by overseas suppliers, and the question of whether to operate in countries where human rights violations were taking place. From approximately 2000 until today, business ethics discussion has mainly been focused on major corporate scandals such as Enron, WorldCom, and Tyco, leading to a new phase of government regulation (e.g., the Sarbanes-Oxley Act of 2002) and enforcement.

This current "scandal" phase of the business ethics field has tremendously enhanced its popular use. For example, a search in Google using the term *business ethics* (as of November 2005) generates over 88 million hits. Hollywood continues to portray important business ethics issues or dilemmas in movies such as *Wall Street, Quiz Show, Boiler Room, Erin Brockovich, The Insider*, and *Jerry Maguire* and even in children's films such as *Monsters, Inc.*

MORAL STANDARDS AND BUSINESS ETHICS

Although the field of business ethics covers a broad range of topics, the core of the field is based in moral philosophy and its use of moral standards (i.e., values, principles, and theories) to engage in ethical assessments of business activity. A literature review indicates that five moral standards have been applied in the field of business ethics to a greater extent and with greater consistency than others. Two moral theories are particularly dominant in the business ethics literature: utilitarianism and deontology. Utilitarianism, often expressed as a teleological or consequentialist framework, is primarily based on the writings of Jeremy Bentham and John Stuart Mill. Deontology (i.e., duty-based obligations)

is often expressed in terms of "Kantianism" (or more specifically as the principle of the categorical imperative), being primarily based on the writings of Immanuel Kant. In addition to utilitarianism and deontology, two other moral theories (typically considered deontological in nature) have been used extensively in the business ethics field: moral rights and justice (e.g., procedural and distributive). The fifth moral theory receiving attention appears to be moral virtue, being primarily based on the writings of Aristotle. The predominant use by business ethicists of these moral theories points toward their importance in the field. Other important moral standards that are also used (although to a somewhat lesser extent) in the field of business ethics include moral relativism, ethical egoism, and religious doctrine.

There have been several means by which moral standards have been applied in business ethics. Some of the more apparent ways are (1) individual ethical decision making; (2) organizational ethical decision making (e.g., policies and practices); (3) the moral evaluation of business systems (e.g., capitalism) and the marketplace (e.g., competition); (4) the relationship between business and society (e.g., corporate social responsibility); and (5) specific issues in business (e.g., affirmative action and discrimination, conflicts of interest, privacy, whistle-blowing, executive compensation, consumer protection or marketing, and international business). In conjunction with the above are the uses made of moral standards with respect to both teaching and research in business ethics.

BUSINESS ETHICS AS AN ACADEMIC FIELD

Richard De George might be considered the first to attempt to distinguish business ethics as a separate field of study. De George suggests that business ethics is a field to the extent that it deals with a set of interrelated questions to be untangled and addressed within an overarching framework. He argues that the framework is not supplied by any ethical theory (e.g., Kantian, utilitarian, or theological) but by the systematic interdependence of the questions, which can be approached from various philosophical, theological, or other points of view.

Despite business ethics being a relatively recent distinct field of study, several typologies have emerged. There appear to be five general approaches: (1) a normative and descriptive approach, (2) a functional approach, (3) an issues approach, (4) a stakeholder approach, and (5) a mixed approach. For example, in terms of the normative/descriptive approach, academic business ethics research is

often divided into normative (i.e., prescriptive) and empirical (i.e., explanatory, descriptive, or predictive) methodologies. A functional approach attempts to divide the subject of business ethics into separate functional areas such as accounting, finance, marketing, or strategy. Others attempt to categorize business ethics by using an "issues" approach—in other words, by discussing issues such as the morality of corporations, employer-employee relationships, or other contemporary business issues. Another approach attempts to discuss the subject of business ethics from a stakeholder perspective (i.e., in relation to which stakeholder is most directly affected). For example, business ethics issues might be framed based on the following stakeholders: owners, employees, consumers, suppliers, competitors, the government, the natural environment, and the community. Finally, a mixed approach draws on aspects of several of the approaches (e.g., normative/descriptive, issues, and stakeholder) and appears to be the most popular approach used by business ethics academics. For example, quite often business ethics textbooks will commence with a normative discussion of moral theory and business systems. The discussion will then turn to a more mixed normative/descriptive discussion of the specific issues. In addition, many of the issues are tied to stakeholders, typically involving employees and customers.

In terms of business ethics research, in a review of the first 1,500 articles published in the *Journal of Business Ethics* from 1981 until 1999, Denis Collins found the presence of the following major business ethics research topics: (1) prevalence of ethical behavior, (2) ethical sensitivities, (3) ethics codes and programs, (4) corporate social performance and policies, (5) human resource practices and policies, and (6) professions—accounting, marketing/sales, and finance/strategy.

MAJOR EARLY CONTRIBUTORS TO BUSINESS ETHICS

Several important early contributors to the field of business ethics, mainly through their initial textbook publications, include Norman Bowie, Richard De George, Manuel Velasquez, Thomas Donaldson, W. Michael Hoffman, Patricia Werhane, John Boatright, and many others too numerous to mention. John Fleming conducted a study in 1987 to determine among other things the most referenced authors, books, and articles in business ethics. The top five referenced authors were (1) Milton Friedman, (2) Christopher Stone, (3) Thomas Donaldson, (4) Peter French, and (5) Alasdair MacIntyre. The top three referenced books were (1) Christopher Stone, *Where the Law Ends*;

(2) Thomas Donaldson, *Corporations and Morality*; and (3) John Rawls, *A Theory of Justice.* The top three referenced articles were (1) Brenner and Molander, "Is the Ethics of Business Changing?"; (2) Peter French, "The Corporation as a Moral Person"; and (3) Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits."

BUSINESS ETHICS TODAY

Based on early efforts, the field of business ethics continues to flourish in both academia as well as the business community. For example, a search (as of November 2005) using the database ABI/Inform for the term *business ethics* found in scholarly journal articles generates over 11,000 hits. Several important academic journals now exist, including *Journal of Business Ethics, Business Ethics Quarterly, Business & Society, Business Ethics: A European Review,* and *Business & Professional Ethics Journal*, among others. Business ethics conferences are held annually, including those conducted by the Society for Business Ethics and the European Business Ethics Network. Every 4 years, the International Society of Business, Economics and Ethics organizes a World Congress on Business Ethics, often portrayed as the "Olympics of Business Ethics." Research centers such as Bentley College's Center for Business Ethics, Wharton's Zicklin Center for Business Ethics Research, or the Ethics Resource Center based in Washington, D.C., continue to support research efforts in the field of business ethics. Surveys suggest that approximately two thirds of the top U.S. business schools now teach business ethics as either a mandatory or an elective stand-alone course. In the corporate world, the growth of ethics officers as well as the Ethics & Compliance Officer Association, ethics programs (e.g., codes of ethics, ethics hotlines or helplines), ethics audits and reports, ethical investment, and even corporate business ethics awards highlight the growing practical importance of the field. Consulting efforts in the business ethics field appear to have grown significantly as well due to the various corporate scandals and the desire of firms to avoid them in the future.

Yet despite the growth of business ethics and the apparent acceptance of its importance among many, several issues are being debated. For example, can business ethics be taught? What factors actually influence ethical behavior? What should a firm's ethical obligations (i.e., beyond the law) consist of? Does ethical behavior actually improve the firm's financial

performance? Is a firm capable of being held morally responsible, or only the firm's agents? How can business ethics best be integrated into a firm's corporate culture? These issues, as well as many others, remain to be examined and debated by those active in the business ethics field.

—Mark S. Schwartz

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THEORIES OF ETHICS

Ethics is the branch of philosophy that deals with morality. Ethicists are concerned with a wide range of topics, such as human nature; the meaning of life; the nature of value; how judgments are made; how judgments can be improved; how moral attitudes arise and change; and the workings of morally significant mental states such as love, hate, greed, envy, indifference, pity, desire, aversion, pleasure, and pain. Moral or ethical theories offer the means of understanding significant elements in these and other areas of inquiry.

Ethical theories tend either toward merely describing or toward both describing and judging. As a result, some moral theories seem to belong to anthropology, psychology, or sociology, while others look like instances of what ethics purports to study—that is, like moral doctrines or judgments. For this reason, a major distinction employed by moral theorists distinguishes descriptive from prescriptive, or normative, theories, or elements of theories.

Moral judgments tend to state that something is either good or bad or that something agrees or conflicts with our obligations. Consequently, a major division in moral theories is between theories of value (axiology) and theories of obligation (deontology). In each area, ethicists want to determine the meaning of moral judgments, their truth or falsity, their objectivity or subjectivity, how judgments are made, how they can be tested, how they can be justified, and the possibility of organizing judgments under first principles. A third major distinction places theories about the meaning of moral judgments in a category of their own called metaethics. Obviously, metaethical questions arise in all areas of ethics.

Prescriptive or normative moral thinking recommends at least one moral evaluation, or else it attempts the same for at least one moral obligation. Plato, Aristotle, the Stoics, the Epicureans, and the Cynics sought both to find the best kind of life and to strongly recommend the judgment that it was in fact the best. Others, such as Immanuel Kant, theorized about the nature of obligation and also provided grounds for justifying or recommending certain obligations. The theories of David Hume, Arthur Schopenhauer, Darwinism, and Logical Positivism exemplify the tendency to separate the task of description from that of prescription, or to eschew prescription altogether, in order to describe and organize moral judgments for the sake of understanding alone.

The unwavering pursuit of the metaethical question of the meaning of moral judgments brought many recent philosophers to the conclusion that moral judgments are not the sort of statements that can be true or false but instead express resolutions, preferences, feelings, demands, or other states of mind. Hume thought that they reported subjective feelings, so that a judgment such as "Insider trading is immoral" would not be understood as ascribing a predicate to insider trading but as saying something like "I disapprove of that act." A. J. Ayer, a Logical Positivist, believed that moral judgments did not report feelings but merely expressed them. For him, the statement "Insider trading is immoral" merely expresses a negative emotional reaction to stealing—along the lines of "Boo insider trading!" Such expressions are neither true nor false because they do not describe anything. Hume and Ayer represent the school known as Emotivism. A neighboring school, Prescriptivism, interprets "Insider trading is immoral" as an imperative, "Do not engage in insider trading," which is neither true nor false because it is a command rather than a description.

In value theory, the primary questions are first about the meaning of value terms, then about the status of value. With regard to meaning, the first question is whether value or goodness can be defined and, if so, how. For Plato and W. D. Ross, the good is indefinable, yet it names an intrinsic property of things, making it objective. For the Intuitionists, such as G. E. Moore, value is indefinable, objective, and absolute. Many ethicists believe that value can be defined so as to name something that is both objective and absolute, as did Aristotle, who defined the good as that at which all things aim. For others, the good has its seat in subjectivity and will be different for different persons or groups.

After the meaning and status of value, the chief concern in value theory has been the question of which things are of the highest value. The main answers have been a state of feeling, such as pleasure or satisfaction (Epicurus, Thomas Hobbes, John Stuart Mill); a state of the will, such as virtue (Epictetus) or power (Friedrich Nietzsche); or a state of the intellect, such as knowledge (Plato) or good intentions (Kant).

In the theory of obligation, similar questions have been posed. With regard to questions about the meaning and status of "right" and "wrong," Intuitionists hold that they name an indefinable, objective quality. Emotivists believe that right can have only an emotive, subjective meaning. Psychological and social thinkers typically hold that judgments of right and wrong indicate the attitudes of some person or group toward an act.

In response to the question of which things are right in the sense of their being morally obligatory, there are both teleological and nonteleological answers. For the teleologist, an act is right according to how much good it brings, or will probably bring, into the world. For the egoist, the amount of good brought to the agent is decisive (Epicurus, Hobbes), while for the universalist, it is the amount brought to the world as a whole (utilitarianism). Meanwhile, Thomas Aquinas and others have argued that an act is right according to its intent, so that an act with a comparatively better intent is a comparatively more righteous act. All these answers to the question of what is obligatory rely on a theory of value and, thus, make deontology dependent on axiology.

A fully deontological theory is supposed to hold that an act is obligatory regardless of its consequences for human happiness, ends, or other values. Deontologists, such as Kant, hold that right conduct can be determined by considering a priori principles, such as rights and laws. Kant's view was that objectively right conduct could arise from many sources, such as benevolence, prudence, or habit. However, the highest and the only morally significant motive for right action was respect for the moral law. If a course of action suggested by benevolence, pity, sentiment, or any other motive conflicted with the course indicated by moral law, respect for moral law ought to win out. The good will, the will truly searching for its duties so as to fulfill them, is supremely good for Kant, and the moral worth of an act is always guaranteed by the agent's intent to follow the moral law, regardless of any other motive or consequence.

Deontology is squarely opposed to teleological approaches to obligation because it holds that the end can never justify the means. Hence, violating another's rights cannot be justified by its serving a praiseworthy goal. Consequentialist theories, such as utilitarianism, hinge the goodness of conduct to its consequences and, hence, seem prepared to overlook a violation of rights as long as the consequences of the violation are highly valuable. In contrast, it has been said that the deontologist's motto appears to be "Let justice be done though the heavens fall." Kant argued that one must not lie even to save the life of an innocent man and that one must not commit suicide even when life has no further meaning or purpose. For Kant there can be no exceptions to moral laws because if they are to count as moral laws, they must at a minimum be universalizable. Hence, if suicide is immoral when life has purpose, it must also be immoral when it does not, and if lying to obtain a loan is immoral, lying must also be immoral in life-and-death situations.

Another version of deontology comes from theology, in which our moral duties are given by a deity. Divine command theories hold that regardless of any consequences for life or limb, we must do what the deity commands.

Virtue ethics is often described as an alternative to normative deontology because its normative elements concern the qualities of persons rather than the qualities of acts. Plato, Aristotle, and many Eastern systems of thought focus on what kind of person one ought to try to be rather than on which actions one ought to take or avoid. For Aristotle, who understood ethics as the branch of learning concerned with achieving the good life, the virtues are precisely those characteristics that make the character good and that lead to the good life. These include courage, prudence, wit, truthfulness, temperance, and justice, among others. Its detractors often say that virtue ethics is dependent on prescriptive moral judgments yet offers no insight into them.

Beyond theories of value and obligation, ethicists examine moral reasoning in their efforts to understand how our conduct is chosen and how moral judgments are or ought to be made. According to the Emotivists, a moral judgment comes about when one looks at an act or policy, consults one's sentiment, and pronounces morally about it. For teleologists, moral judgments are or ought to be made by considering the comparative amount of good or bad that an action can or does bring about. For Kantians, moral judgments ought to be made by considering the one obligation that determines all others—namely, to act so that you can at the same time honestly will that all others would act as you do. For divine command theorists, the will of the deity must be consulted in making accurate moral judgments.

One of the greatest challenges to all normative ethical theories lies in the problem of free will. We generally consider acts praiseworthy or blameworthy only if their agent could have acted otherwise. If we lack free will, we are apparently never able to do otherwise and, hence, our acts do not deserve either praise or blame. The school known as Compatibilism argues that belief in the moral status of human acts is compatible with an absence of free will. Incompatibilists, such as Nietzsche, argue that if we lack free will, statements about the moral status of human acts perpetuate a cruel myth.

A second, more contemporary challenge to normative ethics arises from the question of whether there are moral facts in the world and, if there are, whether moral judgments describe them. Moral realism answers that there are moral facts and that our judgments can describe them, and thus affirms at least three things: (1) that moral judgments are propositional, meaning that they can

be either true or false because they attempt to describe features of the world; (2) that there are moral facts to be described; and (3) that moral facts are objectively present in the world, independent of our thoughts and feelings. Noncognitivism in ethics holds that moral judgments do not describe, and so are nonpropositional, and thus can be neither true nor false.

—Bryan Finken

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