4 Ethical and Social Responsibility for Sustainable Marketing

LEARNING OBJECTIVES

After reading this chapter you should be able to:

LO 4-1 Explain the differences between legal and ethical behavior in marketing.

LO 4-2 Identify factors that influence ethical and unethical marketing decisions.

LO 4-3 Describe the different concepts of social responsibility.

LO 4-4 Recognize unethical and socially irresponsible consumer behavior.

Anheuser-Busch: Becoming the Best Beer Company in a Better World

Why would a company spend more than $980 million since 1982 trying to persuade people to use its products responsibly and tens of millions of dollars more to protect and preserve the environment? Ask Anheuser-Busch, the leading American brewer.

Alcohol Responsibility

Anheuser-Busch has been an advocate for responsible drinking for more than three decades. The company began an aggressive campaign to fight alcohol misuse and underage drinking with its landmark "Know When to Say When" campaign in 1982. In 1989, a Consumer Awareness and Education department was established within the company. This department, now called Corporate Social Responsibility (CSR), is charged with developing and implementing programs, advertising, and partnerships that promote responsible drinking; helping prevent drunk driving; and helping curb underage drinking before it starts. For example, millions of copies of the company's *Family Talk About Drinking* guidebook have been distributed free to parents and educators. The *Family Talk About Drinking* program helps parents and other adults talk with children about underage drinking; in 2011, it was extended to social media to include a dedicated Facebook Page (see **www.facebook.com/ABFamilyTalk**).

In 2004, the brewer began a new chapter in its awareness and education efforts with the launch of its "Responsibility Matters" campaign. This effort emphasized and implemented effective education and awareness programs that promoted responsibility and responsible behaviors. Anheuser-Busch believes these efforts have helped contribute—at least in part—to declines in drunk-driving fatalities, underage drinking, and other forms of alcohol misuse since 1982.

In 2012, Anheuser-Busch launched NationofResponsibleDrinkers.com, an online responsible drinking campaign with social media components to engage adult drinkers and raise awareness. The website asks adults to pledge their commitment to drink responsibly and then share it through Facebook to encourage friends to do the same. The pledge is threefold:

- Respect the legal drinking age.
- Enjoy responsibly and know when to say when.
- Be or use a designated driver.

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Each pledge is then populated on an interactive map, showing those who have taken the pledge in their communities.

In 2013, Budweiser launched its first-ever responsible drinking blimp. The airship, which carried the "Designate a Driver" message, embarked on a 17-week tour across much of the country. The blimp's flight plan coincided with major festivals, outdoor celebrations, and sporting events in tour cities. Adults could also log on to **www.budblimp.com** to pledge to drink responsibly and always designate a driver and then share their pledge through Facebook to encourage friends to do the same.

VIDEO 4-1

Responsibility Matters Ad
kerin.tv/13e/v4-1

Anheuser-Busch also implements programs to help prevent underage drinking by providing retailers with tools to properly check IDs and help prevent sales to minors. The company also helps parents start and continue conversations about alcohol with their children; supports law enforcement in upholding the law; and, through a variety of community speakers, assists schools in building self-esteem among teens.

Environmental Preservation

Anheuser-Busch is committed to brewing the highest quality beers, improving its environmental performance, and making a positive impact in communities across the country. The company focuses environmental efforts both inside and outside its breweries on the key issues of water, energy, and recycling.

Water is a key ingredient in beer, and Anheuser-Busch strives to protect this natural resource. In 2013, the company reported that its breweries had reduced water use by 40 percent over the prior five years and had a 99.6 percent recycling rate. In fact, 130 of its operations worldwide are zero-waste. Anheuser-Busch has been a leading recycler of aluminum cans for more than 30 years, recycling nearly 15 billion cans annually. Other items, such as grain, beechwood chips, plastic, cardboard, glass, and metals, also are being reduced, reused, and recycled by the company. In fact, from 2009 to 2012, Anheuser-Busch reduced its packaging materials by nearly 73,000 tons.

Nearly one out of every six beers made by Anheuser-Busch is brewed with renewable fuels, including biogas and landfill gas. The company is one of the world’s largest operators of the Bio-Energy Recovery System (BERS), a method of turning the nutrients in wastewater from the brewing process into renewable biogas.

Anheuser-Busch clearly acts on what it views as an ethical obligation to its customers and the general public with its alcohol awareness and education programs and community support. At the same time, the company’s efforts to protect the natural environment and improve societal well-being reflect its broader social responsibility.[1]

NATURE AND SIGNIFICANCE OF MARKETING ETHICS

LO 4-1

Explain the differences between legal and ethical behavior in marketing.

Ethics are the moral principles and values that govern the actions and decisions of an individual or group.[2] They serve as guidelines on how to act rightly and justly when faced with moral dilemmas.

An Ethical/Legal Framework for Marketing

A good starting point for understanding the nature and significance of ethics is the distinction between the legality and the ethicality of marketing decisions. **Figure 4–1** helps visualize the relationship between laws and ethics.[3] Whereas ethics deal with personal moral principles and values, **laws** are society's values and standards that are enforceable in the courts. This distinction can sometimes lead to the rationalization that if a behavior is within reasonable ethical and legal limits, then it is not really illegal or unethical. When a recent survey asked the question, "Is it OK to get around the law if you don't actually break it?" about 61 percent of businesspeople who took part responded "yes."[4] How would you answer this question?

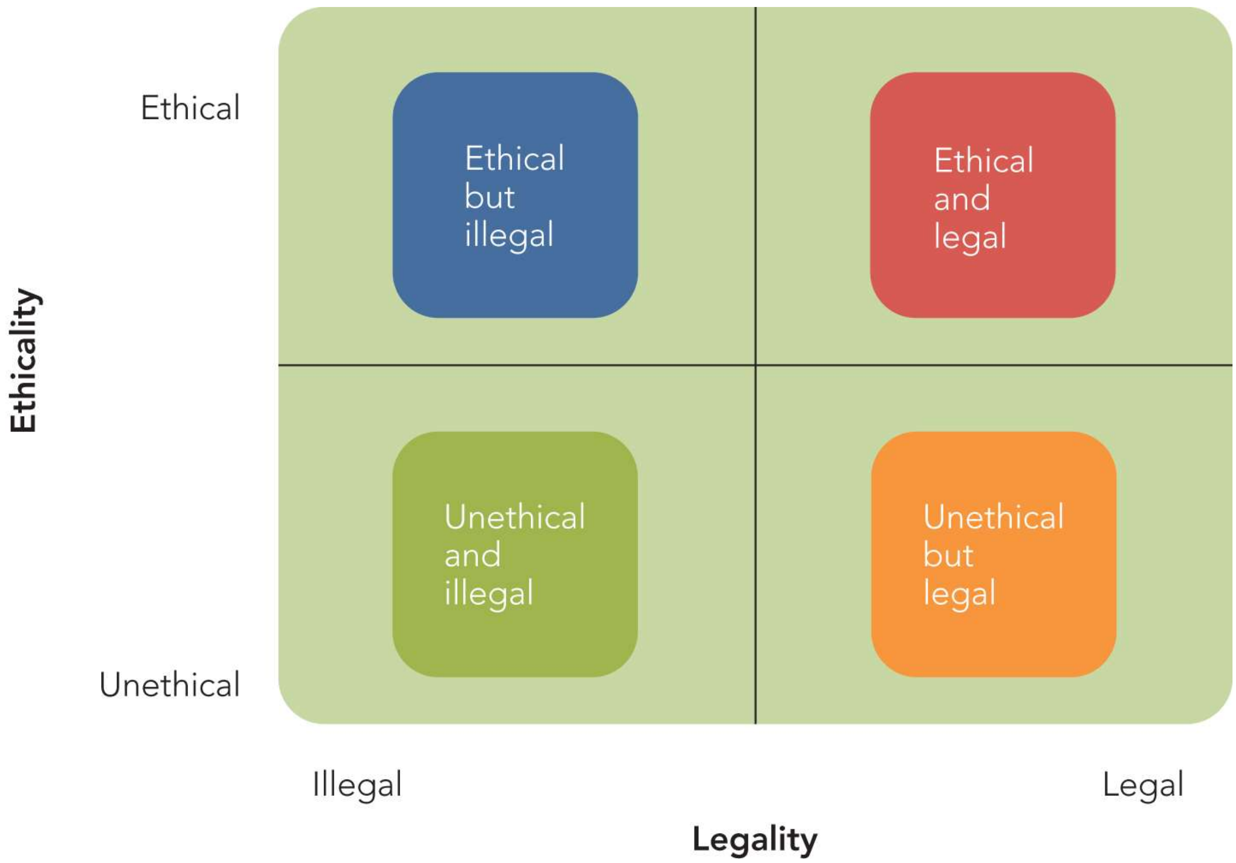

Figure 4–1 Four ways to classify marketing decisions according to ethical and legal relationships.

Judgment plays a large role in numerous situations in defining ethical and legal boundaries. Consider the following situations. After reading each, assign it to the cell in **Figure 4–1** that you think best fits the situation along the ethical–legal continuum.[5]

1. More than 70 percent of the physicians in the Maricopa County (Arizona) Medical Society agreed to establish a maximum fee schedule for health services to curb rising medical costs. All physicians were required to adhere to this schedule as a condition for membership in the society. The U.S. Supreme Court ruled that this agreement to set prices violated the Sherman Act and represented price fixing, which is illegal. Was the society's action ethical?
2. A company in California sells a computer program to auto dealers showing that car buyers should finance their purchase rather than pay cash. The program omits the effect of income taxes and misstates the

interest earned on savings over the loan period. The finance option always provides a net benefit over the cash option. Company employees agree that the program does mislead buyers, but they say the company will "provide what [car dealers] want as long as it is not against the law." Is this practice ethical?

3. China is the world's largest tobacco-producing country and has 300 million smokers. Approximately 1 million Chinese die annually from smoking-related

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illnesses. This figure is expected to rise to more than 3 million by 2050. China legally restricts tobacco imports. U.S. trade negotiators advocate free trade, thus allowing U.S. tobacco companies to market their products in China. Is the Chinese trade position ethical?

4. A group of college students recorded movies at a local theater and then uploaded the movies to the Internet. Federal statutes state that the unauthorized reproduction, distribution, or exhibition of copyrighted motion pictures is illegal. The students then directed friends and family to a peer-to-peer Internet network that allowed them to download the movies for free, which they did. Is the students' behavior ethical? Is the behavior of their friends and family ethical?

Did these situations fit neatly into **Figure 4–1** as clearly ethical and legal or unethical and illegal? Probably not. As you read further in this chapter, you will be asked to consider other ethical dilemmas faced by marketers and consumers.

Critical Perceptions of Ethical Behavior

There has been a public outcry about the ethical practices of businesspeople.[6] Public opinion surveys show that 17 percent of U.S. adults rate the ethical standards of business executives as "very high" or "high." Advertising practitioners, telemarketers, and car salespeople are thought to be among the least ethical occupations. Surveys of corporate employees generally confirm this public perception. When asked if they are aware of ethical misconduct in their companies, 41 percent say "yes."

There are at least four possible reasons the state of perceived ethical business conduct is at its present level. First, there is increased pressure on businesspeople to make decisions in a society characterized by diverse value systems. Second, there is a growing tendency for business decisions to be judged publicly by groups with different values and interests. Third, the public's expectations of ethical business behavior have increased. Finally, and most disturbing, ethical business conduct may have declined.

learning review

4-1. What are ethics?

4-2. What are four possible reasons for the present state of ethical conduct in the United States?

FOUR FACTORS AFFECT ETHICAL MARKETING BEHAVIOR

LO 4-2

Identify factors that influence ethical and unethical marketing decisions.

Researchers have identified four factors that influence ethical marketing behavior.[7] **Figure 4–2** presents a framework that shows these factors and their relationships.

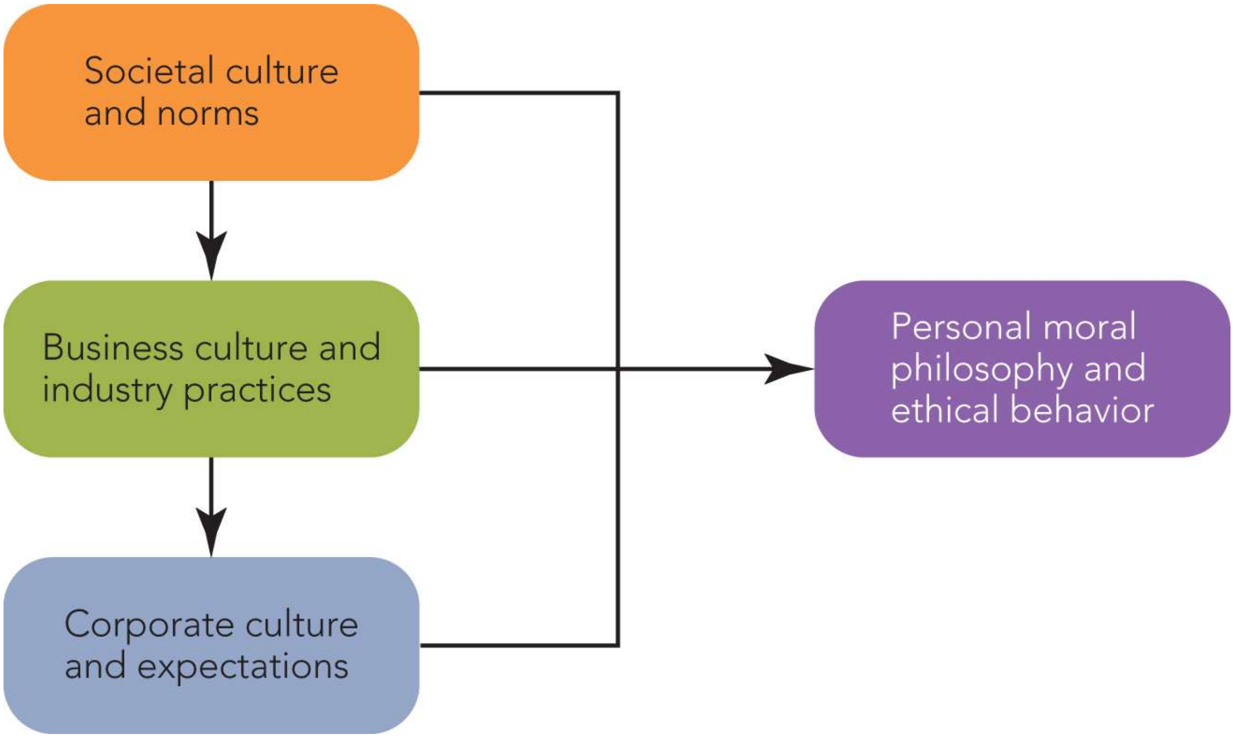

Figure 4–2 A framework for understanding ethical behavior. Each of these influences has an effect on ethical marketing behavior, as described in the text.

Societal Culture and Norms

As described in **Chapter 3**, *culture* refers to the set of values, ideas, and attitudes that are learned and shared among the members of a group. Culture also serves as a socializing force that dictates what is morally right and just. This means that moral standards are relative to particular societies.[8] These standards often reflect the laws and regulations that affect social and economic behavior, which can create ethical dilemmas. Companies that compete in the global marketplace recognize this fact. Consider UPS, the world's largest package delivery company operating in more than 200 countries and territories worldwide.[9] According to the company's global compliance and ethics coordinator, "Although languages and cultures around the world may be different, we do not change our ethical standards at UPS. Our ethics program is global in nature." Not surprisingly, UPS is consistently ranked among the world's most ethical companies.

Societal values and attitudes also affect ethical and legal relationships among individuals, groups, and business institutions and organizations. Consider the copying of another's copyright, trademark, or patent. These are viewed as intellectual property. Unauthorized use, reproduction, or distribution of intellectual property is illegal in the United States and most countries and can result in fines and prison terms for perpetrators. The owners of intellectual property also lose. For example, annual worldwide lost sales from the theft of intellectual property amount to $7 billion in the music industry, $20.5 billion in the movie industry, and $63 billion in the software industry.[10] Lost sales, in turn, result in lost jobs, royalties, wages, and tax revenue.

But what about downloading copyrighted music, movies, and software over the Internet or from peer-to-peer file-sharing programs without paying the owner of this property? Is this an ethical or unethical act? It depends on who you ask. Surveys of the U.S. public indicate that the majority consider these acts unethical. However, only a third of U.S. college students say these acts are unethical.[11]

Business Culture and Industry Practices

Societal culture provides a foundation for understanding moral behavior in business activities. *Business cultures* "comprise the effective rules of the game, the boundaries between competitive and unethical behavior, [and] the codes of conduct in business dealings."[12] Consumers have witnessed instances where business cultures in the financial (insider trading), insurance (deceptive sales practices), and defense (bribery) industries went awry. Business culture affects ethical conduct both in the exchange relationship between sellers and buyers and in the competitive behavior among sellers.

Ethics of Exchange

The exchange process is central to the marketing concept. Ethical exchanges between sellers and buyers should result in both parties being better off after a transaction.

Before the 1960s, the legal concept of **caveat emptor** —let the buyer beware—was pervasive in the American business culture. In 1962, President John F. Kennedy outlined a **Consumer Bill of Rights** that codified the ethics of exchange between buyers and sellers. These were the right (1) to safety, (2) to be informed, (3) to choose, and (4) to be heard. Consumers expect and often demand that these rights be protected, as have American businesses.

The Federal Trade Commission plays an active role in educating consumers and businesses about the importance of personal information privacy on the Internet. FTC initiatives, including proposals concerning children's online privacy, are detailed on its website.
Federal Trade Commission www.ftc.gov

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The *right to safety* manifests itself in industry and federal safety standards for most products sold in the United States. In fact, the U.S. Consumer Product Safety Commission routinely monitors the safety of 15,000 consumer products. However, even the most vigilant efforts to ensure safe products cannot foresee every possibility. Personal claims and property damage from consumer product safety incidents cost companies more than $700 billion annually. Consider the case of batteries used in laptop and notebook computers. Dell Inc. learned that the lithium-ion batteries in its notebook computers, made by Sony Energy Devices Corporation of Japan, posed a fire hazard to consumers. The company recalled 2.7 million batteries and gave consumers a replacement before any personal injuries resulted.[13]

The *right to be informed* means that marketers have an obligation to give consumers complete and accurate information about products and services. This right also applies to the solicitation of personal information over the Internet and its subsequent use by marketers.[14] An FTC survey of websites indicated that 92 percent collect personal information such as consumer e-mail addresses, telephone numbers, shopping habits, and financial data. Yet, only two-thirds of websites inform consumers of what is done with this information once obtained. The FTC wants more than posted privacy notices that merely inform consumers of a company's data-use policy, which critics say are often vague, confusing, or too legalistic to be understood. This view is shared by two-thirds of consumers who worry about protecting their personal information online. The consumer right to be informed has spawned much federal legislation, such as the *Children's Online Privacy Protection Act* (1998) and self-regulation initiatives restricting disclosure of personal information.

Relating to the *right to choose*, today many supermarket chains demand "slotting allowances" from manufacturers, in the form of cash or free goods, to stock new products.[15] This practice could limit the number of new products available to consumers and interfere with their right to choose. One critic of this practice remarked, "If we had had slotting allowances a few years ago, we might not have had granola, herbal tea, or yogurt."

Finally, the *right to be heard* means that consumers should have access to public-policy makers regarding complaints about products and services. This right is illustrated in limitations put on telemarketing practices. The FTC established the Do Not Call Registry in 2003 for consumers who do not want to receive unsolicited telemarketing calls. Today, over 220 million U.S. telephone numbers are listed in the registry, which is managed by the FTC. A telemarketer can be fined up to $16,000 for each call made to a telephone number posted on the registry.

Ethics of Competition

Business culture also affects ethical behavior in competition. Two kinds of unethical behavior are most common: (1) economic espionage and (2) bribery.

Economic espionage is the clandestine collection of trade secrets or proprietary information about a company's competitors. This practice is illegal and unethical and carries serious criminal penalties for the offending individual or business. Espionage activities include illegal trespassing, theft, fraud, misrepresentation, wiretapping, the search of a competitor's trash, and violations of written and implicit employment agreements with noncompete clauses. More than half of the largest firms in the United States have uncovered espionage in some form, costing them $300 billion annually in lost sales.[16]

Economic espionage is most prevalent in high-technology industries, such as electronics, specialty chemicals, industrial equipment, aerospace, and pharmaceuticals, where technical know-how and trade secrets separate industry leaders from followers. But espionage can occur anywhere—even in the soft drink industry! Read the Making Responsible Decisions box to learn how Pepsi-Cola responded to an offer to obtain confidential information about its archrival's marketing plans.[17]

Making **Responsible D** Ethics

Corporate Conscience in the Cola War

Suppose you are a senior executive at Pepsi-Cola and a Coca-Cola employee offers to sell you the marketing plan and sample for a new Coke product at a modest price. Would you buy it knowing Pepsi-Cola could gain a significant competitive edge in the cola war?

© Cliff Tew

When this question was posed in an online survey of marketing and advertising executives, 67 percent said they would buy the plan and product sample if there were no repercussions. What did Pepsi-Cola do when this offer actually occurred? The company immediately contacted Coca-Cola, which contacted the FBI. An undercover FBI agent paid the employee $30,000 in cash stuffed in a Girl Scout cookie box as a down payment and later arrested the employee and accomplices. When asked about the incident, a Pepsi-Cola spokesperson said: “We only did what any responsible company would do. Competition must be tough, but must always be fair and legal.”

Why did the 33 percent of respondents in the online survey say they would decline the offer? Most said they would prefer competing ethically so they could sleep at night. According to a senior advertising agency executive who would decline the offer: “Repercussions go beyond potential espionage charges. As long as we have a conscience, there are repercussions.”

So what happened to the Coca-Cola employee and her accomplices? She was sentenced to eight years in prison and ordered to pay $40,000 in restitution. Her accomplices were each sentenced to five years in prison.

The second form of unethical competitive behavior is giving and receiving bribes and kickbacks. Bribes and kickbacks are often disguised as gifts, consultant fees, and favors. This practice is more common in business-to-business and government marketing than in consumer marketing.

In general, bribery is most evident in industries experiencing intense competition and in countries in the earlier stages of economic development. According to a United Nations study, 15 percent of all companies in industrialized countries have to pay bribes to win or retain business. In Asia, this figure is 40 percent. In Eastern Europe, 60 percent of all companies must pay bribes to do business. A recent poll of senior executives engaged in global marketing revealed that Russia was the most likely country to engage in bribery to win or retain business. The Netherlands, Switzerland, and Belgium were the least likely.[18] Bribery on a worldwide scale is monitored by Transparency International. Visit its website described in the Marketing Insights About Me box to view the most recent country rankings on its Bribe Payers Index.

Marketing Insights About Me

Is Commercial Bribery More or Less Common in My Country?

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Bribery as a means to win and retain business varies widely by country. Transparency International periodically polls employees of multinational firms and institutions and political analysts and ranks countries on the basis of their perceived level of bribery to win or retain business. To obtain the most recent ranking, visit the Transparency International website at **www.transparency.org**, click the “what we do” tab, and click “Bribe Payers Index.”

Scroll the Bribe Payers Index to see where the United States stands in the worldwide rankings. How does the United States compare in relation to its neighbors, Canada and Mexico? Any surprises? Which country listed in the index has the highest ranking and which has the lowest ranking?

The prevalence of economic espionage and bribery in international marketing has prompted laws to curb these practices. Two significant laws, the *Economic Espionage Act* (1996) and the *Foreign Corrupt Practices Act* (1977), address these practices in the United States. Both are detailed in **Chapter 7**.

Corporate Culture and Expectations

A third influence on ethical practices is corporate culture. *Corporate culture* is the set of values, ideas, and attitudes that is learned and shared among the members of an organization. The culture of a company demonstrates itself in the dress ("We don't wear ties"), sayings ("The IBM Way"), and manner of work (team efforts) of employees. Culture is also apparent in the expectations for ethical behavior present in formal codes of ethics and the ethical actions of top management and co-workers.

Codes of Ethics

A **code of ethics** is a formal statement of ethical principles and rules of conduct. It is estimated that 86 percent of U.S. companies have some sort of ethics code and one of every four large companies has corporate ethics officers. Ethics codes typically address contributions to government officials and political parties, customer and supplier relations, conflicts of interest, and accurate recordkeeping.

At United Technologies, for example, 500 business practices officers distribute the company's ethics code, translated into 37 languages, to about 210,000 employees who work for this defense and engineering giant in some 180 countries. United Technologies recently dismissed 330 employees for violations related to its code of ethics.[19]

However, an ethics code is rarely enough to ensure ethical behavior. Coca-Cola has an ethics code and emphasizes that its employees be ethical in their behavior. But that did not stop some Coca-Cola employees from rigging the results of a test market for a frozen soft drink to win Burger King's business. Coca-Cola subsequently agreed to pay Burger King and its operators more than $20 million to settle the matter.[20]

Lack of specificity is a major reason for the violation of ethics codes. Employees must often judge whether a specific behavior is unethical. The American Marketing Association has addressed this issue by providing a detailed statement of ethics, which all members agree to follow. This statement is shown in **Figure 4–3**.

AMERICAN MARKETING ASSOCIATION STATEMENT OF ETHICS

Preamble

The American Marketing Association commits itself to promoting the highest standard of professional ethical norms and values for its members. Norms are established standards of conduct that are expected and maintained by society and/or professional organizations. Values represent the collective conception of what people find desirable, important, and morally proper. Values serve as the criteria for evaluating the actions of others. Marketing practitioners must recognize that they not only serve their enterprises but also act as stewards of society in creating, facilitating, and executing the efficient and effective transactions that are part of the greater economy. In this role, marketers should embrace the highest ethical norms of practicing professionals and the ethical *values* implied by their responsibility toward stakeholders (e.g., customers, employees, investors, channel members, regulators, and the host community).

General Norms

1. Marketers must do no harm. This means doing work for which they are appropriately trained or experienced so that they can actively add value to their organizations and customers. It also means adhering to all applicable laws and regulations and embodying high ethical standards in the choices they make.
2. Marketers must foster trust in the marketing system. This means that products are appropriate for their intended and promoted uses. It requires that marketing communications about goods and services are not intentionally deceptive or misleading. It suggests building relationships that provide for the equitable adjustment and/or redress of customer grievances. It implies striving for good faith and fair dealing so as to contribute toward the efficacy of the exchange process.
3. Marketers must embrace, communicate, and practice the fundamental ethical values that will improve consumer confidence

in the integrity of the marketing exchange system. These basic *values* are intentionally aspirational and include honesty, responsibility, fairness, respect, openness, and citizenship.

Ethical Values

Honesty—to be truthful and forthright in our dealings with customers and stakeholders.

- We will tell the truth in all situations and at all times.
- We will offer products of value that do what we claim in our communications.
- We will stand behind our products if they fail to deliver their claimed benefits.
- We will honor our explicit and implicit commitments and promises.

Responsibility—to accept the consequences of our marketing decisions and strategies.

- We will make strenuous efforts to serve the needs of our customers.
- We will avoid using coercion with all stakeholders.
- We will acknowledge the social obligations to stakeholders that come with increased marketing and economic power.

We will recognize our special commitments to economically vulnerable segments of the market such as children, the elderly, and others who may be substantially disadvantaged.

Fairness—to try to balance justly the needs of the buyer with the interests of the seller.

- We will represent our products in a clear way in selling, advertising, and other forms of communication; this includes the avoidance of false, misleading, and deceptive promotion.
- We will reject manipulations and sales tactics that harm customer trust.
- We will not engage in price fixing, predatory pricing, price gouging, or "bait-and-switch" tactics.
- We will not knowingly participate in material conflicts of interest.

Respect—to acknowledge the basic human dignity of all stakeholders.

- We will value individual differences even as we avoid stereotyping customers or depicting demographic groups (e.g., gender, race, sexual orientation) in a negative or dehumanizing way in our promotions.

- We will listen to the needs of our customers and make all reasonable efforts to monitor and improve their satisfaction on an ongoing basis.
- We will make a special effort to understand suppliers, intermediaries, and distributors from other cultures.
- We will appropriately acknowledge the contributions of others, such as consultants, employees, and co-workers, to our marketing endeavors.

Openness—to create transparency in our marketing operations.

- We will strive to communicate clearly with all our constituencies.
- We will accept constructive criticism from our customers and other stakeholders.
- We will explain significant product or service risks, component substitutions, or other foreseeable eventualities that could affect customers or their perception of the purchase decision.
- We will fully disclose list prices and terms of financing as well as available price deals and adjustments.

Citizenship—to fulfill the economic, legal, philanthropic and societal responsibilities that serve stakeholders in a strategic manner.

- We will strive to protect the natural environment in the execution of marketing campaigns.
- We will give back to the community through volunteerism and charitable donations.
- We will work to contribute to the overall betterment of marketing and its reputation.
- We will encourage supply chain members to ensure that trade is fair for all participants, including producers in developing countries.

Implementation

Finally, we recognize that every industry sector and marketing subdiscipline (e.g., marketing research, e-commerce, direct selling, direct marketing, advertising) has its own specific ethical issues that require policies and commentary. An array of such codes can be accessed through links on the AMA website. We encourage all such groups to develop and/or refine their industry and discipline-specific codes of ethics to supplement these general norms and values.

Figure 4–3 American Marketing Association Statement of Ethics
American Marketing Association www.marketingpower.com

Ethical Behavior of Top Management and Co-Workers

A second reason for violating ethics codes rests in the perceived behavior of top management and co-workers.[21] Observing peers and top management and gauging responses to unethical behavior play an important role in individual actions. A study of business executives reported that 63 percent had witnessed ethically troubling behavior. About 21 percent of those who reported unethical behavior were penalized, through either outright punishment or a diminished status in the company.[22] Clearly, ethical dilemmas can bring personal and professional conflict. For this reason, states have enacted laws designed to protect **whistle-blowers** , employees who report unethical or illegal actions of their employers.

Your Personal Moral Philosophy and Ethical Behavior

Ultimately, ethical choices are based on the personal moral philosophy of the decision maker. Moral philosophy is learned through the process of socialization with friends and family and by formal education. It is also influenced by the societal, business, and corporate culture in which a person finds him- or herself. Two prominent personal moral philosophies have direct bearing on marketing practice: (1) moral idealism and (2) utilitarianism.

Moral Idealism

What does 3M's Scotchgard have to do with ethics, social responsibility, and a $200 million loss in annual sales? Read the text to find out.
© *Mike Hruby*

Moral idealism is a personal moral philosophy that considers certain individual rights or duties as universal, regardless of the outcome. This philosophy exists in the Consumer Bill of Rights and is favored by moral philosophers and consumer interest groups. For example, the right to know applies to probable defects in an automobile that relate to safety.

This philosophy also applies to ethical duties. A fundamental ethical duty is to do no harm. Adherence to this duty prompted the recent decision by 3M executives to phase out production of a chemical 3M had manufactured for nearly 40 years. The substance, used in far-ranging products from pet food bags, candy wrappers, carpeting, and 3M's popular Scotchgard fabric protector, had no known harmful health or environmental effect. However, the company discovered that the chemical appeared in minuscule amounts in humans and animals around the world and accumulated in tissue. Believing that the substance could be possibly harmful in large doses, 3M voluntarily stopped its production, resulting in a $200 million loss in annual sales.[23]

Utilitarianism

An alternative perspective on moral philosophy is **utilitarianism**, which is a personal moral philosophy that focuses on "the greatest good for the greatest number" by assessing the costs and benefits of the consequences of ethical behavior. If the benefits exceed the costs, then the behavior is ethical. If not, then the behavior is unethical. This philosophy underlies the economic tenets of capitalism and, not surprisingly, is embraced by many business executives and students.[24]

Utilitarian reasoning was apparent in Nestlé Food Corporation's marketing of Good Start infant formula, sold by Nestlé's Carnation Company. The formula, promoted as hypoallergenic, was designed to prevent or reduce colic caused by an infant's allergic reaction to cow's milk, a condition suffered by 2 percent of babies. However, some severely milk-allergic infants experienced serious side effects after using Good Start, including convulsive vomiting. Physicians and parents charged that the hypoallergenic claim was misleading, and the Food and Drug Administration investigated the matter.

A Nestlé vice president defended the claim and product, saying, "I don't understand why our product should work in 100 percent of cases. If we wanted to say it was foolproof, we would have called it allergy-free. We call it hypo-, or less, allergenic."[25] Nestlé officials seemingly believed that most allergic infants would benefit from Good Start—"the greatest good for the greatest number." But, other views prevailed. The claim was dropped from the product label.

An appreciation for the nature of ethics, coupled with a basic understanding of why unethical behavior arises, alerts a person to when and how ethical issues arise in marketing decisions. Ultimately, ethical behavior rests with the individual, but the consequences affect many.

learning review

4-3. What rights are included in the Consumer Bill of Rights?
4-4. Economic espionage includes what kinds of activities?
4-5. What is meant by moral idealism?

UNDERSTANDING SOCIAL RESPONSIBILITY FOR SUSTAINABLE MARKETING

LO 4-3

Describe the different concepts of social responsibility.

As we saw in **Chapter 1**, the societal marketing concept stresses marketing's social responsibility by not only satisfying the needs of consumers but also providing for society's welfare. **Social responsibility** means that organizations are part of a larger society and are accountable to that society for their actions. Like ethics, agreement on the nature and scope of social responsibility is often difficult to come by, given the diversity of values present in different societal, business, and corporate cultures.

Three Concepts of Social Responsibility

Figure 4–4 shows three concepts of social responsibility: (1) profit responsibility, (2) stakeholder responsibility, and (3) societal responsibility.

Figure 4–4 Three concepts of social responsibility. Each concept of social responsibility relates to particular constituencies. There is often conflict in satisfying all three constituencies at the same time.

Profit Responsibility

Profit responsibility holds that companies have a simple duty: to maximize profits for their owners or stockholders. This view is expressed by Nobel Laureate Milton Friedman, who said, "There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."[26]

Genzyme, the maker of Cerdelga, a drug that treats a genetic illness called Gaucher's disease that affects 10,000 people worldwide, has been criticized for apparently adopting this view in its pricing practices. Genzyme charges up to $300,000 for a year's worth of Cerdelga. A Genzyme spokesperson responded saying the company spends millions of dollars annually to manufacture Cerdelga and freely gives the drug to patients without insurance. Also, the company invested considerable dollars in research over several years to develop Cerdelga, and the drug's profits are reinvested in ongoing R&D programs.[27]

Stakeholder Responsibility

Criticism of the profit view has led to a broader concept of social responsibility. *Stakeholder responsibility* focuses on the obligations an organization has to those who can affect achievement of its objectives. These constituencies include consumers, employees, suppliers, and distributors. Source Perrier S.A., the supplier of Perrier bottled water, exercised this responsibility when it recalled 160 million bottles of water in 120 countries after traces of a toxic chemical were found in 13 bottles. The recall cost the company $35 million, as well as the profit from $40 million in lost sales. Even though the chemical level was not harmful to humans, Source Perrier's president believed he acted in the best interests of the firm's consumers, distributors, and employees by removing "the least doubt, as minimal as it might be, to weigh on the image of the quality and purity of our product"—which it did.[28]

Failure to consider a company's broader constituencies can have negative consequences. For example, Toyota Motor Corporation executives were widely criticized for how they responded to complaints about the safety of selected Toyota brands. These cars had been linked to sticky gas pedals, which can lead to sudden acceleration problems. The company recalled over 9 million cars worldwide under pressure from the National Highway Traffic Safety Administration. After the recall, Toyota sales fell, which affected Toyota employees, suppliers, shareholders, and distributors.[29]

Societal Responsibility

An even broader concept of social responsibility has emerged in recent years. *Societal responsibility* refers to obligations that organizations have (1) to the preservation of the ecological environment and (2) to the general public. Emphasis is placed on the **triple-bottom line** —recognition of the need for organizations to improve the state of people, the planet, and profit simultaneously if they are to achieve sustainable, long-term growth.[30] Marketers have embraced societal responsibility through **sustainable mar keting** , which seeks to meet today's (global) economic, environmental, and social needs without compromising the opportunity for future generations to meet theirs. Green marketing, cause marketing, social audits, and sustainable development reflect this recognition.

Green marketing —marketing efforts to produce, promote, and reclaim environmentally sensitive products—takes many forms.[31] At 3M, product development opportunities emanate both from consumer research and its "Pollution Prevention Pays" (3P) program. This program solicits employee suggestions on how to reduce pollution and recycle materials. Since 1975, this program has generated over 11,000 3P projects that have eliminated more than 4 billion pounds of air, water, and solid-waste pollutants from the environment. Levi Strauss & Co. uses 8 recycled plastic bottles in each pair of Waste

Walmart has instituted buying practices that encourage its suppliers to use containers and packaging made from corn, not oil-based, resins. The company expects this initiative will save 800,000 barrels of oil annually. These voluntary responses to environmental issues have been implemented with little or no additional cost to consumers and have resulted in cost savings to companies.

A cause marketing pioneer for more than three decades, Procter & Gamble focuses on supporting disadvantaged youth and disaster relief. A successful brand campaign in partnership with UNICEF includes the Pampers 1 Pack = 1 Vaccine initiative, protecting 300 million women and their babies against maternal and neonatal tetanus since 2006.

Source: Procter & Gamble Babycare Western Europe and Unicef/United Nations Children's Fund

A global undertaking to further green marketing efforts is the *ISO 14000* initiative developed by the International Standards Organization (ISO) in Geneva, Switzerland. *ISO 14000* consists of worldwide standards for environmental quality and green marketing practices. These standards are embraced by 158 countries, including the United States. More than 260,000 companies have met *ISO 14000* standards for environmental quality and green marketing.[32]

Sustainable marketing efforts on behalf of the general public are becoming more common. A formal practice is **cause marketing** , which occurs when the charitable contributions of a firm are tied directly to the customer revenues produced through the promotion of one of its products.[33] This definition distinguishes cause marketing from a firm's standard charitable contributions, which are outright donations. For example, when consumers purchase selected company products, Procter & Gamble directs part of that revenue toward programs that support disadvantaged youth and provide disaster relief. MasterCard International links usage of its card with fund-raising for institutions that combat cancer, heart disease, child abuse, drug abuse, and muscular dystrophy. Häagen-Dazs supports the "help the honey bees" campaign, Barnes & Noble promotes literacy, and Coca-Cola sponsors local Boys and Girls Clubs. Avon Products, Inc. focuses on different issues in different countries, including breast cancer, domestic violence, and disaster relief, among many others.

Cause marketing programs incorporate all three concepts of social responsibility by addressing public concerns and satisfying customer needs. They can also enhance corporate sales and profits as described in the Marketing Matters box.[34]

Marketing **Matters**

customer value

Will Consumers Switch Brands for a Cause? Yes, If...

American Express Company pioneered cause marketing when it sponsored the renovation of the Statue of Liberty. This effort raised $1.7 million for the renovation, increased card usage among cardholders, and attracted new cardholders. In 2001, U.S. companies raised more than $5 billion for causes they champion. It is estimated that cause marketing raised over $12 billion in 2013.

© Joe Sohm/Visions of America/Photodisc/Getty Images.

Cause marketing benefits companies as well as causes. Research indicates that 85 percent of U.S. consumers say they have a more favorable opinion of companies that support causes they care about. Also, 80 percent of consumers say they will switch to a brand or retailer that supports a good cause if the price and quality of brands or retailers are equal. In short, cause marketing may be a valued point of difference for brands and companies, all other things being equal.

For more information, including news, links, and case studies, visit the Cause Marketing Forum website at **www.causemarketingforum.com**.

The Social Audit and Sustainable Development: Doing Well by Doing Good

VIDEO 4-2

Häagen-Dazs
kerin.tv/13e/v4-2

Converting socially responsible ideas into actions involves careful planning and monitoring of programs. Many companies develop, implement, and evaluate their social responsibility efforts by means of a **social audit** , which is a systematic assessment of a firm's objectives, strategies, and performance in terms of social responsibility. Frequently, marketing and social responsibility programs are integrated. Consider McDonald's. The company's concern for the needs of families with children who are chronically or terminally ill was converted into over 337 Ronald McDonald Houses around the world. These facilities, located near treatment centers, enable families to stay together during the child's care. In this case, McDonald's is contributing to the welfare of a portion of its target market.

A social audit consists of five steps:[35]

1. Recognition of a firm's social expectations and the rationale for engaging in social responsibility endeavors.
2. Identification of social responsibility causes or programs consistent with the company's mission.
3. Determination of organizational objectives and priorities for programs and activities it will undertake.
4. Specification of the type and amount of resources necessary to achieve social responsibility objectives.
5. Evaluation of social responsibility programs and activities undertaken and assessment of future involvement.

Corporate attention to social audits will increase as companies seek to achieve sustainable development and improve the quality of life in a global economy. **Sustainable development** involves conducting business in a way that protects the natural environment while making economic progress.

Marketing and social responsibility programs are often integrated, as is the case with McDonald's.
© Michael Holahan/ZUMA Press/Newscom

Ecologically responsible initiatives such as green marketing represent one such initiative. Recent initiatives related to working conditions at offshore manufacturing sites that produce goods for U.S. companies focus on quality-of-life issues. Public opinion surveys show that 90 percent of U.S. citizens are concerned about working conditions under which products are made in Asia and Latin America. Companies such as Reebok, Nike, Liz Claiborne, Levi Strauss, and Mattel have responded by imposing codes of conduct to reduce unsafe, harsh, or abusive working conditions at offshore manufacturing facilities.[36] Still, poor working conditions exist. For example, over 1,000 garment workers in Bangladesh died when their factory collapsed in 2013.

Companies that evidence sustainable marketing have been rewarded for their efforts. Research has shown that these companies (1) benefit from favorable word of mouth among consumers and (2) typically outperform less responsible companies in terms of financial performance.[37]

Turning the Table: Consumer Ethics and Social Responsibility

LO 4-4

Recognize unethical and socially irresponsible consumer behavior.

Consumers also have an obligation to act ethically and responsibly in the exchange process and in the use and disposition of products. Unfortunately, consumer behavior is spotty on both counts.

Unethical practices of consumers are a serious concern to marketers.[38] These practices include filing warranty claims after the claim period; misredeeming coupons; making fraudulent returns of merchandise; providing inaccurate information on credit applications; buying counterfeit products; pirating music, movies, and software from the Internet; and submitting phony insurance claims.

The cost to marketers of such unethical behavior in lost sales and prevention expenses is huge. For example, consumers who redeem coupons for unpurchased products or use coupons for other products cost manufacturers $1 billion each year. The willing purchase of counterfeit products by consumers—from phony designer watches, handbags, and sunglasses to automobile parts—costs companies $500 to $700 billion each year. Fraudulent automobile insurance claims cost insurance companies more than $10 billion annually. In addition, retailers lose about $112 billion yearly from shoplifting and $18 billion annually from fraudulent returns of merchandise. Consumers also act unethically toward each other. According to the FBI, consumer complaints about online auction fraud, in which consumers misrepresent their goods to others, outnumber all other reports of online crime.

Fake designer clothes and accessories are made by companies using trademarks stolen from legitimate companies. The purchase of counterfeit products is not illegal, but is it ethical?

Source: National Intellectual Property Rights Coordination Center

Research on unethical consumer behavior indicates that these acts are rarely motivated by economic need. This behavior appears to be influenced by (1) a belief that a consumer can get away with the act and it is worth doing and (2) the rationalization that the act is justified or driven by forces outside the individual—“everybody does it.” These reasons were vividly expressed by a 24-year-old who pirated a movie and was sentenced to six months of house arrest, three years of probation, and a $7,000 fine. He said, “I didn't like paying for movies,” and added, “so many people do it, you never think you're going to get caught.”[39]

Consumer purchase, use, and disposition of environmentally sensitive products relate to consumer social responsibility. Research indicates that consumers are sensitive to ecological issues.[40] For example, a recent survey of U.S. consumers indicated that 50 percent were personally willing to change their lifestyle to improve the environment. However, only 28 percent could identify personal changes in their own shopping or living habits over the past five years to illustrate their supposed commitment. Related research shows that consumers (1) may be unwilling to sacrifice convenience and pay higher prices to protect the environment and (2) lack the knowledge to make informed decisions dealing with the purchase, use, and disposition of products.

Consumer confusion over which products are environmentally safe is also apparent, given marketers' rush to offer "green products." For example, few consumers realize that nonaerosol "pump" hair sprays are the second-largest cause of air pollution, after drying paint. In California alone, 27 tons of noxious hair spray fumes are expelled every day. And some environmentally safe claims made by marketers have been labeled *greenwashing*—the practice of making an unsubstantiated or misleading claim about the environmental benefits of a product, service, technology, or company practice.[41]

VIDEO 4-3

Corporate Greenwashing
kerin.tv/13e/v4-3

To address such claims, the FTC has drafted guidelines that describe the circumstances under which environmental claims can be made without constituting misleading information in regard to recyclable, biodegradable, and sustainable products and processes.[42] For example, an advertisement or product label touting a package as "50 percent more recycled content than before" could be misleading if the recycled content has increased from 2 percent to 3 percent.

Ultimately, marketers and consumers alike are accountable for ethical and socially responsible behavior. The 21st century will prove to be a testing period for both.

learning review

4-6. What is meant by social responsibility?

4-7. Marketing efforts to produce, promote, and reclaim environmentally sensitive products are called ________________.

4-8. What is a social audit?

LEARNING OBJECTIVES REVIEW

LO 4-1 *Explain the differences between legal and ethical behavior in marketing.*

A good starting point for understanding the nature and significance of ethics is the distinction between the legality and the ethicality of marketing decisions. Whereas ethics deal with personal moral principles and values, laws are society's values and standards that are enforceable in the courts. This distinction can lead to the rationalization that if a behavior is within reasonable ethical and legal limits, then it is not really illegal or unethical. Judgment plays a large role in defining ethical and legal boundaries in marketing. Ethical dilemmas arise when acts or situations are not clearly ethical and legal or unethical and illegal.

LO 4-2 *Identify factors that influence ethical and unethical marketing decisions.*

Four factors influence ethical marketing behavior. First, societal culture and norms serve as socializing forces that dictate what is morally right and just. Second, business culture and industry practices affect ethical conduct in both the exchange relationships between buyers and sellers and the competitive behavior among sellers. Third, corporate culture and expectations are often defined by corporate ethics codes and the ethical behavior of top management and co-workers. Finally, an individual's personal moral philosophy, such as moral idealism or utilitarianism, will dictate ethical choices. Ultimately, ethical behavior rests with the individual, but the consequences affect many.

LO 4-3 *Describe the different concepts of social responsibility.*

Social responsibility means that organizations are part of a larger society and are accountable to that society for their actions. There are three concepts of social responsibility. First, profit responsibility holds that companies have a simple duty: to maximize profits for their owners or stockholders. Second, stakeholder responsibility focuses on the obligations an organization has to those who can affect achievement of its objectives. Those constituencies include consumers, employees, suppliers, and distributors. Finally, societal responsibility focuses on obligations that organizations have to the preservation of the ecological environment and the general public. Companies are placing greater emphasis on sustainable marketing today and are reaping the rewards of positive word of mouth from their consumers and favorable financial performance.

LO 4-4 *Recognize unethical and socially irresponsible consumer behavior.*

Consumers, like marketers, have an obligation to act ethically and responsibly in the exchange process and in the use and disposition of products. Unfortunately, consumer behavior is spotty on both counts. Unethical consumer behavior includes filing warranty claims after the claim period; buying counterfeit products; misredeeming coupons; pirating music, movies, and software from the Internet; and submitting phony insurance claims, among other behaviors. Unethical behavior is rarely motivated by economic need. Rather, research indicates that this behavior is influenced by (*a*) a belief that a consumer can get away with the act and it is worth doing and (*b*) the rationalization that such acts are justified or driven by forces outside the individual—"everybody does it." Consumer purchase, use, and disposition of environmentally sensitive products relate to consumer social responsibility. Even though consumers are sensitive to ecological issues they (*a*) may be unwilling to sacrifice convenience and pay potentially higher prices to protect the environment and (*b*) lack the knowledge to make informed decisions dealing with the purchase, use, and disposition of products.

LEARNING REVIEW ANSWERS

4-1 What are ethics?

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

4-2 **What are four possible reasons for the present state of ethical conduct in the United States?**

Answer: (1) Increased pressure on businesspeople to make decisions in a society with diverse value systems. (2) A growing tendency for business decisions to be judged publicly by groups with different values and interests. (3) The public's expectations of ethical business behavior have increased. (4) Ethical business conduct may have actually declined.

4-3 **What rights are included in the Consumer Bill of Rights?**

Answer: The Consumer Bill of Rights (1962) codified the ethics of exchange between buyers and sellers. These are the rights to safety, to be informed, to choose, and to be heard.

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

Answer: Economic espionage is the illegal and unethical clandestine collection of trade secrets or proprietary information about a company's competitors. This practice includes trespassing, theft, fraud, misrepresentation, wiretapping, searching of competitors' trash, and violations of written and implicit employment agreements with non-compete clauses.

4-5 **What is meant by moral idealism?**

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

Consumer Bill of Rights and favored by consumer interest groups.

4-6 **What is meant by social responsibility?**

Answer: Social responsibility means that organizations are part of a larger society and are accountable to that society for their actions. It comprises three concepts: (1) profit responsibility—maximizing profits for the organization's owners or shareholders; (2) stakeholder responsibility—focusing on the obligations organizations have to those who can effect the achievement of its objectives; and (3) societal responsibility—focusing on the obligations organizations have to preserve the ecological environment and to the general public.

4-7 **Marketing efforts to produce, promote, and reclaim environmentally sensitive products are called ______.**

Answer: green marketing

4-8 **What is a social audit?**

Answer: A social audit is a systematic assessment of a firm's objectives, strategies, and performance in terms of social responsibility. It consists of five steps: (1) Recognition of a firm's social expectations and the rationale for engaging in social responsibility endeavors. (2) Identification of social responsibility causes or programs consistent with the company's mission. (3) Determination of organizational objectives and priorities for programs and activities it will undertake. (4) Specification of the type and amount of resources necessary to achieve social responsibility objectives. (5) Evaluation of social responsibility programs and activities undertaken and assessment of future involvement.

FOCUSING ON KEY TERMS

cause marketing , **112**

caveat emptor , **104**

code of ethics , **106**

Consumer Bill of Rights , **104**

economic espionage , **105**

ethics , **102**

green marketing , **111**

laws , **102**

moral idealism , **109**

social audit , **113**

social responsibility , **110**

sustainable development , **113**

sustainable marketing , **111**

triple-bottom line , **111**

utilitarianism , **109**

whistle-blowers , **109**

APPLYING MARKETING KNOWLEDGE

1. What concepts of moral philosophy and social responsibility are applicable to the practices of Anheuser-Busch described in the introduction to this chapter? Why?
2. Five ethical situations were presented in this chapter: (*a*) a medical society's decision to set fee schedules, (*b*) the use of a computer program by auto dealers to arrange financing, (*c*) smoking in China,

(*d*) downloading movies, and (*e*) the pricing of Cerdelga for the treatment of a rare genetic illness. Where would each of these situations fit in **Figure 4–1**?

3. The American Marketing Association Statement of Ethics shown in **Figure 4–3** details the rights and duties of parties in the marketing exchange process. How do these rights and duties compare with the Consumer Bill of Rights?
4. Compare and contrast moral idealism and utilitarianism as alternative personal moral philosophies.
5. How would you evaluate Milton Friedman's view of the social responsibility of a firm?
6. The text lists several unethical practices of consumers. Can you name others? Why do you think consumers engage in unethical conduct?
7. Cause marketing programs have become popular. Describe two such programs with which you are familiar.

BUILDING YOUR MARKETING PLAN

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

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

Mc Graw Hill Education connect

Video Case 4 Video Case 4: Toyota: Building Cleaner, Greener Cars

VIDEO 4-4

Toyota Video Case

kerin.tv/13e/v4-4

“Toyota’s mission is to become the most respected and admired car company in America,” explains Jana Hartline, manager of environmental communications at Toyota. To accomplish this, Jana and her colleagues at Toyota are working toward a future where a wide range of innovative vehicles, fuel technologies, and partnerships converge to create an economically vibrant, mobile society in harmony with the environment. It’s a challenge Jana finds exciting and the result is cleaner, greener cars!

THE COMPANY

Kiichiro Toyoda began research on gasoline-powered engines in 1930. By 1935 he had developed passenger car prototypes, and in 1957 he introduced the “Toyopet” in the United States. The Toyopet was not successful and was discontinued. In 1965, however, the Corona was introduced, and it was followed by the Corolla in 1968. The Corolla went on to become the best-selling passenger car in the world, with 27 million purchased in more than 140 countries!

The popularity of Toyota’s automobiles continued to grow in the United States and in 1975 it surpassed Volkswagen to become the number one import brand. In 1998 Toyota launched its first full-sized pickup, the Toyota Tundra. Toyota also expanded its product line by adding the Lexus brand, which became known for its exceptional quality and customer service. By 2000, Lexus was one of the best-selling luxury brands in the United States, competing with both Mercedes-Benz and BMW. Toyota also introduced the Scion brand of moderately priced vehicles for the youth market.

The company opened a national sales headquarters in Torrance, California, and also opened manufacturing facilities so it could produce cars in the United States. By 2012 Toyota had the capacity to build 2.2 million cars and trucks and 1.45 million engines in 15 plants across North America. Toyota’s sales and distribution organization includes 1,500 Toyota, Lexus, and Scion dealers. Toyota’s marketing organization has led to many memorable marketing campaigns. Some of its early taglines included “You Asked For It, You Got It!” and “Oh What a Feeling!” which included the “Toyota Jump.” The Lexus tagline, “The Relentless Pursuit of Perfection,” is still in use today, while Toyota’s ads now exclaim, “Let’s Go Places.”

Today, Toyota is the world's largest automobile manufacturer. The company is ranked the tenth largest corporation by *Fortune* magazine. The company's core principle is "to contribute to society and the economy by producing high-quality products and services." Its success is often attributed to a business philosophy referred to as "The Toyota Way."

THE TOYOTA WAY

The Toyota Way is a business philosophy used to (1) improve processes and products, (2) build trust, and (3) empower individuals and teams. There are two values that act as pillars of The Toyota Way. They are continuous improvement and respect for people. These values are evident in five business practices:

- *Challenge*: To build a long-term vision and meet challenges with courage and creativity.
- *Kaizen*: To continuously improve business operations, always striving for innovation and evolution.
- *Genchi Genbutsu*: To always go to the source to find the facts and make correct decisions; to build consensus and expeditiously achieve goals.
- *Respect*: To respect others and the environment, to build trust and to take responsibility.
- *Teamwork*: To stimulate personal and professional growth, maximize individual and team performance.

In fact, according to Jana Hartline, the two values are "integrated into everything that we do on a daily basis," creating "a unique corporate environment."

As the company has grown it has also sought a larger role in society. For example, Toyota created the Toyota USA Foundation with a $10 million endowment and a mission to make Toyota a leading corporate citizen. The foundation supports programs focused on the environment, education, and safety that help strengthen communities. Since 1991 Toyota has contributed over $500 million to philanthropic programs in the United States. Combining The Toyota Way with its corporate philanthropy has been very successful. Toyota believes that the foundation of its success involves a constant spirit of challenge and enthusiasm for new ideas. For example, Toyota's environmental vision includes the concept of sustainable mobility.

ENVIRONMENTAL VISION AND THE PRIUS

To make its environmental vision actionable, Toyota developed a five-year Environmental Action Plan. The plan is structured around five key areas:

- Energy and Climate Change
- Recycling and Resource Management
- Air Quality
- Environmental Management
- Cooperation with Society

For each area Toyota creates goals and measurable targets based on a life-cycle view of vehicles: from design, to manufacturing, to sales and distribution, to use, and finally to how the vehicle is recycled at end-of-life. One of its top goals has been to develop advanced vehicle technologies to complement traditional automobile technologies. Ed LaRocque, national manager of vehicle marketing, describes how Toyota started one of these initiatives:

> *In the early 90s Toyota developed what we called the G21 vision. The goal of the G21 plan was to bring a vehicle to market that represented a great value, and had great environmental benefits, not just in Japan but globally.*

Source: © Toyota

The concept was eventually introduced as the Prius, a hybrid vehicle with a gasoline engine and an electric motor combination called the Hybrid Synergy Drive. The car received an EPA-estimated mileage rating of 50 mpg. Initially the Prius was attractive to very eco-conscious consumers but met with some resistance from the press and the general population. The cars were fuel efficient, but they were not attractive. Since the first introduction, Toyota has made changes and introduced two new generations of the Prius to help it become the world's most-popular hybrid, selling more than three million of the vehicles.

Toyota's development of new technologies such as the Hybrid Synergy Drive helped it recognize the implications for the entire mobility system. A strategy for sustainable mobility affects not only new technologies and vehicles, but also new energy sources, new transportation systems, and the many partnerships of involved stakeholders. Advertising for the Prius emphasizes this point, claiming the car provides "Harmony between man, nature, and machine." In the long-term, however, this strategy will not be successful if consumers are not aware of or knowledgeable about advanced technologies. To increase awareness and knowledge Toyota specified the development of partnerships as a goal.

STRATEGIC PARTNERSHIPS

Toyota believes that partnerships with relevant organizations help increase awareness of its technologies and products. These programs are designed to educate people so they can reduce their environmental footprint. One of these programs, for example, is *Together Green*—a $20 million, five-year alliance with Audubon to fund projects, train leaders, and offer volunteer opportunities. Similarly, Toyota has partnered with the World Wildlife Fund to establish hybrid energy systems, oil recycling programs, and renewable energy outreach campaigns. The exposure from these programs is often much more effective than other communication options.

Mary Nickerson, National Manager of Advanced Technology, explains: “we [have] used partnerships with the American Lung Association, with the Electric Drive Transportation Association, Environmental Media Association, and the national parks to help touch many more millions of people than we ever could have done with a traditional advertising campaign.”

Toyota recently announced a grant of $5 million and 25 Toyota vehicles in support of U.S. National Parks. Parks included in this grant and other Toyota partnerships are Yellowstone National Park, Great Smoky Mountains National Park, Everglades National Park, Yosemite National Park, the Grand Canyon, the Santa Monica National Recreation Area, and the Golden Gate Bridge Foundation. The national parks partnership offers an opportunity to enhance the experiences of visitors through education and hybrid vehicle use (park employees use the donated Toyota vehicles to reduce noise and emissions in the parks).

Generally, the goal of the national parks partnership program is to make a personal connection with park visitors about Toyota’s hybrid vehicles when they are in a natural setting in which they are receptive to receiving a message about sustainable mobility. The message implies important links:

“Green” Vehicles > Cleaner Air > Preservation of Parks

In addition, Toyota believes that the programs have other benefits, including:

- Strengthening Toyota’s image as an environmental leader among automakers.
- Communicating a message of environmental stewardship.
- Building awareness of the Prius and other Toyota hybrids.

- Educating park visitors on the benefits of advanced vehicle technology.

Research by Toyota indicates that the program is working. A recent corporate image study indicated that among four leading automakers (Toyota, Honda, Ford, and GM), Toyota was rated highest on dimensions such as “Leader in High MPG,” “Leader in Technology Development,” “Environmentally Friendly Vehicles,” and “Wins Environmental Awards.”

THE FUTURE

Figure 1 shows the results of a survey of consumer interests and their response to the question, “Who should take the lead in addressing environmental issues?” The results suggest that in the future consumers will expect businesses to be proactive about the environment and sustainability.

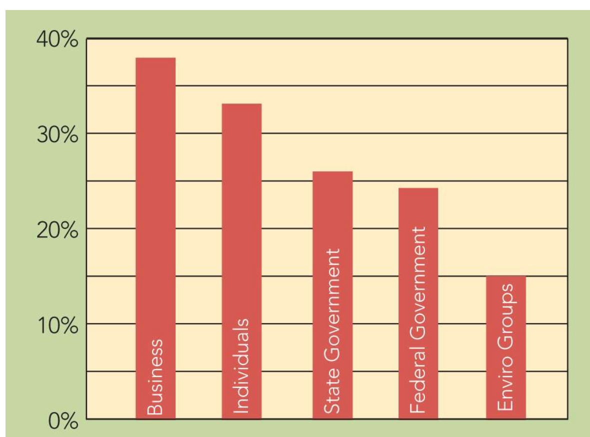

Figure 1 Who should take the lead in addressing environmental issues?

Page 120

For Toyota, a focus on sustainability will mean considering the environmental, social, and economic consequences of the auto business and continuously working to reduce the negative and increase the positive impacts of its activities and decisions. The increasing importance of sustainability will challenge Toyota to look at these impacts from all stages of the vehicle life cycle. It will also encourage Toyota's managers to consider the opinions of many stakeholders such as consumers, regulators, local communities, and nongovernmental organizations.

The recent concerns about Toyota vehicle product quality, which led to the recall of 16 million vehicles, have hurt Toyota's reputation. In the future, all activities, including the partnership strategy and the national parks program, will determine if Toyota can become "the most respected car company in the world."[43]

Questions

1. How does Toyota's approach to social responsibility relate to the three concepts of social responsibility described in the text (profit responsibility, stakeholder responsibility, and societal responsibility)?
2. How does Toyota's view of sustainable mobility contribute to the company's overall mission?
3. Has Toyota's National Parks project been a success? What indicators suggest that the project has had an impact?

4. What future activities would you suggest for Toyota as it strives to improve its reputation?

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