

# Do successful companies value Social Responsibility and Ethics in Marketing in India?

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## Introduction

India, the second largest democracy, saw the initiation of the first generation of reforms in 1991 under the stewardship of the then finance minister Dr. Manmohan Singh, followed by the second generation of new reforms in the post 2001 era.

India has the largest population of middle class in the world and is the second fastest growing economy after China with an 8% plus GDP growth rate. In the purchasing power parity terms, India is among the top four of the world and is ranked the world's 12<sup>th</sup> largest economy. To tap this huge market we have large National and International marketing companies operating here in the FMCG, Durables and services sectors. Most of these companies are highly successful in terms of profitability-the bottom line, sales revenue-the top line and even market share and growth rates.

However, there are concerns raised about the value these companies place on social responsibility and ethics in marketing in their quest for maximisation of profits. This paper hopes to develop an understanding on the scenario in India on these issues and suggest the directions which can take our corporate towards social entrepreneurship and become corporate citizens.

## Research question:

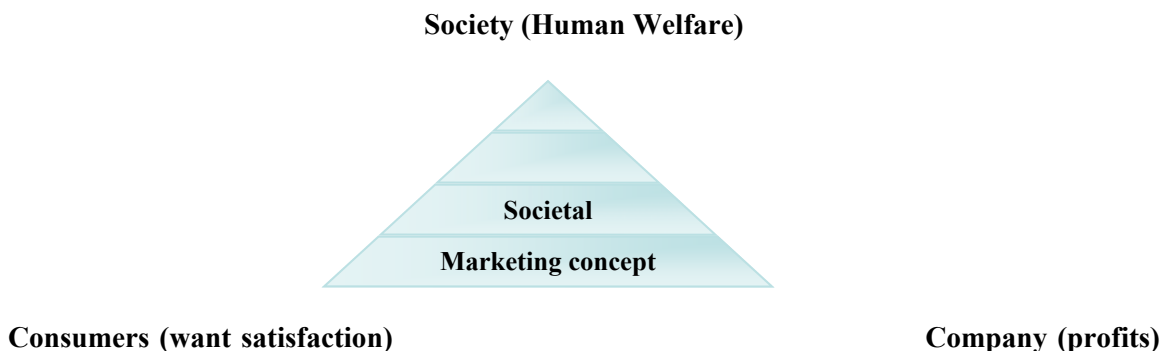
The paper proposes to test the hypothesis whether successful companies in India value Social Responsibility and Ethics in Marketing.

## Research objectives:

1. The paper conceptually examines the meaning of social responsibility and studies the different ethical issues faced in marketing, like deceptive advertising, Manipulative marketing practices, unfair disclosure of Information, hidden costs and unfair trade practices.
2. The author also explores the concept of Bottom of the Pyramid marketing and studies the concerns and issues which need to be addressed to help create corporate citizens.
3. Is it a viable option for companies to become social entrepreneurs in the future?

## Literature review:

The Marketing process is moving towards the confluence of the consumers short run wants with the consumer's long run welfare, through the societal marketing concept. This states that the marketing strategy should deliver value to the customer in a way that maintains or improves the consumer's and the society's welfare.



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## Social Responsibility and Marketing Ethics

The issues of marketing practices and ethics and social Responsibility are considered to be contradictions almost an oxymoron to most people. Marketing professionals have faced criticism both in USA and India about their activities which harm consumers, like deceptive practices, high pressure selling, high prices, shoddy or unsafe products, planned obsolescence, and poor service to disadvantaged consumers.

- **Deceptive practices-** Deceptive practices fall into three groups; pricing, promotion, and packaging.
  - **Deceptive pricing:** Announcing super discount offers and attracting customers through false advertising, subsequent visits prove that merchandise attracting maximum discounts is out of stock and the retail prices are kept unethically higher before extending high discounts.
  - **Deceptive promotion:** Luring customers to the store with promises which are unreasonable and then setting new terms to the scheme once purchase is made. Misrepresenting the product's features or performance to misguide consumers.
  - **Deceptive packaging:** Exaggerating package contents through subtle design, using misleading labelling, or describing size in misleading terms.

Since profitable companies value long term customer relationships which are based on trust and value, using deceptive practices can prove to be very costly in the long run.

- **High Pressure Selling-** Most of the time consumers are talked into buying unwanted and unneeded things by salespeople using high pressure selling. Sales people use smooth and canned talks to entice purchase by consumers and often its a case of sale and not a buy. In USA there are laws that control telephone and door to door salespeople and they have to announce at the outset that they want to sell a product.

Again selling involves building long term relationships with valued customers and High pressure tactics cause serious damage to such relationships. In fact today credit cards, Insurance, Mutual funds and Time share Holiday Resorts are examples of High pressure selling.

- **High Prices-** High prices amount to profiteering and exploitation of the consumer. This is due to High cost of Distribution, High advertising and Promotion costs and Excessive markups.
  - **High Cost of Distribution:** Consumers pay for excessive distribution costs if there are too many intermediaries, inefficiency and duplication of services.
  - **High Advertising and Promotion costs:** Marketers feel that advertising adds value by informing potential buyers of the availability and merits of a brand. Heavy advertising and sales promotion does make Branded products costlier but assures a buyer of the quality.
  - **Excessive Markup:** Some companies charge a higher markup as a strategy. These help it recover costs faster but may also hinder the building of customer relationships thereby affecting repeat sales.
- **Shoddy or unsafe Products-** Many a times the product offering lacks the requisite quality and performs less than the promise with poor service as well. These can be looked at in two ways
  - **Product Safety:** This concerns the production of flawed products due to company indifference, increased product complexity, and poor quality control. Most companies are wary of producing poor quality products in the backdrop of rising consumerism and the regulators in USA fearing Liability suits and damage claims. Even in India the consumer may not go for repeat sales if they are unhappy with the product quality in this era of multiple brands and greater choice. The examples could include faulty design of Tyres, automobiles, electrical dangers in appliances and injury risks from gadgets.

- **Harmful and Low benefit Products:** Producing harmful products like tobacco based Gutka, cigarettes and Alcoholic drinks are a concern just as promoting products that lack nutritional value like Maggi noodles, Frito-Lay potato chips, Chocolates and even junk food like the fast food from McDonalds.
- **Planned Obsolescence-** Some producers follow a program of planned obsolescence, causing products to become obsolete before they actually need a replacement. Attractive functional features in electronics like mobile phones and computers are launched in a phased manner to make older models obsolete. Many a times product components are made using material which rusts, wears, breaks or rots sooner than expected. In the high fashion industry apparels are deemed obsolete before their time. However the Marketers counter that in a competitive market new features, models, technologies, styles attract customers
- **Poor service to the Disadvantaged-** It has been observed that the disadvantaged consumers are often victims of poor service. The urban poor end up buying inferior goods at higher prices from retail outlets. In rural areas there are even spurious products which are passed off as original by retailers.  
The poor, elderly, ethnic and religious minorities, and other weaker sections and classes of society are often exploited by charging higher interests, premiums, collaterals by Banks, Insurers, Consumer lenders and others.

The bottom of the pyramid and micro credit financing initiatives aim to address the concerns of this section of the consumers.

### **Business Actions toward Socially Responsible Marketing**

Professor's Philip Kotler and Gary Armstrong have suggested the philosophy of **Enlightened Marketing**, where Consumerism and Environmentalism issues are addressed while creating greater customer value and strengthening customer relationships and includes the following concepts:

- **Consumer Oriented Marketing-** The marketing activities should be organised for delivering superior value to customers and build lasting and profitable customer relationships
- **Innovative Marketing-**The company should endeavour to continuously seek real product and marketing improvements. The new and better ways help develop product features and services that help a company stay ahead of the competition.
- **Customer Value Marketing-** The Marketing activities often focus on one shot sales Promotions, Direct response advertising and minor packaging changes which may increase sales in the short run but add less value. However long run consumer loyalty and relationships develop with continually improving the customer value with actual improvements in the product's quality, features, or convenience
- **Sense of Mission Marketing-** The company should define its mission in broad terms rather than narrow product terms. ITC Ltd mentions that each purchase of a packet of biscuits contributes to environmental protection activities of the company. The social responsible actions and community concerns are highlighted as in TATA Steel states that it also makes steel implying massive efforts in Corporate Social Responsibilities by the organisation.
- **Societal Marketing-** A societal oriented marketer intends to design products that are both pleasing and beneficial

<b>Consumer Benefits Long Run</b>		Low	High
	High	<b>Salutary Products</b>	<b>Desirable Products</b>
	Low	<b>Deficient Products</b>	<b>Pleasing Products</b>

**Immediate Satisfaction**

**Societal Classification of Products**

In the above diagram the products are classified according to their degree of immediate consumer satisfaction and long run consumer benefit

**Desirable Products-** gives both high immediate satisfaction and high long run benefits e.g. Tropicana fresh fruit juices, Kelloggs breakfast cereals

**Salutary Products-** have low appeal but may benefit consumers in the long run e.g. seat belts, Pension plan Insurance

**Pleasing Product-** gives high immediate consumer satisfaction but may hurt the consumer in the long run e.g. cigarettes and junk food

**Deficient Product-** gives neither immediate appeals nor long run benefits e.g. poor quality cheap imitations

**Corporate Philosophy on Ethics in Marketing**

Marketers across the world face an ethical dilemma on marketing issues like Distributor relations, Advertising standards, Customer service, pricing, product development, and general sensitivity to ethical and moral issues.

The different ethical practices and social responsibility initiatives depend on the personal value system of Managers, company’s attitude, culture and the corporate philosophy.

An assessment can be made of their concerns towards the ethical marketing activities by studying eight stakeholder categories: share-holders, community, governance, diversity, employees, environment, human rights, and product and services.

One corporate philosophy can be developed through preparation of a set of principles which can act as a guideline to resolve all the difficult ethical situations the marketer faces, since the adherence to sales producing strategy can often result in immoral or amoral actions.

The other philosophy puts the onus on individual managers who should develop a social conscience and apply high standards of ethics and morality. These socially responsible and ethical behaviour go beyond the legal and develop into standards of personal integrity, corporate conscience, and long run consumer welfare.

In the wake of Globalisation often multinational companies face different norms of ethics and social responsibility in each country. The total corporate commitment towards these issues alone can bring success.

**Background of Research**

The effort of this study has been to understand how marketing has evolved ethically from being the caveat emptor-"Let the buyer beware," where the point of view is that the rights of the seller are central and a company having little regard for consumers’ needs and wants. Today there is the other point of view the caveat vendor "Let the seller beware," and the customer satisfaction is given prime importance and the customer is always right. These efforts have seen a move from

the adversarial to the co-operative marketing which has culminated in the concept of relationship marketing.

The Marketing companies face ethical dilemma and conflict of interest having to operate in an Indian environment that suffers from a poor record on values and ethics.

Marketers must become aware of the ethical standards and acceptable behavior in today's society. This awareness means that marketers must recognize the viewpoints of three key players: the company, the industry, and society.

Ethical conflicts in marketing arise in two contexts:

1. A conflict may arise when there is a difference between the needs of the three aforementioned groups -the company, the industry, and society. cigarette and tobacco marketing have been good for companies and good for the tobacco industry. However, cigarettes are harmful to society. This concern has led ITC, a very profitable FMCG company to change its product mix dependence from tobacco to non tobacco and today its non tobacco—foods, confectionary, apparels, greeting cards and Hotels business has grown to equal close to 50% of its sales revenue
2. An ethical conflict may also arise when one's personal values conflict with the organization. Recently, Pepsi India faced a difficult problem when its cola drink was allegedly containing pesticides as per investigations of a National research laboratory. Here the brand ambassadors faced a difficult choice on continuing to advertise a supposedly dangerous product. More extreme cases are abounding in India where drugs with false cures or harmful products get pushed through use of advertising gimmicks. Promoting and marketing such products violate rules of marketing ethics.

### **Research Goal**

To illustrate the present status of marketing companies in India on their compliance to social responsibility and ethical practices, this paper has used empirical support to build the argument that profitable corporate need to become corporate citizens.

This means not only creating healthy returns for shareholders but emphasizing good jobs for employees, a clean environment, responsible relations with the community, and reliable products for consumers.

### **Research Methodology**

The author uses the Qualitative research tools to empirically support the argument of this paper that successful companies in India do value Social Responsibility and Ethics in Marketing.

Initially, secondary data was collected from the company websites and other recent publications to gauge the concerns that the companies have in India for social responsibility and ethics in Marketing.

Thereafter ten senior Marketing executives were contacted in the Kolkata city area from select companies in the FMCG, White goods and service Industry having a National presence. Each of these respondents was administered a depth interview of 30 minutes at a venue of their choice. The respondent's personal value system, company's attitude and culture were assessed on the different ethical practices and social responsibility initiatives which were of major concern in this study.

These respondents shared their views on eight stakeholder categories: share-holders, community, governance, diversity, employees, environment, human rights, and product and services. An assessment was also made of their concerns towards the ethical marketing activities.

Further, using the cases of two highly successful and profitable companies the author attempts to argue on the viability of social entrepreneurship and scope of the bottom of the pyramid model for corporate citizenship.

The conclusion has been drawn after judging their levels of commitment, compliance and the benchmarks set.

It is hoped that the effort of this study will help assess companies on the basis of their best practices of Social Responsibility and Ethics in Marketing.

However this study has a limitation of an acceptable sample size and statistical validation and cannot be used for generalisation.

The author humbly solicits further in depth research on this issue using a larger sample size and a scope covering the four cardinal points of India.

### **Analysis of Data**

The ten Senior Marketing Executives were questioned on eight stakeholder categories: shareholders, community, governance, diversity, employees, environment, human rights, product and services, were used as parameters to judge their levels of commitment, compliance and the set benchmarks.

The respondent's personal value system, company's attitude and culture were assessed on the different ethical practices and social responsibility initiatives which were of major concern in this study a brief summary of their view are expressed below:

**1. Shareholders:** Seven of the respondents felt that Shareholder wealth maximisation was the most important task and the Marketing executives play a critical role in generating the surplus which is distributed as dividend. Their view was that bottom line cannot be sacrificed for unreasonable ethical standards. However, all the respondents felt that goodwill and reputation can come from a public image of high ethical standards.

**2. Community:** All the respondents felt that their companies were involved in CSR- Corporate Social Responsibility initiatives. They felt that positive publicity and a good corporate image building follows with such activities in the long term.

**3. Governance:** All the respondents agreed that good corporate Governance was mandatory after the latest SEBI guidelines. Even though all these companies had a written Code of conduct and ethics but the ethical norms for the different Marketing activities were not expressly defined in them.

**4. Diversity:** Six of the respondents felt that diversity was an issue for marketing companies in the Globalisation era. The MNC company respondents felt that ethical standards differ in each country and Marketing has to operate and succeed in a Business environment.

**5. Employees:** All the respondents felt that employees are the most important stakeholders and ethical practices can succeed only when there is total corporate commitment. Six of the respondents felt that ethics in Marketing is very important both at personal and organisational level. The other two were of the opinion that in the Indian environment marketing cannot succeed by following ethical norms.

**6. Environment:** All the respondents felt that environmental issues hold great importance for marketing and the social responsibility calls for eco friendly, pollution free, green products.

**7. Human Rights:** All the respondents felt that human rights of workers like reasonable wages, working conditions, non use of minors and the consumer rights to get a safe and useful product at a reasonable price are important ethical and social concerns.

**8. Products & services:** The customer has to get the product and services that he seeks and the marketer provides the same delivering satisfaction. All the respondents felt that a Marketer has to maintain reasonable ethical norms to survive in the long term

### **CASE STUDY-I**

#### **ITC Ltd.:**

Has set up of the CII-ITC Centre of Excellence for Sustainable Development released its Sustainability report in 2005. Its various sustainability initiatives in areas of economic, social and environmental development are:

- **e-choupal initiative** web enables nearly 3.5 million Indian farmers in 36000 villages.

An example of the bottom of the pyramid targeting at work is e-Choupals in rural India. ITC manages an agricultural trading company. To eliminate the inefficiencies in its supply chain caused by corrupt middle men at local rural markets, it created a network of “e-Choupals” (Internet-connected computers) in rural communities. Through these e-Choupals, individual farmers have been able to check the market-trading price of their produce and sell it directly to ITC. Both the individual farmers and ITC have increased their revenues, because the layers of inefficiency no longer have a role in the transaction between seller and buyer.

- **Choupal Fresh** and **Choupal Sagars** are two recent initiatives that leverage its extensive backward linkage with farmers and supply chain efficiencies. ITC has opened 10 Choupal Sagar outlets in rural areas of Maharashtra, Madhya Pradesh and Uttar Pradesh where these rural malls have warehousing and cold storage facility and operate as a hub for wholesale and retail activity. These malls also provide services of insurance, banking, medical facilities and farmer related soil testing. ITC International Business will help export fresh and processed fruits and vegetables and is targeting to double its exports these initiatives. The company has a target to open a network of 700 such Choupal Sagar outlets and 20,000 e-choupals across 1,00,000 villages within the next decade at an outlay of Rs.5000 crores. The vision is to eventually convert these villages into vibrant economic entities.
  - **Natural resource management** involves wasteland, watershed, rain water harvesting, and agriculture development.
  - **Sustainable livelihood creation** through women’s economic empowerment and genetic improvement of livestock.
  - **Community development** with focus on primary education and health and sanitation.
  - Total recycling of solid wastes and treatment of water effluents.Thereby ITC has taken strong steps in social entrepreneurship and is moving towards becoming a corporate citizen.

## **CASE STUDY-II ICICI BANK LTD**

The Bank has a well developed code of conduct for its employees and addresses all the concerns like conflict of interest, insider trading prohibition,

In an effort to replicate the sterling efforts of Grameen Bank Bangladesh started by Dr. Md. Yunus, the pioneer of the concept of micro financing, ICICI Bank has also embarked on the journey of providing micro credit to the rural and marginal society poor. Towards this ICICI Bank has started the ‘**No white Space**’ rural business architecture, which rests heavily on partnerships with micro-finance Institutions, NGO’s and even individual franchisees. The NGO’s who work closely with the communities and with considerable grassroots knowledge, therefore play a pivotal role in engaging with the people and cementing a partnership. They share the risk and participate in profit sharing. NABARD proposes to refinance Micro Finance Institutions (MFI) up to Rs. 2,00,000 crore this year. The self Help groups control 70% of the micro finance segments and as much as 90% of the SHG are women groups. The present coverage of all the MFI together is no more than 2% of the 60 million poor families in the country and there is room for further efforts to promote micro financing.

ICICI bank has taken major initiatives to focus on micro credit and has become a social entrepreneur with a blend of Business and Social responsibility and striving to be corporate citizen.

### **Relevance**

Marketers must become aware of the ethical standards and acceptable behaviour in their society. In the USA a high level of awareness has developed on these issues and American Marketing Association has prepared guidelines on ethical norms and values for marketers to become

effective in Corporate Citizenship. In fact it ranks Top 100 fortune 500 companies each year on their corporate citizenship records.

The American Marketing Association in its preamble 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). The AMA's General Norms are-

1. **Marketers must do no harm.** This means doing work for which they have received appropriate training or are 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 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.

## Results

The findings of this paper posit that social responsibility and ethics in Marketing is much valued by society in India and the rising consumerism, environmentalism and a monopolistic Competitive market make it a guiding philosophy for successful companies across Industry segments from Fast moving Consumer goods (FMCG) and White goods (consumer non durables) to services. In this era of globalisation to sustain consumer goodwill, loyalty and the resultant market share, profitable companies have to move towards social responsibility and ethics in Marketing. However, the moral and ethical sensitivity can be developed among the marketing professionals through the building of broad guidelines, through a Corporate Marketing Ethics policy that all will have to strictly adhere.

## Major Conclusions / Findings

Marketing ethics among corporate in India has seen increased awareness in each of the following areas:

- **Advertising-** Advertising regulations continue to address concerns of surrogate advertising, product placement, false and deceptive advertising, obscenity, Using role models for inappropriate and advertisement targeting children below five years and general media ethics.
- **Products and Services-** Consumer laws and role of Consumer redressal forums and courts continue to play an important role in ensuring safe and quality products, proper labelling and packaging, and adequate warranties. Globalisation and increased consumerism has aided this process



- **Pricing**-Deceptive and unfair pricing strategy like Predatory, Bait and Switch, and inflated pricing, besides Vertical and Horizontal price fixing are important concerns that intend to add hidden costs in an unethical manner.
- **Anti-Competition acts**- The India law has the competition bill just as US has its antitrust laws that protect the competition, the Intermediaries and the consumer from unethical marketing practices. Several watchdog bodies, and self-regulatory industry bodies also help in the effort of the regulators to control such practices.

Social Entrepreneurship can be a viable option as the two cases of ITC Ltd and ICICI Bank Ltd, both highly profitable companies have shown, and with sustainable social models, the companies can earn profits as they fulfill their social obligations to eventually emerge as corporate citizens. In fact, the bottom of the pyramid philosophy of Prof. C K Prahalad can be successfully applied in the Indian context keeping in mind that India is an emerging economy with a huge disparity between the haves and the have notes.

### **Recommendations**

The author feels that Prof. CK Prahalad's the bottom of the Pyramid marketing concept is futuristic and could help marketing firms balance their ethical concerns of sustainable social responsibility and profitability. Highly profitable company ITC has proved that their e-choupal social initiative is both sustainable and has generated rural wealth creation. Bangladesh's Grameen Bank established by Prof. Mohammed Yunis has also succeeded with its social model for micro credit financing to Self Help Groups (SHG) and rural poor.

Companies that can rightly address the needs of the largest middle class along with other consumer segments have the potential to become social entrepreneurs and follow the ethical marketing practices towards corporate Citizenship.

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