J. of the Acad. Mark. Sci. (2008) 36:39–53
DOI 10.1007/s11747-007-0062-0

CONCEPTUAL/THEORETICAL PAPER

Marketing with integrity: ethics and the service-dominant logic for marketing

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Received: 28 June 2007 / Accepted: 2 July 2007 / Published online: 21 August 2007
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Abstract This paper examines a tendency within existing marketing scholarship to compartmentalize ethical issues. It also shows how this tendency can cause ethical tensions and conflicts in marketing practice. The emerging service-dominant (S-D) logic for marketing, as proposed by Vargo and Lusch, is explored as an example of an approach to marketing that overcomes this tendency. The S-D logic is found to be a positive development for marketing ethics because it facilitates the seamless integration of ethical accountability into marketing decision-making. Specific recommendations are made for improving the ethical climate in marketing using marketing performance measurement theory and practice.

Keywords Ethical violations · Ethics · Integrity · Marketing ethics · Marketing performance measurement · Service-dominant logic

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Introduction

Despite extensive and thoughtful effort devoted to marketing ethics scholarship over the past several decades, the incidence of ethical violations in marketing practice remains high. The effectiveness of current approaches to marketing scholarship may be limited by the prevailing approach to marketing ethics, which tends to separate ethical analysis from marketing by overlaying such analysis on top of existing marketing theory, rather than integrating it. Such an approach, in the context of the fragmented nature of contemporary marketing theory, can cause normative tensions for marketing managers that in turn result in ethical violations. The service-dominant (S-D) logic, as proposed by Vargo and Lusch (2004a, b, 2006; hereafter VL), provides a more integrated approach to marketing theory that reduces these tensions, enabling a more ethical foundation for marketing.

Marketing ethics to date

Marketing ethics is “the systematic study of how moral standards are applied to marketing decisions, behaviors and institutions” (Murphy et al. 2005, p. xvii). According to a major review article examining the marketing ethics literature during the 1960’s and 70’s, the main topics covered included marketing research and managerial issues (e.g., purchasing; the four P’s) and to a lesser extent theoretical and consumer concerns (Murphy and Laczniak 1981). These earlier approaches tended to take a normative perspective, “developing guidelines or rules to assist marketers in their efforts to behave in an ethical fashion” (Hunt and Vitell 1986, p. 6). Subsequently, development of theoretical models of marketers’ ethical decision-making inaugurated a descriptive stream of research (Ferrell and

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Gresham 1985; Ferrell et al. 1989; Hunt and Vitell 1986). More recently, marketing ethics has built on both of these streams, applying normative guidance from moral and political philosophy (such as deontology, social contracts theory, and virtue theory) to the more complex understanding of the marketing ethics decision-making process provided by descriptive research (Dunfee et al. 1999; Murphy 1999; Smith and Cooper-Martin 1997; Takala and Uusitalo 1996).

The persistence of ethical issues

Nevertheless, issues such as misleading advertising, unsafe and harmful products, abuse of distribution channel power, and promotion of materialism, which were the main ethical concerns of the 1950's, are still serious problems today, half a century later (Kotler 2004; citing Bowen 1953). New issues are regularly added to this list, including stealth marketing, predatory lending, promotion of off-label uses of pharmaceuticals, and online privacy (Karpatkin 1999; Murphy et al. 2005).

One important cause of the persistence of such issues is the tendency in current marketing theory to compartmentalize ethical issues. In general, theoretical developments in marketing are introduced without explicit consideration of ethics by their proponents, apparently on the assumption that such consideration can be separated from the "business" issues. For example, the concepts of target marketing, service quality, and brand equity were all accepted marketing practices long before ethical issues associated with them were analyzed (Abela 2003; Davis 1996; Smith and Cooper-Martin 1997). Even the S-D logic, which is proposed in this paper as a stronger ethical foundation for marketing, made no explicit reference to ethics in its initial formulation (Vargo and Lusch 2004a). As we will note below, there are ethical considerations implicit in the S-D logic, but we believe that they need to be made more explicit for marketing to have a firmer ethical foundation.

The problem of compartmentalization

This separation or compartmentalization of "business" and "ethics" is problematic both theoretically and practically. At the theoretical level, the separation between economic and ethical analysis weakens the quality of scholarly investigation, with negative consequences for both economic and ethical analysis (Freeman 1994; Sen 1987). For example, Kotler's societal marketing concept (SMC), introduced in the third edition (1976) of his marketing management text, proposes that all marketing decisions be made for the benefit of the consumer, the firm, and society as a whole. However, the formulation of the various marketing strategies and tactics presented in this text is not materially different from that of other authors' who do not propose the SMC. The SMC, while a laudable notion, has not seen extensive implementation in marketing (Crane and Desmond 2002). Furthermore, compartmentalization of ethical issues leaves scholars free to develop apparently amoral theories, which can have the potential to signal to students of such theories that they are free from a sense of moral responsibility (Ghoshal 2005). On a more positive note, social and environmental issues appear to be gaining serious attention recently with Michael Porter and others focusing on a more strategic use of corporate responsibility and sustainable marketing (Murphy et al. 2005; Porter and Kramer 2006).

At a practical level, the compartmentalization of marketing ethics makes ethical issues more likely to be ignored. According to descriptive research in marketing ethics, marketers deal with ethical issues through a multi-stage reasoning process (Ferrell et al. 1989; Hunt and Vitell 1986). Two critical steps in such a process are recognizing the presence of an ethical issue and invoking an ethical evaluation. Based on this understanding, marketing ethics scholars have developed frameworks for helping marketers identify and then evaluate ethical issues.

Yet these models are mostly developed as an "add-on" to the rest of marketing scholarship: one is supposed to put the decisions arising from one's marketing analysis through one or more of these frameworks. As a result, they may be viewed as optional. For example, Laczniak (1983) proposed a framework of fourteen questions that a marketer should ask, including: "Is the intent of a particular action evil? Are any major evils likely to result from this action?" Smith's (1993) Consumer Sovereignty Test requires marketers to apply three tests to their marketing decisions: capability of the consumer, availability and quality of information, and opportunity for choice/switching. The problem with these frameworks is that in each case there is a separation between the marketing analysis and the ethical analysis. Robin and Reidenbach (1987) advocated parallel planning systems for "integrating ethical and socially responsible plans into strategic marketing planning" (p. 52). Although this method avoids the clearer separation of the other two, it still requires marketers to take additional steps to address ethical considerations.

At worst, though, such frameworks become merely a routine "ethics check." In the hectic conditions of contemporary marketing decision-making, isn't it likely that such ethical considerations can be – and sometimes are – accidentally or intentionally ignored? What is needed is an approach to marketing ethics that does not require a separate process every time an ethical issue is identified, but instead allows such issues to be dealt with as part of the normal course of marketing decision-making.

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But compartmentalization is not just problematic because it hinders the response to ethical issues: it can also *contribute* to ethical issues, by giving rise to ethical tensions. Freeman (1994) criticizes what he calls the "separation thesis" – the attempted separation between business and ethics described above – on the grounds that any business theory already contains norms within it, and many of these norms presume some kind of ethical orientation. Marketing theory does indeed contain several norms within it, prior to any importation of norms from ethical theory. By "norm" we mean an accepted standard of behavior under certain conditions ("if you face these conditions, you should do that"). As this definition makes clear, norms are not just about what is considered to be "ethical" behavior; they can be about any kind of behavior that benefits from guidance. Some of the more recognizable norms in marketing include that marketers should: promote customer satisfaction; maximize firm profits; maximize total system efficiency and engage in ongoing cost reduction; drive revenue growth; execute effective programs; respect consumer autonomy and choice; protect consumers from abuse; promote consumer participation and welfare; promote employee satisfaction; develop collaborative relationships with suppliers; and capture value through strategic and tactical pricing decisions. We claim that each of these items is a norm because each appears to be generally accepted in the marketing community and each has been presented in the marketing literature as something that marketers should do (selected citations are provided below). This list is illustrative, not exhaustive, because many other norms could be identified; we have chosen these as examples of generally accepted norms.

Incompatibilities between norms can sometimes arise. For example, the norms that firm profits should be maximized and that customer needs should be served are consistent with each other much of the time, because serving customer needs is usually profitable, but under certain conditions they can be at odds with one another. In such a case, an ethical tension exists. Tension is "the condition of being stretched or strained" (Oxford English Dictionary 1985). We define an *ethical* tension as the condition where contradictory courses of action are indicated by two or more different norms. In such a case, one norm's guidance is "strained" by, or put in tension with, another's contradictory counsel. The reason that the tensions which arise out of incompatible norms are called *ethical* tensions – even if the norms in question are both "just about business" – is that ignoring any norm is usually considered unethical, regardless of ethical system. A norm, as noted above, proposes guidance for behavior under a given set of conditions: that under certain conditions, action A would be superior to action B. But if, for the same set of conditions, one norm proposes action A and another proposes action B, and A and B are incompatible, then the two norms are contradictory and at least one of them must be violated. But to violate a norm is unethical according to all the major ethical systems: violating a norm is equivalent to failing to perform a duty (deontology); avoiding excellence (virtue theory); failing to adhere to due process (justice ethics); or choosing an outcome producing less than the greatest overall good (utilitarianism).

Ethical tensions exist at a theoretical level: if two norms are incompatible with one another, a state of ethical tension exists even if in practice no-one has yet faced a situation where both the norms apply. Ethical *conflicts*, by contrast, arise at a practical level: when a particular individual encounters an ethical tension in real life, an ethical conflict occurs. In fact, tensions between the needs of the business and of consumers, in particular, are the primary source of ethical conflict reported by marketers (Chonko and Hunt 1985). Ethical conflict occurs when "an individual perceives that his/her duties and responsibilities towards one group are inconsistent with his/her duties and responsibilities toward some other group" (Hunt et al. 1984, p. 310), or, more generally, where the individual perceives that the guidance provided by one moral norm appears to contradict the guidance provided by another. Therefore, an ethical tension is a condition of potential ethical conflict, and if a choice is made during an ethical conflict to pursue a course of action that contravenes a generally accepted moral norm, then an ethical violation is said to occur. For example, in promoting off-label uses of pharmaceuticals, a firm chooses to follow the profit maximization norm over the norm advocating serving customer needs, increasing profits while potentially harming customers, and thus causing an ethical violation. In the next section we identify several examples of ethical tensions in current marketing theory.

Ethical tensions in marketing

Firms and their stakeholders work collaboratively much of the time, and therefore the guidance offered by norms for the treatment of different stakeholders tends to converge; for example, the norms about customer orientation and profit maximization are generally consistent because a customer orientation is usually profitable (Jaworski and Kohli 1993). As a result, marketing practice in most industries is ethical, most of the time.[1] Sometimes, however, a divergence occurs, typically between the advice offered by norms supporting firm interest and norms favoring other stakeholders' interests. Smith (1993)

[1] However, certain marketing professions such as car salesmen and advertising practitioners are consistently perceived by consumers to exhibit low levels of ethics—e.g. Gallup (2003).

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explains that although competitive markets are a requirement for serving the consumer interest, many marketing strategies:

> can be understood as efforts to reduce competition... Advertising, for example, may inform and persuade the consumer; it may also serve as a barrier to entry... Channel management strategies involve efforts to ensure the company's products reach customers; they also attempt to 'lock up' channels to deny access routes to competitors (p. 22–23).

In striving to be "good" (effective) marketers by following norms that support the firm's interest, marketers can sometimes make decisions that are not "good" (ethical) because they violate norms that support other stakeholders' interests.

The fragmentation of contemporary marketing theory creates an ongoing occasion for ethical tensions: it is more likely that incompatibilities will arise among norms in a theory assembled from different pieces than among norms in a more integrated theory. The fragmentation of marketing theory is widely acknowledged (Day and Montgomery 1999; Gummesson 2004); according to Wilkie and Moore (2003), fragmentation is one defining characteristic of the most recent era in marketing scholarship, from 1980 to the present.

To demonstrate the existence of ethical tensions in current marketing theory, several are listed below and illustrated with examples of ethical conflicts that can arise from each. These tensions combine two different norms from our list of examples above. In each case, we show how the guidance provided by the norms in question *converges* much of the time yet, under particular though not uncommon conditions, their guidance can *diverge*, providing contradictory direction, and hence creating an ethical tension. Since tensions between consumer and firm interests are the biggest source of marketing ethics issues (Chonko and Hunt 1985), they are our primary focus here. However, tensions may also arise between the firm and other stakeholder groups, and we illustrate these also. This list is not meant to be exhaustive; its purpose is simply to demonstrate that ethical tensions do exist in current marketing theory, which it does, *ipso facto*.

Firm–consumer tensions

Tension 1: Consumer autonomy and marketing effectiveness[2]

Current marketing theory affirms the importance of both marketing effectiveness and consumer autonomy. Marketing should be effective, which means that it should achieve the intended financial results (Day 1994) and lead to changes in consumer behavior, or at least prevent changes in consumer behavior, in the case of loyalty efforts (Reichheld 1996). At the same time, consumers should be autonomous: they should be allowed to make free choices (Smith 1993, especially pp. 29–31). These two norms converge much of the time: marketers develop superior products for specific consumer segments and provide information to these segments to help them make informed decisions. Thus, marketing is effective and consumer autonomy is facilitated. Yet occasions arise when the two norms are in conflict. Marketing results are measured in terms of effectiveness: did we meet our sales goals, market share goals, profit goals (Barwise and Farley 2003); since this focus on effectiveness tends to dominate, gains will sometimes come at the expense of consumer autonomy.

Consider the experience of Amazon.com and variable online pricing. In the summer of 2000, Amazon was alleged to have offered differing prices to different consumers for the same products on the same day. This is understandable from an effectiveness perspective. Given varying price elasticities among consumers, Amazon might have been trying to make their marketing more effective by offering selective price reductions to more price-sensitive consumers. An outcry ensued when this practice was uncovered (Hill 2003). Because these price reductions were not visible to other consumers, this course of action fails Smith's (1993, p. 30) "availability of information" test. This is an example of an ethical conflict caused by the tension between the norms promoting marketing effectiveness and consumer autonomy. Other types of ethical conflict arising from this particular tension include misleading advertising, deceptive pricing, and extreme fear appeals. In each, marketers attempt to improve effectiveness by trying to manipulate consumers' reasoning processes through inadequate information and/or undue emotional pressure, thus violating the consumer's autonomy.

Tension 2: Consumer choice and consumer protection

According to current marketing theory, consumers should be given alternatives and should also be protected from abuse. Consumers are constrained by bounded rationality: they are not always capable of choosing whether a particular product is good for them, and this is particularly true for more vulnerable consumers such as children, the elderly, or the poverty-stricken (Miyazaki et al. 2001). Target marketing to vulnerable consumers is a good example of the norms of consumer choice and consumer protection diverging. Targeting is a core concept of

[2] Marketing *efficiency* is addressed below, where we consider the tension between consumer participation and total system efficiency.

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marketing, but at the same time, focusing on vulnerable consumer segments can attract significant societal criticism (Smith and Cooper-Martin 1997). Tension arises when there is a question of whether the product is serving the distinct needs of a market or taking advantage of their particular vulnerability. An ethical conflict arose from this tension in the case of the direct marketing catalog company Fingerhut, which targets consumers with poor credit records. While the firm offers easy payment terms and thus creates more choices for this segment, it has also been accused of exploiting them (Kalsow and West 2000).

Tension 3: Customer satisfaction and revenue growth

Firms should deliver satisfaction to customers and also increase their own sales. Customers are interested in receiving satisfaction from current transactions while firms desire to maximize both the value of each exchange and the total number of transactions. Although additional company effort in reinforcing the satisfaction of completed transactions is effort taken away from pursuing new transactions, much of the time these two interests converge because satisfying customers typically leads to repeat sales (Mittal et al. 1998). At times, however, the implications of pursuing customer satisfaction and incremental sales diverge, because fulfilling obligations to current customers appears to cause a negative return. For example, should a firm that discovers a fault in one of its products recall the product, offer free or discounted replacements, or do nothing? A recall or replacement will prevent reductions in customer satisfaction, but will consume resources that could be invested in generating new revenues.

The Firestone–Ford problem with tire separation, Explorer rollovers, and subsequent injuries and deaths is an illustration where inaction of both companies led to both consumer harm and harm to Firestone's and Ford's reputations (Velasquez 2006). Contrast this with Baxter's quick response when European consumers died after using a Baxter dialysis machine. The firm withdrew the product from the market, closed the manufacturing plant that made the product, settled with the families of the victims and alerted the FDA (Hammonds 2002).

Tension 4: Consumer participation and total system efficiency

Current marketing theory holds as a norm that the entire marketing system (product development, communication, distribution) should be made as efficient as possible. It also affirms the norm that consumers should participate in this process. These norms can converge in the case of self-service. In many other instances, however, the two norms diverge in their implications. Greater efficiency usually requires more standardization, which may not be engaging for consumers. For instance, buyers responded negatively to many early attempts at customer relationship management, where the incessant requests for consumer information resulted in a significant imbalance between what was being demanded of consumers and the benefits received (Fournier et al. 1998). Firms attempt to customize their communication to build relationships, but the drive for efficiency means that the efforts can be perceived as awkward or even alienating to consumers. A catalog company each year reminds its customers of gifts they had bought the previous year, which is generally a welcome service. However, one individual who had given gifts to the physicians attending his mother during an unpleasant medical emergency, was each year reminded of this "awful time," even after requesting removal from the file (Fournier et al. 1998, p. 3).

Tension 5: Consumer welfare and price discrimination

This tension exists because, on the one hand, firms should try to capture consumer surplus through price discrimination – in industries with high fixed costs and expiring capacity, such as airlines, price discrimination is critical to profitability – while on the other hand, firms should contribute to consumer welfare. So firms are simultaneously expected to increase consumer surplus (the typical measure of consumer welfare) and decrease it, because price discrimination is often believed to cause a reduction in consumer welfare since it results in increased price dispersion for a particular product. Marketing scholars and economists studying consumer welfare use price dispersion as a measure of market efficiency—price dispersion would presumably be competed away in an efficient market (Ratchford et al. 2003). By this logic, greater price dispersion indicates reduced consumer welfare: "consumers are often presented with the opportunity to pay higher prices than they need to for a given quality and...many probably do so" (Ratchford et al. 1996, p. 177). Price dispersion in grocery products, for example, is interpreted as a reduction in welfare for consumers who purchase at the higher prices (Chung and Myers 1999).

Ethical issues arising because of this tension include predatory pricing and the debate about brand contribution to society. Predatory pricing, although it offers lower prices to consumers initially, leads to reduced variety, innovation, and subsequently higher prices (Guiltinan and Gundlach 1996). Selling branded goods at a significant price premium to functionally equivalent unbranded goods also has been criticized (Klein 1999).

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Tensions between the firm and other stakeholders

Tension 6: Employee satisfaction vs. short term profit

Although we focus in this paper primarily on tensions between the firm and consumers, tensions do occur between the company and its varied stakeholders—employees, suppliers, and the public (Murphy et al. 2005). As in the case with firm–consumer tensions, interests are aligned much of the time. For example, it is generally believed, supported by empirical evidence, that satisfied employees result in satisfied customers (Boyt et al. 2001). Enabling conditions – such as an ethical climate in the workplace – can contribute to improvements in both employee satisfaction and service quality (Schwepker and Hartline 2005). Yet this belief can come into conflict with the idea that companies should maximize profits to maintain their competitive position. The drive for a better "bottom line" leads some companies to take advantage of labor, avoid health and safety standards, and demonstrate antagonism towards unionization (Royle 2005).

Tension 7: Collaborative supplier relationships vs. cost reduction

Another tension can arise between the desire for collaborative relationships and short-term cost control. Longer-term relationships with a smaller number of suppliers can enhance a firm's business results (Janda and Seshadri 2001), and companies' collaboration can promote the health of the "ecosystem" within which they operate (Iansiti and Levien 2004). Yet the application of pressure on suppliers, or outright cheating through bribery or fraud, occurs in a non-negligible amount of cases (Carter 2000). While many firms benefit from working with large retailers such as Wal-Mart (Bloom and Perry 2001), leading mass merchandisers as a whole have been accused of squeezing so much margin out of their smaller suppliers that they sometimes drive them out of business (Fishman 2006).[3]

Implications of ethical tensions in marketing

Given the ethical tensions that exist in current marketing theory, the persistence of marketing ethics violations in practice should not be surprising, since ethical conflicts arise *because of* the ethical tensions, and these can lead to ethical violations. A threshold level of unethical behavior can be expected in every discipline (Laczniak 1993), but beyond this, the ethical tensions that exist in current marketing, by creating occasions for ethical conflicts, usually mean that ethical violations will continue to occur in marketing.

[3] Additional tensions can be identified with other stakeholders such as investors, communities and society at large (Wilkie and Moore 1999).

Marketing ethics and the S-D logic

We propose that the emerging S-D logic (Vargo and Lusch 2004a, b, 2006) provides a more fertile ground for ethical marketing – one with fewer ethical tensions – than current marketing theory. The choice of the S-D logic may not seem obvious for our purposes because no explicit reference to ethics occurred in VL's original document (Vargo and Lusch 2004a). However, this logic is interesting from an ethical perspective because it is an example of a theory that avoids compartmentalizing ethical issues. We are not claiming that the S-D logic is necessarily the most ethical foundation for marketing, nor the only possible one: simply that the emerging S-D logic with its foundational principles is useful because it may help reduce ethical conflicts and violations in marketing.

Avoiding compartmentalization

The S-D logic

> ...has some strong and arguably very important normative implications. It intimates a very different kind of purpose and process for marketing activity and for the firm as a whole: to provide service to stakeholders, including customers, stockholders, and employees (Lusch and Vargo 2006, p. 283).

Since it is "inherently both consumer-centric and relational" (Vargo and Lusch 2004a, p. 12), the S-D logic provides a better foundation for marketing ethics. This consumer-centric and relational nature of the theory is evident in several of its foundational premises (FPs), including: the replacement of things with the application of skills and knowledge as the fundamental unit of exchange (FP_1); indirect exchange masks the fundamental unit of exchange (FP_2)—which urges everyone to consider how they would operate if they were engaging in a direct and reciprocal exchange, because immoral behavior arises more easily when the victim is distant or hard to identify; the customer as always a co-creator of value (FP_6); and the service-centered view as customer oriented and relational (FP_8).

We believe that many of the FPs of the S-D logic are inherently ethical; they appear to presume or incorporate within them ethical norms. For example, the collaborative nature of co-creation (FP_6) presupposes a requisite level of trust by both parties. Knowledge as a fundamental source of competitive advantage (FP_4) likely means that service providers and consumers are transparent with one another. The value proposition premise (FP_7) seems to require

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ethical "values" such as teamwork and relationship integrity for value creation to occur. Furthermore, the customer oriented relational view (FP_8) means marketers will be honest with consumers if they see inter-actions as being ongoing rather than transactional (Murphy et al. 2007).

The S-D logic, by offering a stronger relationship focus, attempts to overcome the depersonalizing effects of specialization by recognizing that human beings "are at the center and are active participants in the exchange process" (Vargo and Lusch 2004a, p. 12). As such, the logic has an inherently ethical base, because the focus of major ethical systems is on how human beings ought to behave and to relate to one another (Laczniak and Murphy 2006). This centrality of human beings ensures integration of ethical and business issues at the core of the theory, thus avoiding compartmentalization. Integration can be expected to reduce ethical tensions because it aligns firm, customer and societal interests more closely. This is particularly useful for addressing multi-stakeholder issues. In general, firms interact with stakeholders not in terms of isolated, dyadic relationships with individual stakeholders, but as part of a network of stakeholders (Rowley 1997); the S-D approach of viewing marketing in terms of social and economic processes that serve to integrate and transform resources (Lusch and Vargo 2006) permits this ethical, alignment-oriented approach to be applied to multi-stakeholder issues.

For example, the *goal* of marketing in the old logic is to maximize profits (i.e., charge customers more and pay suppliers less), which can cause tension between firm, customer, and supplier interests. In the S-D logic, the goal is to increase a firm's value: this includes the value of its relationships with customers, suppliers, and society as a whole, and therefore the company and its multiple stakeholder interests are more closely aligned.

This distinction between profit maximization and increasing company value is a critical one for ethics. The profit maximization norm is logically guaranteed to be in tension with any other norm that does not contribute to it, because anything less than maximum profit is a violation of this norm. By contrast, the norm to increase the value of the firm is freed from such tension in two ways. First, it is about *increasing*, not maximizing, value and thus it is less likely to be in tension with any norm that does not contribute to maximum profits. Second, since firm value includes both profits *and* the intangible value of the organization's relationships with its customers (customer and brand equity) and with the rest of society (firm reputation), tensions between the interests of the firm and its customers or the rest of society are reduced. Actions that attempt to increase profit at the expense of one or more stakeholder groups will presumably diminish the value of these intangible relationship assets, in turn reducing the firm's value.

To be sure, conflicting interests between customer and company, while substantially reduced, are not eliminated completely. All commerce between buyers and sellers includes both competitive and collaborative behavior in different proportions, and so some risk of opportunism remains (Wathne and Heide 2000); ethical behavior is not always profitable (Paine 2003). Yet even this is attenuated somewhat in the S-D logic, because the dialogic orientation of the S-D logic highlights the importance of trust for value co-creation (Ballantyne and Varey 2006).

A big difference between the current and the emerging logics is that while the former focuses largely on the competitive dimension, the new logic reduces tension because "firms must learn to be simultaneously competitive and collaborative" (Vargo and Lusch 2004a, p. 13). Accordingly, even issues such as the tragedy of the commons can be reduced when firms actively think of customers and the public as stakeholders and co-creators, and recognize that the "commons" (i.e. public goods) is always "co-created." Such thinking is also more suited to dealing with the new consumer activism enabled by the Internet, where mass collaboration can create what has been termed the "cornucopia of the commons" (Hof 2003).

Resolving the ethical tensions

VL (Vargo and Lusch 2004a) present six attributes of the new logic and explain how each differs from the current logic; we show how each of these reduces or eliminates some of the ethical tensions present in the current logic.

Primary unit of exchange

In the S-D logic, the tension between consumer choice and consumer protection is ameliorated by the change in the primary unit of exchange—now for the acquisition of "the benefits of specialized skills and competences" (Vargo and Lusch 2004a, p. 7), rather than for goods. The important difference is that the benefit arising from a skill or competence is always oriented to a specific need, while a good can be used or misused for many different purposes. If they recognize this change, then firms must be clear about the benefits they are offering and accept responsibility for them, and they are therefore more likely to realize when they are marketing a potentially harmful product. For instance, one might understand how marketers would target a high-strength malt liquor product to an inner city consumer segment when the focus is on the product: the marketers can reason that this segment exhibits a demand for this good, and by offering it, they are provide additional consumer choice. When the focus is on the *benefit*, however, the marketer has to address the pointed question of: what is the benefit being offered? Is the benefit of high-

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strength malt liquor the facilitation of social exchange and relaxation, for example, or is it just the opportunity for intoxication? If the benefit is the former, then why does the product need to be high-strength, and if the latter, the issues about preying on vulnerable consumers are not easily avoided (Brenkert 1998). This is not to say that *no* potentially dangerous products will be marketed in the new logic; however, it is more difficult for a firm to sell a product with a potentially harmful use while convincing themselves that they are selling it for a harmless purpose.

Role of customers and of goods

The role of the customer is altered in the S-D logic from recipient of goods to co-creator of service, while the role of goods changes from end products passively consumed to goods as transmitters of embedded knowledge. In the current logic, marketers "do things to customers; they segment them, penetrate them, distribute to them, and promote to them," but in the new logic, marketing "is a process of doing things in interaction *with* the customer" (Vargo and Lusch 2004a, p. 7, emphasis added). These changes reduce two tensions: consumer autonomy vs. marketing effectiveness and consumer participation vs. total system efficiency. The current logic asks marketers to increase their success while staying within the law. In this pursuit, marketers may resort to deceptive practices to achieve better returns. By contrast, marketers collaborate with consumers in S-D logic. Not only is any deception at odds with collaboration, but also the collaboration itself may uncover information that will lead to greater marketing effectiveness. Recall the example of Amazon.com's alleged use of non-transparent variable pricing. A collaborative orientation would avoid such an approach, favoring instead more transparent discounting.

The tension between consumer participation and total system efficiency is reduced because the value of active consumer participation is more apparent. In the S-D logic, firms find competitive advantage by "focusing on the total process of consumption and use" (Vargo and Lusch 2004a, p. 13). The company that recognizes the customer as a co-creator will start thinking more explicitly about broader customer involvement (Urban 2004). Marketers' questions will change from "have we made this as efficient as possible for the customer to buy and to use?" toward "have we made the shopping, purchase and usage process interesting, challenging, rewarding, educational and/or fun?" Recognizing the importance of a more active, engaged consumer role as co-creators is a positive ethical development, because it is consistent with human dignity, autonomy and other ethical concepts (Bowie 1999). It makes clear that deception – or any other manipulation of consumers' judgment – reduces engagement by making consumers more passive. None of the foregoing obviates the need for ethical behavior among consumers too.

Determination and meaning of value

The S-D logic in marketing resolves the tensions between the SMC and profit maximization, and between consumer welfare and price discrimination, by moving value determination from the producer to the consumer. Thus, companies must pay closer attention to the totality of their value proposition, including its societal consequences. While a firm might think that the value it is offering is only power generation, for example, consumers may perceive the value proposition to also include environmental impact (positive or negative). A power generation firm with a power plant in Texas had a negative environmental record. It suffered setbacks to an attempted project in Iceland (De Muth 2003) due largely to negative publicity about its U. S. environmental policies (Corporate Watch 2005), illustrating the importance of considering the total value proposition from a consumer perspective.

More broadly, recognition that value is determined by consumers helps resolve the long running debate among scholars about whether firms should attempt to contribute to society or whether they should focus solely on increasing profits. Most appear to understand that certain social contributions facilitate their ongoing operations, and conversely, as the scandals in the early 2000's have demonstrated, that unethical behavior can have costly, even terminal, effects on the firm. Corporate societal marketing recognizes that both firms and society can benefit from social contributions (Drumwright and Murphy 2001). For example, Handelman and Arnold (1999) noted that there appears to be a minimum acceptable level of a marketer's social contribution, below which the firm's overall effectiveness is hindered; others have argued for the potential advantages of environmental marketing (Menon and Menon 1997), and benefits to the brand of corporate societal marketing (Hoeffler and Keller 2002). Together, these three studies suggest that when consumers determine value, they are more likely to include societal contributions as part of the entire value proposition.

The change in the determination of value also resolves the tension between consumer welfare and price discrimination. In the old logic, the focus was on the product itself and its functional benefits. In the S-D logic, price dispersion is less likely to be taken as clear evidence of losses in consumer welfare because it may suggest rather that consumers perceive other (intangible) sources of value, such as assurance, convenience, or status (Berthon et al. 1997), or other non-price benefits such as high quality, innovation and variety (Guiltinan and Gundlach 1996). The S-D logic shows more clearly that the price premiums

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charged by leading brands for products that may be physically identical to lower-priced competition are not evidence of exploitation but are an indication of consumers' willingness to pay more for the assurance or trust inspired by a brand name (Chaudhuri and Holbrook 2001; Koehn 2001).

Firm–customer interaction

The change in firm–customer interaction, from customers as "acted on" to create a transaction to customers as "active participants" in a relational exchange, leads to recognition of the importance of the customer relationship itself (Vargo and Lusch 2004a, p. 7, Table 2). This situation reduces the firm–customer tension between satisfying current customers and pursuing incremental revenues, and the related firm–supplier tension between collaborative relationships and profit maximization.

In the S-D logic, the tension between satisfying current customers and pursuing incremental revenues is reduced because of the central recognition that customer relationships are valuable and worth the investment. The ethical implications of valuing the customer relationship are quite clear in VL's (Vargo and Lusch 2004a) paper:

> ...even in the cases when the firm does not want an extended interaction or repeat patronage, it is not freed from the normative goal of viewing the customer relationally. Even relatively discrete transactions come with social, if not legal, contracts (often relatively extended) and implied, if not expressed, warranties. They are promises and assurances that the exchange relationship will yield valuable service provision, often for extended periods (p. 12).

Thus the S-D logic recognizes the social and legal obligations that can arise in relationships. These obligations, as several scholars have shown, can be extensive (Gundlach and Murphy 1993; Fournier et al. 1998).

An example of implied obligations is the notion of brand as promise (Abela 2002). In business magazines and the popular press, it is common to find the claim that "a brand is a promise" (e.g., Beirne 2002; Boudette 2003). The implication is that there is a moral obligation to deliver on what the brand offers. Failure to deliver can harm the firm's relationship with its consumers, while fulfillment of this commitment strengthens it (Murphy et al. 2005). After Amazon.com noticed that consumers sometimes accidentally buy products (especially CDs) that they already own, the company decided to have their website alert consumers when they select an item that they have previously purchased. The firm recognized that this information would likely lead to some short term lost sales among such consumers – which it did – but continues with this policy because Amazon believes that it is not only the right thing for its customers, but also that this action would strengthen their customer relationships (Deutschman 2004).

Source of economic growth

Finally, in the S-D logic, wealth "represents the right to the future use of *operant* resources," resources that are used to act on other resources, whereas in the current logic, wealth consists of owning the *operand* resources, resources that are acted upon (Vargo and Lusch 2004a, p. 7; emphases in original). This change reduces the employee satisfaction vs. short term profit (firm–employee) tension because there is now a clearer recognition that the firm's wealth lies in the skills and knowledge (operant resources) of its employees. (See Table 1 for a list of the ethical tensions considered in this paper, and how each is addressed by the changes between the existing and new logics.)

Managerial implications of an integrated marketing ethics

Thus far, we have argued that the compartmentalized nature of current marketing theory is a source of ethical tensions and that an integrated theory such as the emerging S-D logic could provide a more ethical foundation for marketing. In this part of the paper we build upon such a foundation to develop some managerial implications of an integrated approach to marketing ethics.

A significant benefit of an integrated theory such as the S-D logic for ethics is that the separation between business considerations and ethical ones is diminished. In the current marketing logic, the existence of ethical tensions can mean that the right thing to do for the business and for ethics appear to be in conflict, and therefore the firm may have poor ethical performance and good financial performance (at least in the short term). But where ethical tensions are reduced or eliminated – which is the case with the S-D logic, as we argued above – ethical and financial performance should be more closely aligned. This is an attractive development, because it means that the growing attention being paid to the field of marketing performance measurement can also be made to address ethics, in a seamless fashion.

Marketing performance measurement has attracted significant attention among marketing scholars and practitioners as an essential element of marketing accountability (Clark and Ambler 2000; O'Sullivan and Abela 2007; Webster et al. 2003). The S-D logic allows us to extend this accountability to include ethical accountability. The specific elements of this logic that are relevant here include the recognition of the intangible value of relationships; the idea

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Table 1 Resolving ethical tensions

Inherent tension within current marketing theory	Ethical issues arising from tension	Relevant shift in dominant logic	How shift in dominant logic reduces tension
Tensions between firm and consumers			
Consumer autonomy versus marketing effectiveness. For marketing to be effective, consumers need to respond to it in the way the marketer intended, but at times this can violate consumer autonomy	Misleading advertising, deceptive pricing, fear appeals	Role of customer. From recipient of goods to co-producer of service ("doing to" to "doing with")	Highlighting the collaborative dimension of marketing underscores the counter-productive nature of any effort to deceive or pressure the consumer
Consumer choice vs. consumer protection. Consumers should be free to make their own decisions, but consumers are not always capable of judging/acting in their own best interests	Vulnerable consumers, addictive products, promotion of materialism	Primary unit of exchange. From exchanging for goods to exchanging to acquire the benefits of specialized competences	Focusing on the benefits provided rather than on products leads firms to take responsibility for the benefit
Customer satisfaction vs. incremental revenues. Additional effort by the firm to ensure satisfaction of existing customers comes at the expense of efforts spent generating new revenues	Product safety, hidden changes in product quality, high pressure sales techniques	Firm–customer interaction. From customers acted upon to create transactions to customers as active participants in relational exchanges and co-creation	Recognition of the social and legal obligations of relationship reduces this tension
Consumer participation vs. total system efficiency. Mass marketing is more efficient, but passivity is detrimental to consumer physical and mental development	Consumer anomie, consumer manipulation, consumer fraud	Role of goods. From end products passively consumed to transmitters of embedded knowledge actively engaged with	The focus on consumer engagement means that it is no longer acceptable to view consumers as merely passive participants
Consumer welfare vs. price discrimination. Price discrimination leads to increased price dispersion, which allegedly harms consumer welfare	Predatory pricing, brand imagery, high–low pricing	Determination and meaning of value. From value determined by the producer to value perceived and determined by the consumer	Since consumers decide the value, it is easier to take into account other benefits beyond just low prices (such as innovation and choice)
Tensions between firm and other stakeholders			
Employee satisfaction vs. cost control. Satisfied employees lead to satisfied customers, and therefore to increased profits, but satisfying employees can be costly, reducing profits	Layoffs, pension plan reductions, health and safety violations	Source of economic growth. From ownership of operand resources to right to future use of operant resources	A clearer understanding that the firm's wealth lies in the skills and knowledge of its employees serves as an incentive to maintain employee satisfaction
Supplier collaboration vs. short-term profit. Collaborative supplier relationships can enhance business results, but the drive for short-term profits encourages putting pressure on suppliers	Cheating, margin squeezing, uncompensated service	Firm–customer interaction. From trade partners acted upon to enable transactions to trade partners as active participants in relational exchanges and co-production	Recognition of the inherent value of supplier relationships militates against the temptation to cheat

of outcomes as learning and the use of multiple success metrics; and the centrality of service relationships and the consequent importance of measuring cash flow volatility.

Value of intangibles

In the S-D logic, the goal of marketing shifts from profit maximization to increasing the value of the firm, with marketing practice "accept[ing] responsibility for firm financial performance by taking responsibility for increasing the market value rather than the book value of the organization as it builds off-balance-sheet assets" (Vargo and Lusch 2004a, p. 14). Measurement of the intangible assets that make up the difference between market and book value is important to marketing performance assessment because short-term marketing investments can produce long-term intangible assets for the firm (Harvey and Lusch 1999; Srivastava et al. 1998) and these are not usually captured in current period financial returns and performance metrics (Ambler 2003).

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Consideration of intangible assets is very important from an ethical perspective, because ethical violations usually involve an attempt to increase short-term profit at the risk of harming – and therefore reducing the value of – certain stakeholder relationships. Yet, as the S-D logic makes clear, these relationships are part of the firms' intangible assets, whether they are with customers (i.e. customer or brand equity) or with the rest of society (i.e., reputation equity). Anything that the firm does to increase its profits to the detriment of its customers or of society will risk reducing the value of these important assets by undermining trustworthiness and creating negative perceptions about the company (Gürhan-Canli and Batra 2004). The *relationship bond* between the firm and its customers and the rest of society serves as a *performance bond* that helps ensure the company's ethical behavior (Farris, personal communication). Relationship assets are now understood as being held as collateral to the firm's good corporate citizenship record. If a firm commits anti-social acts, the value of this collateral can be reduced significantly.

Measurement of intangible relationship assets integrates ethics into marketing decision-making by quantifying the impact of unethical behavior on the firm's value. The growth of intangible assets is "part of the compensation" for the company honoring its "promises and assurances that the exchange relationship will yield valuable service provision" (Vargo and Lusch 2004a, p. 12). This system of rewards and punishments is made concrete for companies through measurement of relationship assets, the recognized value of which then serves as a disincentive for unethical behavior.

Intangible liabilities should be tracked as well as intangible assets (Harvey and Lusch 1999). The positive impact of corporate social initiatives or the negative impact of unethical behaviors could be captured in terms of customer equity (Lemon and Seiders 2006). Measurement of assets such as customer equity or reputation, and selective public dissemination of such data, gives the firm an incentive to honor its commitments and take its social bottom line seriously. eBay's auto sales provide a powerful example of the importance of quantifying intangible assets. Why do more people buy used cars through eBay (sometimes sight unseen, from hundreds of miles away) than from any other company (Hof 2003)? Used car dealers, who sell most of these cars, do not have the most trustworthy reputation. By allowing customers to post feedback about dealers on the site, eBay has "taught used car dealers to be honest" (Urban 2004). Dealers' reputations are quantified and displayed on the site for all to see, hence deterring a dealer's inclination to cheat.

Once the implications for the firm's intangible assets are weighed fully, fewer opportunistic short-term actions will seem worthwhile: ethical considerations are thereby incorporated into decision-making, without the need to apply separate ethics frameworks, which, as we argued above, can too easily be ignored. The benefit of this more integrated approach to ethics is that, to the extent that the value of customer and societal relationships are recognized and managed as important assets, firms will be less likely to act unethically, and therefore the burden on legal and regulatory enforcement and on ethical frameworks is reduced.

Multiple success metrics

The S-D logic notes that "[o]utcomes (e.g., financial) are not something to be maximized but something to learn from as firms try to serve their customers better and improve their performance" (Vargo and Lusch 2004a, p. 6). Organizational learning is an important contributor to subsequent organizational performance (Slater and Narver 1995). When outcomes are seen as a source of learning, interest is greater in the broader, richer perspective provided by a set of metrics rather than the information presented by a single number.

The goal of the firm in the S-D logic, of increasing firm value – which includes profits and the value of relationship assets – cannot be reduced to a singular indicator. Although market capitalization might seem like a good candidate, it is an inadequate measure providing only investors' in-the-moment perceptions of the firm's assets, which at times can be markedly different from the assets' actual value to the company, in terms of impact upon future profitability and sustainability of operations. A single outcome measure is inadequate not only because it may ignore important information, but also because incentive systems, which are informed by choice of success measures, can sometimes encourage unethical behavior. For example, Sears' auto service division employees in California were caught routinely performing unnecessary work on customers' cars, because they were driven by the single metric of increasing billings (Paine 2003).

Recognition of the potentially serious implications of unethical behavior on the firm has driven a heightened appreciation for transparency. As we noted at the outset of this section, VL's FP_4 argues for transparency between the marketer and consumer. Recent research supports the idea that transparency improves business relationships, trust, and decision-making (Eggert and Helm 2003; Pagano et al. 2003). Despite extensive interest in corporate social responsibility, little attention has been paid in the marketing literature to measurement and reporting of firms' societal impact. Historically, such impact has been considered "fuzzy" and non-quantifiable. This is changing, with initiatives such as: the European Sustainability Reporting Awards; the Global Reporting Initiative (GRI), a set of guidelines for sustainability reporting that has been adopted

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by several hundred large companies;[4] and interest in measuring the "triple bottom line" of economic, social and environmental impact (Waddock et al. 2002). Such measures could be incorporated into a "balanced scorecard" (Kaplan and Norton 2004).

In selecting metrics, it is important to include more than just financial measures (Laczniak 2006), and also to include medium- and longer-term oriented metrics as well as short-term ones. Such a perspective is inherently more ethical: many unethical actions that may be financially appealing in the short run become less attractive when seen from a longer-term horizon (Paine 2003).

Cash flow volatility and risk

In a S-D logic, "tangible goods serve as appliances for service provision rather than ends in themselves" (Vargo and Lusch 2004a, p. 13). Recognizing this, firms can find opportunities to retain ownership of goods and charge a service fee instead. VL cite the example of French heating and air-conditioning companies, who now sell heating and cooling services instead of equipment. The ethical advantage of a stream of service revenues over a single product sale is that the buyer–seller relationship becomes more relevant because of the repeated interactions. The knowledge of the likelihood of future interactions serves as an inhibition against unethical behavior—a car dealership is less likely to try to cheat if it also wants a customer's service business.

The volatility of a firm's cash flow can give an indication of the quality of its customer relationships. Unethical firm behavior is likely to increase cash flow volatility. If a firm's wrongdoing is exposed, consumer backlash will depress its cash flow at least temporarily, thus increasing volatility.[5] Other things being equal, the present value of a more volatile stream of cash flow is not as valuable as a less volatile one because it requires a higher discount rate (Srivastava et al. 1999). Firms can reduce the volatility of cash flows by increasing customer loyalty and by avoiding the legal and reputational risks created by unethical actions; ethical companies face fewer risks (Paine 2003).

Once firms recognize the financial value of more stable, lower-risk cash flows, they become more sensitive to actions that threaten to reduce this stability. For example, Nike, after battling critics of its alleged sweatshop conditions for years, recently decided to work directly with human rights groups in order to remedy abuses. This action has dramatically reduced negative publicity (Zadek 2004). By contrast, clothing manufacturer Benetton deliberately sought controversy with its "death row" 1990s advertising campaign. Such a strategy might succeed in terms of improving brand awareness, but at the cost of simultaneously increasing the volatility of cash flows. Most firms measure brand awareness (Barwise and Farley 2003) but few measure cash flow volatility—yet the latter could reduce or eliminate the benefits from improvements in the former. Therefore, firms have a vested interest in behaving ethically to avoid increasing their cash flow volatility, and should engage in ongoing measurement of it.

Limitations and implications for research and education

Our proposal is a departure from previous approaches to marketing ethics. Hence, it should not be surprising if there are several limitations that still need to be addressed. First, the idea that marketing strategy sometimes involves attempts to reduce competition is not completely resolved here. Occasions could arise where opportunism is profitable, such as when firms are successful in creating legal anti-competitive barriers to entry through technology or channel arrangements. "Tragedy of the commons" issues (Shultz and Holbrook 1999) aren't entirely addressed either. Measurement of the ethical tensions is not attempted; an important next step is operationalizing them. Also, despite major strides in measuring non-financial assets, the methodologies discussed above are not universally employed or calculated in the same way.

Several areas for further research are suggested by this paper.

- A theoretical argument is advanced to support the proposition that the S-D logic reduces the number of ethical tensions in marketing; this proposition can be empirically tested, e.g. by measuring whether the level of marketing managers' agreement with the tenets of the S-D logic correlate with fewer perceived ethical tensions.
- Longitudinal study of changes in firms' adherence to the FPs of the S-D logic and the various metrics discussed above would also strengthen the theoretical argument developed in this paper.
- To strengthen the integration of non-customer stakeholders (Laczniak 2006), the dialogic proposal of Ballantyne and Varey (2006) could be developed further, perhaps into another FP about participation and fair treatment of stakeholders.
- While work on measurement of intangibles continues to progress, much still needs to be done. How should we

[4] E.G. 3M, Anheuser-Busch, Dell Inc., and Ford Motor Company. See http://www.globalreporting.org/GRIreports.

[5] Unethical firms who bribe or otherwise gain unfair advantage may themselves cause ethical firms to suffer short-term volatility. However, over the medium and longer term, it would appear that unethical firms are more likely to suffer volatility themselves than inflict it on others.

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reconcile the different approaches to relationship assets—brand equity, customer equity, and reputation? What are the antecedents and consequences of each, and extent of overlap? Should ethical or societal behavior be explicitly incorporated into these measures, to assist in diagnosing what changes in intangibles' value can be attributed to socially responsible actions (Lemon and Seiders 2006)?
- As noted in the paper, little attention has been paid to business risk in marketing. Researchers could explore what kinds of marketing actions lead to increases or decreases in cash flow volatility. This would facilitate further quantification of the potential impact of unethical behavior.
- Social impact measurement and reporting is similarly lacking in attention in marketing. Of interest here would be greater understanding of the relationships between adoption of social reporting, firm behavior and perceptions of the firm among various stakeholders. The content of the GRI itself could be subjected to academic scrutiny—are the right measures being proposed and are meaningful differences being detected?
- The SMC proposed by Kotler has the potential to encompass a number of the ethical considerations outlined in this paper. Specifically, how could some of the measurement and valuation techniques examined here make the SMC become more of a reality in the field of marketing?

Educators also could incorporate the S-D logic in courses. Some insights by the contributors in the anthology compiled by Lusch and Vargo (2006) are offered toward this end. The implications of this paper are that ethical concepts can be integrated into all marketing courses. We see the notions of co-creation, knowledge as a fundamental source of competitive advantage, and value proposition to be best examined in the context of ethical principles such as trust, transparency, and relationship integrity. For instance, marketing strategy courses would examine the centrality of co-creation to firm success, and the implications of this in terms of the firm's ethical orientation towards consumers. As we have argued, ethics should be integrated into the discussion rather than compartmentalized. A recent study of advertising texts found that most devote a chapter to ethical and regulatory issues (Drumwright and Murphy 2008). Ideally, they should be discussed within analyses of media, campaigns and messages, rather than separately.

Conclusion

The integrated approach to marketing ethics proposed here and built on Vargo and Lusch's (2004a) S-D logic allows marketing performance measurement to be extended to incorporate ethical accountability, so that consideration of ethical issues becomes an essential and inextricable part of overall marketing analysis. The word "integrity" in the title of this paper conveys two separate but related meanings: it refers to integrity as it is commonly understood to mean ethical behavior. It also refers to the integrity – the "wholeness" – of the theory, that places ethical and business issues right at the heart of marketing theory, thus providing an integrated approach to marketing ethics.

Acknowledgement The authors would like to thank the editors of this special issue, Robert Lusch and Stephen Vargo, as well as Gene Laczniak, Robert Audi, the Department of Marketing at Notre Dame, and two anonymous reviewers for helpful comments on earlier drafts of this paper.

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