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Ethics in marketing: ideology or strategic philanthropy? The case of American Apparel

Abstract

Often used with a utilitarian perspective, ethics in marketing is far from representing the moral values which are traditionally related. This article aims, through the study of the company *American Apparel* (AA), to understand the use of ethics in the business processes of an organization in the textile industry that emphasizes its ethical commitment. Due to the lack of ethical practices within most of the organization's roles, the identification of non-ethical and utilitarian practices and the inexistence of a true ethical culture, the results question the AA's image regarding accountability and ethics, and allow for a tangible example of ethical strategic philanthropy in marketing.

Keywords: business ethics, marketing, strategic philanthropy, ideology, case study, leadership.

Introduction

The question of ethics is a major issue for organizations (Pasquero 2000, 1992) and for society as a whole (Hosmer, 2004), and this issue proves unavoidable in management (Belanger and Levesque, 2000). Over the last several years, various disciplines of management sciences have been strongly affected by the increase of professional ethics (Mercier, 2004). This rapid expansion has allowed for the clarification, redefinition and implementation of fundamental ethical theories in global business practices (Racine, 1991). Nevertheless, the integration of ethics seems slower and more controversial in the field of marketing and marketing practices.

Of the many areas of management, marketing is probably the one that seems the most paradoxical when it comes to ethical considerations. If marketing, in its principles, wants ultimately to respond to the needs of consumers, then its practice of certain activities such as promotion, sales, research marketing, products and services management or price-fixing, can be highly criticized: false advertising, pressure sales, discriminatory practices in price-fixing, etc. (Klein and Smith, 2006; Nantel and Weeks, 1991). Marketing is often the "scapegoat" of ethical challenges and company practices are regularly associated with manipulating the environment, the clients, the markets and, occasionally, financial and trade performance (Helfer, 2003). For many, "*ethical marketing*" is an oxymoron since the two concepts refer to contradictory realities (Costa, 2006).

Concerned with credibility, an increasing number of companies are adjusting their practices and prioritizing a more ethical management of various procedures: sustainable supply, respect for the internal and external environment and/or social responsibility.

However, there is some question as to whether the values associated with ethics in marketing are ingrained in the internal company culture or if they are more related to a backwards application of the concept of "strategic philanthropy", that is to say, the study of improving the corporate image, a source of competitive advantage (McAlister and Ferrell, 2002).

Currently, the literature on ethical marketing is relatively limited and most studies profile the same companies – The Body Shop and Ben & Jerry's (Costa, 2006). Therefore, the objective of this article is to understand the use of ethics in the business processes of an organization in the textile industry that emphasizes its ethical commitment and is well-known for its "globally responsible" approach. To achieve this objective, the present article proposes a case study of *American Apparel* (AA) using the abundance of secondary sources available. The functions of the organization – production, finances, human resources and marketing – are the units of analysis and are examined so as to better understand the mechanisms used in the transposition of ethical ideology onto global business practices and above all, to evaluate whether ethics is an integral part of corporate culture or purely a matter of philanthropic use.

1. Ethics in marketing: ideological vision vs. utilitarian vision

The etymological origin of ethics brings to light the existence of two traditions (Durif, 2006). The first comes from a vision of ethics, as a reflection on moral principles (Mercier, 2004). The second, more normative tradition, offers a particular approach to ethics as an ensemble of codes of conduct, shared by and typical to a given society (Claude, 2002). Rooted in Greek civilization, in ancient times ethics was considered a reflection of the principles that guide human life (Ballet and De Bry, 2001). However, the concept of ethics, originally from ideologi-

cal and philosophical history, consists of variations of relatively different content according to the interpretations (Pesqueux and Biefnot, 2002). For this, the works of Kaptein and Wempe (2002) are quite interesting. These authors differentiate three classical theories of ethics centered on the ideas of virtue, deontology and consequence. On one hand, following the *consequential ethics* approach, the moral content of an action is determined by the real and anticipated consequences of the action. From another point of view, *professional ethics* sees the action itself as the object of moral action. Finally, *moral ethics* is essentially interested in the individual him/herself and his/her qualities, determining from this fact his/her individual moral behavior in problematic situations.

1.1. Ideological vision of ethics. The creation of ethical systems within organizations may define itself as the ideologies of the company. The ideological vision of ethics in marketing imposes a mode of management within the company based in full on respecting ethical norms and values (Mercier, 2004). This signifies that the moral responsibility of actions should be shared by the organization and its employees. From this perspective, moral philosophy is used to shape individual thought with the aim of making an individual's actions ethical without that person being conscious of any behavior learning. And this learning is a result of the existence of a morally-oriented corporate culture (Ferrell, Gresham and Fraedrich, 1989). Thus, an ideological vision of ethics presupposes that ethical commitment is an integral part of organizational culture. In effect, ethical concerns do not constitute additional managerial practices; rather they constitute the basis of the company's organizational foundation and the behavior of its representatives regarding shareholders. The ethical commitments and the activities of a company are inseparable, creating a corporate culture where societal objectives complement the ultimate economic aims (Thiery, 2005). In this view, the company must take shareholders into account as they are affected by the realization of organizational objectives. The company must be socially responsible, and assume responsibility over and above its purely legal and economic obligations (Mercier, 2004).

1.2. Utilitarian vision of ethics and the risk of strategic philanthropy. Based on the principle of the greatest good for society, the utilitarian theory, arising out of normative ethics and consequentialism, is the application of the principle of utility which requires that the policy and the society as a whole seek to obtain the best means of assuring the ultimate human foundations, that is, unity and har-

mony, altruism, sympathy and, of course, happiness (Racine, 1991). In today's business practices, ethics would often seem a practice conceived from a utilitarian perspective, in the sense that a decision is considered "good" if, when compared to all other possibilities, it brings about more positive than negative consequences (Mercier, 2004). Given that the utilitarian approach is intimately related to the consequences of an action, a manager adopting this approach "should" seek to produce the greatest amount of positive value or the smallest amount of negative value for the persons affected. In marketing, the utilitarian vision of ethics would seem to prevail from the fact that its ultimate aim is to satisfy the needs of consumers (Nantel and Weeks, 1991). In fact, ethical behaviors adopted by certain organizations have as a goal to improve the image and to achieve the greatest profitability. In this sense, a utilitarian vision of ethics does not feign to serve an ideal, but rather to achieve the specific objectives associated with the company's success. Ethics becomes a strategic tool in the survival and the earning power of businesses engaged in strong international competition (Mercier, 2004). The danger in marketing therefore consists of ethical instrumentalization and an alternate concept of "strategic philanthropy", which "...suggests that organizations use their main skills and resources with the view of benefiting their stakeholders" (McAlister and Ferrell, 2002, p. 702). Is it possible to reduce ethics in marketing to a mere strategic tool that conditions the success of the business (Ballet and De Bry, 2001)?

2. Methods

The objective of this article is to understand the use of ethics in business processes of an organization that emphasized its ethical commitment. This objective implies the necessity to determine if the role of ethics in marketing in this company is ideological or utilitarian in nature. For this study, the company *American Apparel (AA)* was selected. This company implemented an innovative business process on the textile market and is notably recognized for its ethical orientation in having its entire production localized in the United States and in offering fair treatment to its employees. Founded in 1998 by the company's current CEO, Dov Charney, the company now has more than 140 stores in thirteen different countries (United States, Canada, Mexico, England, Germany, Belgium, France, the Netherlands, Switzerland, Spain, Israel, Japan and South Korea). However, current events related to the company challenge the use of ethics within the company. Several ethical scandals, the actions of the CEO, as well as the nature of AA advertising and

the question of the use of ethics from a commercial perspective justify our selection of this company to respond to our objectives: “*Dov Charney courts controversy. The 37-year-old founder and chief executive of American Apparel, the largest T-shirt manufacturer in America, has been called a brilliant businessman, an amateur pornographer, a Jewish hustler and a man with a social mission*” (The Economist, *American Apparel’s unusual flotation is typical of Dov Charney, its founder*, January 2007).

This article uses the case study methodology as defined by Eisenhardt (1989), in order to examine the problematic questions of the present research. We used only one *data source*, *secondary sources*, since they are found in great quantity, on the Internet as well as newspapers and magazines addressing economic actualities (see Table 1 in the appendix). In terms of the framework for the analysis of these secondary sources and in order to respond to our research question regarding the use of ethics in the business affairs, we decided to analyze the data by employing *organization functions* as the *unit of analysis*. These four functions (production, finances, human resources and marketing) are essential to carry out a broad diagnostic of an organization, here in terms of ethics integration (Bousquet et al., 2007). Although this is a multidisciplinary approach, the analysis focuses on the function of marketing, central topic of this article. The objective for each function is to set forth the ethical factors judged as ideological versus those judged to be utilitarian, and to arrive at a general diagnostic on AA’s use of ethics in business dealings.

3. Major findings: an assessment of organization functions

The analysis of AA’s functions allowed for a better grasp of the mechanisms used in the transposition of ethical ideology onto the practices of the organization. The results of the analysis of secondary sources regarding the four functions of AA proved to be rightly contestable and unequal for a company feigning to adopt a globally responsible approach and having an “ethical sense” as has repeated the CEO. This result is amplified by the fact that the company did not answer our requests for meetings and that it did not make any social responsibility report available on its website or at its points of sale. It is therefore difficult to evaluate AA’s veritable ethical commitments. It is equally difficult to identify a true corporate culture oriented toward ethics, nor to claim with any certitude that the company is “responsible”. In fact, the findings are irregular, “according to and between” the functions because ideological ethics, utilitarian ethics and non-ethical actions become entangled. Certain functions are

less respectful of morals and transparency, while others, less publicly known, are anchored in ethics ideology.

More precisely, if we look at the different functions, several results emerge. Firstly, one area of *production* management (see Table 2 in the appendix) and *human resources* (see Table 3 in the appendix) is the fruit of an ethical ideology firmly ensconced in the vision of the General Director and by the fact itself at AA. Effectively, the CEO’s personal experience with *sweatshops* instilled in him a negative perception of this type of production establishment. An “*anti-sweatshop*” policy and vertically integrated production are at the heart of the AA vision. Along the same line of ideas, the totality of production of done in California, nevertheless AA does not exclude the idea of opening other production sites, notably in Asian countries, in the near future. As well, fabric recycling programs are set up and organic materials without synthetic pesticides are used, however, only in part, and the company is actively searching for cotton cultivated without synthetic pesticides in order to develop a new line named “*Sustainable Edition*”. On the level of the function of human resources, proper working conditions for employees at the production factory, an above-industry-average hourly rate of pay (\$13/h) and multiple social benefits are a priority. Contrarily, the recent sexual harassment lawsuits filed by three female salesclerks against the CEO along with his frequent addresses do not shine a favorable light on work relations and recruitment at AA’s points of sale.

From another angle, *marketing* management (see Table 4 in the appendix) and *finances* (see Table 5 in the appendix) are more nebulous on an ethical level. The sexual character and particular humor conveyed in ad campaigns permit a questioning of the true ethical character of the company. Model recruitment as well as the locations of the photo shoots evoke certain questions (the majority of the models are in the street and the pictures are, in the majority of cases, taken by Dov Charney himself at his own home). Regarding the function of finance, it is surprising to note that no data are available concerning the social investments of the company. In fact, no social/societal audit exists nor is there a social responsibility report.

Discussion/Conclusion

The results of this study lead us to a discussion to conclude the principle issue of the article, that is, to know if ethical considerations in marketing at AA are more ideological or more utilitarian. The literature shows that an ideological vision of ethics presupposes an ethical commitment be an integral of

the corporate culture (Thiery, 2005). According to this definition of the concept, only the production function can be considered as being ethically ideological for AA. Undoubtedly, the ensemble of opinions and beliefs of the CEO toward production influences the collective behavior of the company. This function accounts for, in part, ethics in an ideological manner since ethical commitments and company activities are inseparable (Mercier, 2004).

The absence of an ethical commitment within other functions of the organization, in particular finances and above all marketing could tip the balance to the utilitarian side. According to Mercier (2004), a utilitarian vision of ethics does not claim to serve an ideal, but rather a means to a given end. Undoubtedly, satisfying the needs and desires of the consumer symbolizes the ultimate aim in management of marketing at AA. Thus, by the absence of ethical practices within the majority of organizational functions, by the identification of non-ethical and utilitarian practices, by the non-existence of a true ethical culture (no code of ethics) and by using a gilded image of production establishments, the results challenge the image of AA as a responsible and ethical business, and leave us to infer a concrete example of strategic philanthropy ethics in marketing, or ethics would be used as an instrument. Ethics would appear to be only a particular practice among so many others in the organization.

The company does not use a code of ethics, nor a responsibility audit or a social responsibility report, and nevertheless it enjoys a reputation of being a responsible and ethical company. This image proves to be linked to the leader of this organization. The literature on leadership and strategy offers various tools to try to comprehend the CEO's influence on the company (Pitcher, 1997; Kets de Vries and Miller, 1991). If we rely on the typology of Pitcher and the analysis of secondary data collected in the present study, it would seem possible to identify the CEO as an "artistic" leader. This type of leader is emotional and changing, imprudent and funny as well as non-conformist.

Secondly, we could also make the link between the CEO's personality and that of the company thanks

to the work of Kets de Vries and Miller. In light of five fantasies selected by the authors and secondary data of this study, it is possible to qualify AA as a "theatrical organization". This type of company depends on fantasies of grandeur ("I want to attract the attention of people who matter in my life in order to impress them"), a dramatic and narcissistic style (need to impress others, need for excitement and stimulation, dramatic behavior), creating a charismatic culture (lack of personal discipline, weak ability to concentrate, lack of sincerity, idealization of leaders by subordinates...). It is an impulsive and intuitive organization that prioritizes innovation, diversification and risk-taking and its structure and systems of management. This description is applicable to AA. Thus, the CEO's personality and the type of organization that arises as a result, influence the formation and communication of ethics within the company. It is therefore not surprising to note that the majority of strategic decisions are made by the president who acts as artistic and theatrical leader in all areas of his company.

The results of this study should be read with prudence. In fact, the case study could focus solely on one data collection tool, secondary data, given the difficulty of getting in touch with the company. In addition, even if the findings are relatively numerous, their nature, quality and scope are contestable since it was mostly a matter of newspaper articles, video reports and internet sites, including that of AA. It would have been interesting to triangulate several data collection tools in this case study, for example, in-depth interviews with company employees and administrators as well as interviews, discussion/focus groups and/or a consumer survey on their perception of ethics used by AA.

All the same, the results of this exploratory research contribute to a literature of marketing that is for the moment, very weak, and above all, enriches the case studies of ethical companies, too often focused on the same organizations. Furthermore, this research contributes to management by prioritizing the key factors of success of a company characterized by strong leadership, innovative business practices and performance in a given sector.

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Appendix

Table 1. Description of information by source and by organization function

Source	Number of articles
Newspaper articles	24
Periodic articles	4
TV	3
Internet	1
Function	
<i>Production</i>	
Localization	3
Method of production	7
Provisioning	2
<i>Human resources</i>	
Working conditions	13
Working relations	3
Recruitment	3

<i>Marketing</i>	
Product	5
Price	1
Promotion/Publicity	7
Distribution	1
<i>Finance</i>	
Financial performance	6

Table 2. Production results

Production	Actions/Information	Sources
Location	<ul style="list-style-type: none"> ◆ Largest garment plant in the United States 	Le Devoir, October 2005
	<ul style="list-style-type: none"> ◆ Company is against offshoring 	La Presse, April 2005
	<ul style="list-style-type: none"> ◆ All manufacturing done in Los Angeles 	Le Soleil, September 2004 L'Actualité, August 2003
Production method	<ul style="list-style-type: none"> ◆ "Sweat-shop free" policy ◆ 	La Presse, April 2005 Le Devoir, August 2005
	<ul style="list-style-type: none"> ◆ Vertically integrated production 	La Presse, April 2005 Le Soleil, September 2004
	<ul style="list-style-type: none"> ◆ State-of-the-art facilities 	Le Soleil, September 2004
	<ul style="list-style-type: none"> ◆ No intermediary 	Le Soleil, September 2004
	<ul style="list-style-type: none"> ◆ No manufacturing chain (line production) 	Commerce, September 2005
	<ul style="list-style-type: none"> ◆ Autonomous work cells 	Commerce, September 2005 L'Actualité, August 2003
	<ul style="list-style-type: none"> ◆ Extensive recycling program to treat tons of fabrics 	Affaires plus, February 2005 Guide Ressources, October 2002
Supply	<ul style="list-style-type: none"> ◆ Partially organic raw materials 	La Presse, April 2005 La Presse, September 2005
	<ul style="list-style-type: none"> ◆ Founder is looking for cotton cultivated without synthetic pesticides for a new line christened "Sustainable edition" 	L'Actualité, August 2003

Table 3. Human resources results

Human resources	Actions/Information	Sources
Work conditions	<ul style="list-style-type: none"> ◆ The work environment is intimidating due to unwelcome sexual gestures and explicit propositions by the CEO 	La Presse, July 2005
	<ul style="list-style-type: none"> ◆ Employees have health care benefits ◆ 	La Presse, July 2005 Gazette, August 2004 L'Actualité, August 2003 Guide Ressources, October 2002
	<ul style="list-style-type: none"> ◆ Employee meals subsidized ◆ 	Le Soleil, September 2004 Affaires plus, February 2005 Gazette, August 2004
	<ul style="list-style-type: none"> ◆ English courses ◆ 	La Presse, July 2005 Le Soleil, September 2004 Gazette, August 2004 L'Actualité, August 2003
	<ul style="list-style-type: none"> ◆ Hourly wages markedly above the industry average ◆ 	Le Soleil, June 2005 La Presse, September 2004 Le Soleil, September 2004 Gazette, August 2004
	<ul style="list-style-type: none"> ◆ Job security 	Le Soleil, September 2004
	<ul style="list-style-type: none"> ◆ Pleasant work environment 	Le Soleil, September 2004
	<ul style="list-style-type: none"> ◆ Parking 	Le Soleil, September 2004
	<ul style="list-style-type: none"> ◆ Services of a professional massage therapist 	Le Soleil, September 2004
	<ul style="list-style-type: none"> ◆ Yoga courses 	Commerce, September 2005
	<ul style="list-style-type: none"> ◆ Immigration assistance 	Actualité, August 2003
	<ul style="list-style-type: none"> ◆ Medical bus that allows employees to have exams on site 	Affaires plus, February 2005
	<ul style="list-style-type: none"> ◆ Bicycles for those without the means for a car 	Affaires plus, February 2005 La Presse Canadienne, December 2006

Work relations	◆ Three former employees have filed sexual harassment suits	La Presse, July 2005
	◆ Some employees have been working at the plant for 6 to 7 years and are considered experts by designers	Le Soleil, September 2004
	◆ The company is concerned about healthy eating habits	La Presse Canadienne, December 2006
Recruitment	◆ CEO hires women who he finds sexually attractive	La Presse, July 2005
	◆ Employs mostly immigrants with little or no education	Le Soleil, September 2004

Table 4. Marketing results

Marketing	Actions	Sources
Product	◆ Sexually-tinged product design	La Presse, April 2005
	◆ Soft and comfortable clothing	La Presse, April 2005 Actualité, August 2003
	◆ Logo-free products	Le Soleil, June 2005
	◆ Product 100% guaranteed	La Presse, July 2005
	◆ "Sweatshop-free" marked on every label	Actualité, August 2003
Prices	◆ Reasonable prices	La Presse, July 2005 Le Devoir, October 2005
Promotion/Advertising	◆ "Trashy/soft porn chic" advertising esthetic	La Presse, April 2005 Commerce, September 2005
	◆ Sexually-tinged marketing	La Presse, April 2005 La Presse, July 2005
	◆ Public education campaign on registering to vote	La Presse, October 2004
	◆ Amateur/voyeur advertising style	Le Devoir, August 2005 Actualité, August 2003
	◆ Ads that hinge on the "sex appeal" of a well-fitted t-shirt	Le Devoir, August 2004
	◆ Use of lewd humor	La Presse, September 2005
	◆ Models recruited off the street	Gazette, August 2004
Distribution	◆ Direct sales in AA stores, on the website, and to wholesalers	www.americanapparel.net

Table 5. Finance results

Finance	Actions/Information	Sources
Financial performance		
To date	◆ Sales and profits have increased nearly eightfold since fiscal 2002	Apparel, February 2007 La Presse, December 2006
	◆ 1 million t-shirts sold a day	La Presse Affaire, March 2007
	◆ Company worth \$40 million US	Actualité, August 2003 Guide Ressources, October 2002
	◆ Since its creation, American Apparel has doubled its sales every year and has already increased its staff from 50 to some 2,000 salaried workers	Affaires plus, February 2005
Predictions for 2006	◆ The company is moving towards \$275 million US in sales for fiscal 2006	Le Devoir, December 2006
	◆ Profits before tax, interest, and amortization should be \$30 million US for 2006	Le Devoir, December 2006
Social investments	◆ No information available	