Why Do We Look Bad? A Consumer Perspective of Un/Ethical Corporate Behavior

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Keywords: Consumer Perceived Ethicality (CPE), Corporate Ethics, Corporate Social Responsibility (CSR), Brand perceptions, Qualitative Research, Ethical consumption

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Abstract

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Keywords: Consumer Perceived Ethicality (CPE), Corporate Ethics, Corporate Social Responsibility (CSR), Brand perceptions, Qualitative Research, Ethical consumption
1. Background and Research Purpose

Over the past ten years, issues of corporate ethics and corporate social responsibility (CSR) have increasingly taken centre stage in media reporting. The majority of the existing research body relating to business ethics focuses on decision making processes in companies, in particular the ethical judgments of marketing professionals (for an in-depth meta-analysis of marketing ethics see Nill & Schibrowsky, 2007). Certainly, the perspective of how business professionals react when confronted with ethical dilemmas is of great importance. However, further to recent consumer behavior research that has established a link between a company’s CSR or ethics and consumer responses (Madrigal & Boush, 2008; Biehal & Sheinin, 2007; Luo & Bhattacharya, 2006; Lichtenstein, Drumwright, & Braig, 2004; Mohr & Webb, 2005; Berens, Van Riel, & Van Bruggen, 2005; De Pelsmacker, Driesen, & Rayp, 2005; Gürhan-Canli & Batra 2004; Sen & Bhattacharya, 2001; Mohr, Webb, & Harris, 2001; Folkes & Kamins, 2000; Brown & Dacin, 1997; Creyer & Ross, 1997 & 1996), it should be of particular interest to analyze how corporate decisions are perceived by the public. The business perspective of what does and does not constitute ethical behavior may not be congruent with consumer perceptions. Yet such perceptions and subjective believes act as sources of attitude formation and may consequently steer buying behavior.

Although research was added during the last 10 years, it has been recognized that the consumer side is still in need for in-depth exploration (Newholm & Shaw, 2007; Mohr et al., 2001; Sen & Bhattacharya, 2001). It is crucial to understand what kinds of behaviors consumers are demanding (Cowe & Williams, 2000). Creyer and Ross (1997) acknowledge the opportunity to identify the dimensions along which consumers evaluate the ethicality of corporate behavior, i.e. what are the business practices and transactions that are judged to be right or wrong? Hence, by generating a comprehensive spectrum of issues that matter to consumers, the objective of this research is to identify and conceptualize potential sources of a company or brand’s ‘consumer perceived ethicality’ (CPE).

2. Methodology

After successful pilot testing, twenty long interviews (McCracken, 1988) with general consumers between the age of 17 and 83 years were conducted as part of a larger study. To create a diverse pool of participants, a theoretical sampling approach was employed, guided by its characteristic ongoing comparison process (Strauss & Corbin, 1990). Interviewees were recruited via convenience and multiplicity (snowball) sampling to guarantee the sample offered the required demographic variety (Berg, 2006; Bryman, 2004).

Interviews were conducted at the participants’ home. A semi-structured interview format provided a focused, yet open form of dialog and encouraged discussion. The more informal interview style combined with meeting interviewees in the familiar and comfortable surroundings of their home created a relaxed atmosphere and consequently found participants willing to engage and answer openly, which was crucial, given the sensitivity of the research subject and the objective of minimizing social desirability bias as previously pointed out (Vantomme, Geuens, De Houwer, & De Pelsmacker, 2006; Vermeir & Verbeke, 2006; Crane, 1999). Following the interview guide, all participants covered the same topics, starting with more general questions that turned increasingly specific as the interview progressed. Interviewing concluded with a discussion of company-specific cases. The question format was open. Depending on the level of active participation and interaction, interviews lasted up to two hours. The data collection phase was terminated when theoretical saturation was achieved (Silvermann, 2000).
With permission of the participants, interviews were audio-taped at full length yielding a total of 308 pages of verbatim transcripts and 47 pages of field notes for analysis. Transcripts were re-read repeatedly in search of patterns, themes and relationships. The procedure of categorization proceeded deductively (open coding) as well as inductively (focused coding) (Strauss & Corbin, 1990). Data analysis was an ongoing process, gradually evolving throughout the data collection process (Charmaz, 2005; Strauss & Corbin, 1990). This constant comparative method and subsequent interview guide refinement allowed both processes to intermingle, a strategy particularly conducive for exploratory research purposes (McCracken, 1988). After analyzing and integrating the data, member checking and peer reviews were initiated to strengthen the validity of the results (Kvale, 1996). The following findings reflect this confirmation process.

3. Findings

The objective of this research is to identify and conceptualize potential sources of CPE origin, namely the kind of corporate activities that can cause un/favorable ethical perceptions. Interviews resulted in elicitation of a wide variety of corporate acts, confirming that reasons for being perceived as un/ethical can be manifold. The large pool of examples generated had to be conceptualized into distinctive domains of CPE origin. Before doing so, related frameworks - e.g. Rust, Zeithaml & Lemon’s (2000) dimensions of customer perception of a brand’s ethics; the Socrates: Social Ratings Monitor by Kinder, Lydenberg, Domini and Co. (Sen & Bhattacharya, 2001); or the CSR framework by the EU (Commission of the European Communities, 2001) - were considered as a basis for categorization, yet did not fit the data. A comprehensive and holistic approach was needed.

The final conceptualization is resting on the scholarly definition of ethics, specifically the teleological (consequentialist) perspective (Barnett, Cafaro, & Newholm, 2005; Frankena, 1973); hence, data was clustered in line with consumers’ concern for the consequences of corporate actions. The emerging domains of CPE origin therefore mirror the question of whom or what will ultimately be affected by the respective corporate action cited by respondents. Figure 1 depicts the resulting six domains of CPE origin which can influence ethical perceptions of a company or brand: (1) consumer, (2) employees, (3) environment, (4) local community and economy, (5) business community and (6) overseas community, together with various sub-categories presenting the most prominent examples generated.

The taxonomy may appear to share some similarity with stakeholder theory (Freeman, 1984), but diverges in various ways: A stakeholder is defined not only as a party affected by a
company’s business conduct, but also a party that affects corporate actions. Hence wider constituencies such as NGOs, unions and governmental regulation agencies, are also considered stakeholders. While they represent the interests of those directly impacted by corporate decisions, they are not immediately affected by a company’s actions, illustrating that the stakeholder view developed from a corporate management perspective encompasses many more interest groups next to employees, consumers and the local community. Moreover, not all traditional stakeholders matter to consumers. For example, consumers display indifference towards shareholders – a key constituent under the stakeholder view. Additionally, while the stakeholder view considers the impact on and interaction with interest groups, i.e. people and organizations, the consumer categorization emerging from the data had to encompass not only human impact but also non-human effects, such as the impact on the environment and the local economy.

3.1. Consumers

“They say a product is gonna do something, but they’re lying. That’s not ethical. A lot of them will probably do that in advertising, complete out and right lie.” – Fiona -

Being the target of a company’s products or services, the way a company conducts its business can largely and directly impact the end consumer. Particularly marketing activities are prone to questionable ethics. Unethical perceptions can be caused by:

- Immoral advertising practices. Consumers mention that companies target and take advantage of the weak and vulnerable (i.e., children, older, undereducated, or disabled people) and that ads can be misleading, even false, about product benefits.
- Hiding important product details, such as concealing technical weaknesses, side effects, or ingredients of products with insufficient labeling.
- Selling products of below-standard quality or customer service.
- Sales strategies that lock-in customers.
- Price fixing among competitors.

3.2. Employees

“… employing people, they do have to care for young children, they do have to care for other people, other adults, they are employing people of all different races hopefully and ages and abilities and, you know, their ethics within the company to make sure that nobody is discriminated against whatsoever, that everybody gets a fair crack at promotions, wage increases, perks, whatever the perks in the company might be really, they are ethics.” - Emily -

A range of issues pertaining to the ways employees are treated evoke very strong feelings among consumers. This finding is consistent with Cowe and Williams (2000) and the 2001 IPSOS-Novethic poll (Galavielle, 2004) who report treatment of employees’ top of the list of consumers’ ethical choices but contrary to findings by Carrigan and Attalla (2001) who demonstrate that participants allocate a low priority to issues like working conditions and human exploitation. In the latter case, ranging between 18 and 25 years of age, respondents’ demographics could be the cause of these seemingly conflicting results. Being relatively young and most likely with little or no work experience, participants may simply lack sensitivity towards issues of employee treatment.

Besides mentioning, on a more general level, their disapproval of staff not being treated well and that they expect employers to care, consumers are specific about what they consider unacceptable working conditions, such as unsatisfactory safety procedures and unusually long working hours. By the same token, inappropriate compensation and the drive for cheap labor generate unethical connotations, while paying above average and offering additional social benefits can positively affect CPE. Respondents display an aversion against any kind of discrimination. Examples include job/wage discrimination based on ethnic origin, age, religion and sexual orientation, while female respondents refer to gender discrimination.
3.3. Environment

“If I read a story in the paper about a company that was polluting the river, you know, a petroleum company and the refining was leaking, I would absolutely boycott them. Absolutely.” - James -

Universal agreement prevails concerning the high priority of environmental issues. This finding is contrary to conclusions drawn from the IPSOS-Novethic poll, stating that environmental concerns are only of secondary nature (cited from Galavielle, 2004).

Comments not only center on preventing pollution and environmental damage as a direct result of a company’s core operation and production processes, but consumers acknowledge that unnecessarily frequent airline travel leads to environmental damage. They, therefore, disagree with the travel policies of many companies and call for increasing deployment and utilization of advanced telecommunication technology (e.g., video-conferencing) instead.

3.4. Overseas community

“… Shell in the Niger Delta, just taking the oil without any form of remuneration to the people who are living there and they also, they build up real camps which are patrolled by people with guns, and people who live there are killed if they get in the way, that’s certainly unethical.” - Rachel -

Despite the fact that overseas operations take place out of consumers’ sight, the perception of how irresponsible a company conducts its foreign operations can initiate strong unethical connotations. Such negative perception is not always due to the company’s own transgression but can have roots in unacceptable behavior of a business partner several steps back in the supply chain. According to consumers, companies have an obligation to be knowledgeable about anyone they engage with and are therefore accountable for the actions of firms linked to their supply chain.

High on respondents’ hierarchy of transgressions is exploitation of labor and natural resources in overseas countries. Synonymous with unethicality, the majority of consumers quote engaging in, or tolerating child labor, sweatshop-like conditions, and dangerous work environments. But concern reaches beyond issues relating to the foreign workforce to include exploitation of natural resources, particularly when taking advantage of underdeveloped nations without appropriate financial compensation.

3.5. Local community and economy

“If they outsource everything and leave nothing here, I personally would charge them high customs duties and tax them so much that it’s not worth for them doing this kind of thing… I believe a certain percentage should stay here so that people here have work too. I have nothing against outsourcing, but not everything! I find that greedy. Yes, that really does upset me, always has upset me.” - Susan -

According to a sizeable segment of respondents, a company should feel obligated towards its home country and local economy. Outsourcing or moving the production line to low wage countries, particularly during times of healthy company profit, presents irresponsible behavior. Interviewees disapprove of predominantly financially-driven corporate decisions to move abroad, seen to create unemployment at home and diminish the local community’s income from corporate taxes, which in turn finances welfare and social systems.

Consumers disapprove of any company relations with dubious organizations they consider harmful to the community, hence any business-related contact generates unethical connotations. Examples include Siemens’ involvement with the Nazis during the Second World War and conducting business with anyone related to Scientology.

Several virtuous examples relating to a company’s community involvement emerge. For respondents, an ethical firm channels a share of its profit into social projects, this is creating foundations, contributing to charity organizations, and supporting local institutions, such as libraries or schools.
3.6. Business community

“...There is proprietary pricing for one thing where kind of companies, big companies try and basically adjust their pricing below market price to try and screw over small companies so they get pushed out of business and then the big companies putting their prices together and take over the market... that’s unethical in my opinion.” - John -

Overall, fewer spontaneous mentions of unethical behavior refer to the impact a company has on the business community such as its suppliers, trade partners, or competitors. Respondents dislike hostile competitive behavior. The fact that larger corporations utilize their purchasing power and financial strength to deliberately put smaller businesses and competitors out of business, initiates unethical connotations. This negative perception also applies to the treatment of suppliers, such as pressing for a deeply-suppressed price when sourcing products and materials. Furthermore, consumers perceive corruption, for example giving, receiving or tolerating bribery as misconduct and condemn incorrect accounting practices.

4. Summary and Implications

This research provides a much needed consumer perspective on corporate ethics by conceptualizing potential origins of un/favorable CPE. Emerging from consumer interviews, the presented taxonomy delineates six domains and multiple sub-domains relating to the impact corporate behavior has on: (1) consumers (2) employees (3) the environment (4) the overseas community (5) the local economy and community and, although to a slightly lesser degree, (6) the business community.

The contribution of this work is three-fold. Firstly, it provides comprehensive guidance to general managers, brand managers and CSR professionals on the types of activities that may instigate un/ethical perceptions of their company/brand among consumers, a major stakeholder group. Creating awareness of how consumers think enables managers to consider issues applicable to their business and, if necessary, address key concerns via various forms of corporate communications. More fundamental perceptual incongruences between the company and consumer may call for reviewing corporate codes of ethics or re-prioritization of CSR activities in order to prevent, contain, or combat negative CPE.

Secondly, the developed taxonomy underscores that dimensions of customer perception of a brand’s ethics may be (or have become, due to the proliferation of ethical issues by the media) considerably more diverse and complex than previously anticipated (i.e. Rust, Zeithaml, & Lemon, 2000), hence this research provides a natural extension.

Thirdly, the six domains identified provide an ideal starting point for developing a formative measurement tool of CPE, whereby each domain may be viewed as a facet of the formative construct. Measuring CPE and its facets would allow companies to identify areas of perceived underperformance, which would help directing improvement efforts.

5. Limitations

The unexplored nature of the research subject and the objective of generating a comprehensive spectrum of un/ethical corporate behavior rendered a qualitative empirical study the most suitable method. The presented findings must be viewed with the usual drawbacks of the employed qualitative research methodology in mind. The focus was not to generalize, but to conceptualize (McCracken, 1988), hence, results are on an abstract level and not representative of the general population. Further research should therefore take a confirmatory approach of the suggested framework.
Appendix

Demographic summary of interview participants.
All names have been changed in order to guarantee confidentiality.

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Marital Status</th>
<th>Education</th>
<th>Occupation</th>
<th>Nationality</th>
<th>Residence</th>
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<tr>
<td>Paul</td>
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<td>Support function</td>
<td>British</td>
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<tr>
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<tr>
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<td>Higher</td>
<td>Support function</td>
<td>German</td>
<td></td>
</tr>
<tr>
<td>James</td>
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<td>Management position</td>
<td>German</td>
<td>American, European resident for more than 10 years (UK and Germany)</td>
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<td>Ina</td>
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<td>Single</td>
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</tbody>
</table>

* Higher education = polytechnic or university bachelor degree and above

Contrary to the majority of the existing US-focused research body, this exploration set out to provide a European perspective. Germany and the UK were selected as countries of research due to their size, consumer sophistication and purchasing power. Given the explorative nature of the study, the opportunity was taken to investigate potential cross-country differences. Data was pooled after establishing that actual ethical evaluation did not differ significantly across the two countries.
Bibliography


