Based on 20 long interviews (McCracken 1988) with general consumers, this qualitative research demonstrates that the impact of various kinds of un/ethical business practices of a given company on consumers’ perceived ethicality (CPE) is asymmetrical. The resulting taxonomy identifies three distinct dimensions of varying direction and impact on CPE: (1) Monovalent ethical dissatisfiers which have a negative effect; (2) Bivalent ethical dis/satisfiers that either favorably or unfavorably influence ethical perceptions, commensurate with a company’s efforts; and (3) Monovalent ethical satisfiers, capable of generating a positive impact. The article concludes with a discussion of the implications for managers and academics.

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The Impact of Un/ethical Corporate Conduct on Consumers’ Ethical Perceptions-A Multidimensional Framework

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INTRODUCTION

In the context of globalization, large-scale industrial changes have taken place, which have been brought about through mergers, takeovers, or bankruptcies of many businesses in the marketplace. This consolidation has led to the creation of large multi-national corporations and conglomerates that have altered the social, political, cultural, and physical environment in which they operate. Gradually, the influence of corporations reached far beyond the normal business context and into politics and policymaking and, in line with their size, grew their overall societal impact. Numerous well-known, high-profile scandals (i.e., Nike, GAP, Shell, Nestlé) illustrate how corporations abused their increasingly powerful positions. The subsequent public outrage and gradual loss of trust in the business community resulted in the emergence of discourses centering on the power and legitimization of the corporation, the morality of corporate behavior and the overall societal impact of business. Anti-globalization and anti-corporate movements fuelled the debate, focusing on the notion of corporate greed and encouraging consumer boycotts that not only caused a decrease in sales revenues but also sustainably damaged brand image and the reputation of the affected corporations.

Grounded in the socio-historical debate on globalization, issues of business ethics and Corporate Social Responsibility (CSR) have increasingly taken center stage in public discourse leaving companies concerned about their ethical image. Today, most corporations designate resources (i.e., CSR managers—a job profile largely unknown 10 years ago) at the highest seniority level to audit internal and external activities of the company, negotiate among constituents and, most importantly, portray the company and its brands as ethical players. Altruistic behaviors, such as cultural sponsoring, community involvement or charitable giving are among the types of activities companies openly engage in in order to showcase their commitment to being a good citizen—to be perceived as ethical.

In spite of ample evidence confirming the impact of unethical perceptions on consumer attitudes and purchasing behavior, to this day, little is known about how an un/ethical image of a company emerges in the consumer’s mind. This article conceptualizes the way in which business practices may influence consumer perceived ethicality (CPE), understood as the consumer's aggregate perception of a subject’s (i.e., a company, brand, product or service) ethicality. An improved understanding of CPE formation will facilitate a deeper insight into ethical consumerism and provide an essential extension to existing work.

BACKGROUND

A plethora of diverse issues relating to the broad subject of ethical consumerism have recently been investigated. The book The Ethical Consumer (Harrison, Newholm, and Shaw 2005) and the October 2007 special edition of the “Journal of Consumer Behaviour” which studied ethical consumption (Newholm and Shaw 2007) reflect expanding interest in this important area of research. Acknowledging that the subject is barely in its adolescence and that many questions remain open, various scholars emphasize the need for further in-depth exploration of the consumer (versus corporate) perspective of business ethics and CSR (Mohr, Webb, and Harris 2001; Newholm and Shaw 2007; Sen and Bhattacharya 2001).

Recent research establishes a link between a company’s CSR or business ethics and consumer responses (Berens, Van Riel, and Van Bruggen 2005; Biehal and Sheinin 2007; Creyer and Ross 1996 1997; De Pelsmacker, Driesen, and Rapp 2005; Folkes and Kamins 1999; Gürhan-Canli and Batra 2004; Lichtenstein, Drumwright, and Braig 2004; Luo and Bhattacharya 2006; Madrigal and Boush 2008; Sen and Bhattacharya 2001). Favorable or unfavorable perceptions about a company’s ethics impact consumer evaluation of that business, their attitude towards and relationship with its brands, and may consequently steer purchase behavior. Yet, the question of how such a positive or negative ethical image of a brand or company evolves in consumers’ minds has not been investigated.

The majority of existing studies focusing on consumer reactions to corporate ethics and CSR consists of experiments that induce CPE with the help of various hypothetical examples of un/ethical company behavior. Commonly the choice of manipulation scenario relates to prototypical ethical issues such as employment practices like sweatshop conditions, child labor and suppressed wages (Sen and Bhattacharya 2001; Carrigan and Attala 2001; Folkes and Kamins 1999; Lichtenstein et al. 2004); deceiving the consumer about product benefits (Creyer and Ross 1996); environmental records; and philanthropy such as charitable giving (Berens et al. 2005; Brown and Dacin 1997; Creyer and Ross 1996; Lichtenstein et al. 2004; Madrigal and Boush 2008; Mohr and Webb 2005). In most cases, the selection of the type of corporate behavior intended to manipulate CPE appears arbitrary and authors refrain from reasoning about their choice of scenario. In other studies, consumers are subjected to a company characterized as unethical, without reference to the origin of this negative connotation (Creyer and Ross 1997).

While the creation of scenarios referring to child labor and environmental pollution will almost guarantee negative perceptions, it may not be the case that all un/ethical behaviors have the same impact on CPE, a conjecture nourished by findings from an experiment conducted by Mohr and Webb (2005). The authors induce levels of CSR with the help of environment- and philanthropy-related scenarios and observe that “CSR had a stronger effect on evaluation of the company when it was in the environmental than in the philanthropic domain” (141-2). Bearing in mind both this finding and the multiplicity of activities capable of evoking ethical connotations (Brunk forthcoming), attention must be directed towards the intriguing question of how ethical perceptions are shaped by various kinds of corporate behavior. Conceptualizing these dynamics will facilitate an improved understanding of CPE formation and fill a research gap in the existing corporate ethics and ethical consumerism literature. Results should not only prove valuable for future explorations but may have implications for interpreting existing research findings.

METHOD

The lack of earlier research in the area called for an explorative approach aimed at seeking a grounded understanding of consumers’ ethical perception formation process. The objective of exploration (versus quantification) naturally pointed towards qualitative
research. As part of a larger study face-to-face consumer interviews were conducted and serve as the main source of data collection.

Sample

Typically, qualitative research focuses on an in-depth exploration of a small and diverse sample. McCracken (1988, 17) considers eight respondents sufficient for most research purposes. For this research, 20 long interviews (ibid.) were conducted with general consumers. Creating contrast in respondent selection is of utmost importance in order to “manufacture distance” (ibid., 37) and to enable as broad a review as possible (Stake 1995; Strauss and Corbin 1990)—a prerequisite for capturing the variety of prevailing attitudes, evaluations and perceptions. To achieve such a diverse respondent pool, a theoretical sampling procedure was followed, guided by its characteristic ongoing comparison process (ibid.). Contrary to existing, US-dominated research on CSR and business ethics, the focus is on European consumers, with Germany and the UK as the countries of research. Interviewees were recruited via convenience and multiplicity (snowball) sampling. The resulting pool of participants offers diversity in terms of age (17-83 years old), gender, marital status, education, and employment status to include students, retirees, self-employed, unemployed, as well as employees at various seniority levels (management versus non-management). A full list of all interviewees’ demographic profiles is available upon request.

Data Collection

Taking into account that consumers’ evaluation of ethics or morality is an inherently personal, subjective and sensitive topic and therefore, as previous research points out, prone to social desirability effects (Mohr et al. 2001; Vantomme et al. 2006; Vermeir and Verbeke 2006; Worcester and Dawkins 2005), face-to-face interviews were considered the most appropriate method of data collection and preferred over focus groups in order to minimize self-presentational concerns (Wooten and Reed 2000) and circumvent the danger of participants complying with the opinion of dominant members (Bristol and Fern 2003).

Interviews were conducted at the respondents’ home. A semi-structured interview format provided a focused, yet open form of dialog and encouraged discussion. The more informal interview style combined with the familiar and comfortable surroundings of their home created a relaxed atmosphere and consequently participants were very willing to engage and answer openly. This was crucial given the sensitivity of the subject and the objective of minimizing social desirability bias.

The interview guide was developed following four expert interviews and a review of analytical and cultural categories to facilitate a process of familiarization and defamiliarization (McCracken 1988). Subject to minor refinements after pilot testing, the guide continually evolved in line with emerging concepts and patterns (Strauss and Corbin 1990). The question format was open and all respondents covered the same topics, starting with more general grand-tour questions referring to responsibilities of businesses today, and then becoming increasingly specific, concluding with examples of various types of perceived unethical behavior and a discussion of company/brand-specific cases. The data-collection phase concluded after 20 interviews, when the last three interviews failed to reveal any new concepts and dynamics, suggesting theoretical saturation. Depending on the level of active participation and interaction, interviews lasted between 45 and 120 minutes.

Data Analysis

With the permission of participants, all but one interview—with an 83-year-old female feeling intimidated by the presence of the tape recorder—were recorded and transcribed at full length, yielding a total of 308 pages of verbatim transcripts and 47 pages of field notes for analysis.

Data analysis was on-going and gradually evolved throughout the data-collection process (Strauss and Corbin 1990). The constant comparison and subsequent refinement allowed both processes to intermingle, a strategy particularly useful for exploratory research purposes (McCracken 1988).

To extract meaning, transcripts were re-read repeatedly and analyzed in search of recurring patterns, themes and relationships between them. In line with Spiggle (1994), analysis proceeded by employing the recommended procedures of categorization (coding deductively and inductively), abstraction, comparison, dimensionalization, integration, iteration, and refutation. Following these analytical operations and the subsequent integration of the data, a dialog and review process was initiated in order to strengthen the validity of the findings (Kvale 1996). This confirmation phase included sharing results with six of the interviewees and two experts. Reviewers were requested to provide feedback on the interpretations and to debate any issues in question.

No significant differences between emerging categories were detected when the data from the UK and Germany was compared. As the types of corporate actions that participants perceive as ethical/unethical are close to identical in both countries, the findings presented hereafter reflect the views of the combined sample from the UK and Germany.

FINDINGS

Identifying CPE Impact Dimensions

The analysis of the consumer data results in the finding that the impact of unethical business transactions on consumers’ ethical perception is asymmetric. Consumer narratives suggest varying degrees of impact on CPE, meaning that not all types of business conduct commonly regarded as ethical or unethical resonate with the same intensity. The notion is in line with findings from the previously mentioned experiment by Mohr and Webb (2005). Three categories of corporate behavior that differ in direction and magnitude of impact on consumers ethical perceptions emerge from the data as follows:

1) Positive/Negative: Activities that can have either a positive or negative effect and proportionally in/decrease CPE depending on the company’s commitment.
2) Negative: Corporate behavior that has a detrimental effect when consumer expectations are not met but does not generate a positive impact when exceeded.
3) Positive: Transactions that have the ability to positively enhance CPE, yet their omission does not cause unethical connotations.

The dynamics, nature and dimensionality of the identified categories bear resemblance with existing quality or satisfaction models (Cadotte and Turgeon 1988; Herzberg, Mausner, and Snyderman 1959; Kano 1984; Oliver 1995, 1997; Swan and Combs 1976), which broadly summarize antecedents into: satisfiers, dissatisfiers, criticals and neutrals, based on their influence on (product-, customer-, and employee-) satisfaction (Vargo et al. 2007). These satisfaction models’ main contribution lies in the discovery of the
existence of varying impact dimensions. The identification of features that may be attributed to each dimension is highly case-specific, hence in order to understand which feature acts as a dis/satisfier individual, product-specific tests are required. Reflecting the close resemblance between the identified CPE and satisfaction model impact dimensions, the above CPE impact dimensions were named bivalent ethical dis/satisfiers, monovalent ethical dissatisfiers, and monovalent ethical satisfiers respectively.

**Linking Types of Un/Ethical Corporate Behavior with CPE Impact Dimensions**

While existing dis/satisfaction models are unable to reach beyond the broader categorization into satisfier, dissatisfier, critical, and neutral dimensions, the data generated throughout this research not only reveals the existence of various impact dimensions but furthermore allows for a conceptualization of the types of behavior comprising each dimension. Therefore, the resulting CPE impact taxonomy presented here extends beyond a general classification by linking types of business behavior with each impact dimension and by distinguishing the nature of corporate activities that can act as either monovalent or bivalent ethical dis/satisfiers.

Figures 1a-1c depict the emerging conceptualization after communalities and differences across categories with varying dynamics had been identified. The framework presents each CPE impact dimension by relating the nature of business activities to one of the following principles:

- **Norms (Monovalent ethical dissatisfier).**
- **Balancing needs (Bivalent ethical dis/satisfier) or**
- **Altruism (Monovalent ethical satisfier).**

Furthermore a zone of tolerance depicts an area within which corporate efforts are likely to remain without consequences on consumers’ ethical perceptions.

**Norms (Monovalent ethical dissatisfier).** Monovalent ethical dissatisfiers are transactions that relate to the principle of fulfilling norms. The most basic and fundamental of the three CPE impact dimensions comprises the kind of business consumers take for granted and resembles the must-be dimension of the Kano model (Kano 1984; Walden 1993). In line with Joyner and Payne (2002) who state that insufficient compliance with legal regulation may be deadly, participants expect companies to fully comply with legal standards and act in accordance with basic moral norms. Failing to adhere to laws and norms violates these “minimum requirements”, leading to a detrimental effect on CPE, as highlighted by Maria, one of the participants, who refers to the moral principle of honesty: “The thing that happened with the meat. When they repacked it and resold it despite the sell-by date was expired. Being so dishonest is the worst for me, without a doubt. That’s not just unethical, it’s close to criminal even.”

Compliance on the other hand simply meets these basic consumer expectations and consequently causes a neutral—but not a positive–reaction, as James underlines: “They (companies) have to abide by the laws, the financial laws of the state or the country, on top of that, environmental, they need to adhere to the environmental rules and laws of the country, and last, the labor laws of the country. It doesn’t mean I’d consider them particularly ethical because that’s like the absolute minimum I would expect, just fulfilling their obligation.”

**Balancing Needs (Bivalent ethical dis/satisfier).** This impact dimension refers to activities that can have both a favorable and unfavorable effect on CPE. The core evaluation principle is to strike the optimal balance between harm and welfare for all affected by the business activity or transaction in question. Balancing needs calls for corporate decision making processes that involve careful weighing of positive or negative consequences on any of the company’s stakeholders. Fiona stresses the importance of this principle by describing her perceptions of a company that disregards potential harm to the environment: “Knowingly damaging the environment if [emphasized] you can do something about it is very unethical… I think if you are doing everything you can to reduce it, then it’s not unethical but if people just don’t worry about it at all then it’s highly unethical.” Or take Peter, whose narrative connects to the ongoing socio-cultural discourses on the morality of outsourcing production abroad and increasing unemployment in the home country. His quote highlights that the (perceived) motivation of the company’s action is a key component of his judgment: “If suddenly they close a factory in Wales that’s got no chance of other employment, then I guess it becomes really unethical! If they are just doing it to make more profit and more, you know, damage the community and damage a lot of people. But if it’s just a natural sort of process that it slowly moves into, then it’s ok, it really depends how it’s done.”

The expected impact is commensurate with a company’s efforts. Therefore, the more a company appears to act righteously and balances its business needs versus the interests of others, the
more favorable the effect on CPE. Referring to the car manufacturer Volkswagen, Sandra offers one such positive example: “For me that’s ethical: For instance, when firstly you communicate you have such and such problem, so everyone can comprehend the situation. OK. The normal consequence would be that we would have to let a certain number of employees go. But then, it is about looking for solutions in collaboration with the employees, for instance to say: OK, you won’t get a 13th month salary and won’t get a raise for a while and maybe some of you have to work part-time, but in return, we will guarantee your job until 2010, despite our financial challenges. That for me, this is really ethical… But to just throw people out on the street without actively looking for a suitable solution for everyone, that is just unacceptable!”

Conversely, the same participant goes on to demonstrate how acting purely out of self-interest and therefore harming others will generate a detrimental impact, citing a case of self-righteous management behavior: “I have to spontaneously think about Deutsche Telekom because I found this truly absurd. They laid-off so many people, at the same time the compensation of the Board of Directors was considerably increased. And now, here it comes, they can still afford to have Robbie Williams sing at their Christmas party. Something like that, it really makes me sick… If they hadn’t got Robbie Williams, maybe they could have kept some of their people employed.”

It has to be acknowledged that, due to the subjective nature of perceptions, a company’s well-intended efforts and motivations to balance the interests of all stakeholders may not be recognized as such by the public. For instance, a decision to outsource production to a low-wage country may genuinely be the optimal solution for all constituents involved (i.e., as a measure of securing the company’s survival), yet consumers could simply fail to perceive the decision as balanced. Shaped by the prevailing public discourse on corporate greed, the act of outsourcing could instead be interpreted as self-righteously motivated to increase profits while creating unemployment at home, in which case the impact on CPE would be a negative one. The subjectivity of perceptions highlights the fact that effective communication is critical and that—particularly with highly debated, contentious matters central to public discourse, such as outsourcing—well-intended efforts must be clearly conveyed and openly publicized in order to avert misperceptions and counteract prevailing truths, such as ‘all corporations are greedy’.

Altruism (Monovalent ethical satisfier). Monovalent ethical satisfiers are corporate transactions of altruistic character, such as philanthropy, or activities going well above and beyond the company’s core business responsibilities. In fact, many of these acts are not directly linked to its day-to-day business. By nature the altruism dimension mirrors the delight category in the Kano (1984) taxonomy, characterized as nice-to-see but not expected. Hence, in comparison with the other two dimensions, these activities do not share the same level of importance with consumers. Frank supports this notion with his remark about firms that actively engage in social activities and charitable giving: “In principle I think it’s really good that it exists and that many companies do these kind of things, and I think it’s a pity that some don’t engage in these kind of things… But, it’s not criteria number one for me, very clearly. But in principle I think it’s good and important.” Others, like John, expect altruistic actions only from companies that make sufficient profit: “…a company can give money to charity as well as a good cause. What’s the word—philanthropy—for the companies with a lot of spare money around.”

Not only philanthropic engagement, such as charitable giving, but also other altruistically motivated acts pertain to this dimension, such as employee benefits extending far beyond the normal scope of duty as suggested by Emily: “You know the other thing that would be nice to see, if they (companies) could make sure their employees have adequate homes, or adequate facilities to get a mortgage.”

While engaging in altruistic behavior may enhance CPE, its omission will not cause a detrimental effect. Hence, refraining from engaging in philanthropy or other pro-social corporate activities remains without consequences. Yet a company’s association with altruistic behavior can delight consumers and result in positive ethical connotations.

In reality however, such noticeable positive impact on CPE rarely occurs. Very few interviewees were able to cite a company or brand they perceived as ethical, an observation Worchester and Dawkins (2005) and Folkes and Kamins (1999) share. According to the data, altruistic efforts can only enhance ethical perceptions under the condition that consumer expectations on the other two dimensions are met. This suggests that a vital prerequisite for a positive ethical loading to occur is to refrain from vice, as Frank illustrates: “…behind our backs they lead their waste into the river but then they say, yes, but here we made a big donation, making a big fuss and that way just diverting attention away from the things where they do not behave correctly… and when I read things like that, I really don’t want anything to do with them (company) anymore.” Frank’s quote furthermore underlines the non-compensatory nature of the altruism dimension, meaning that the display of virtuous qualities, such as philanthropy, cannot offset other transgressions. Skowronski and Carlston (1987) provide a possible explanation with their cue diagnosticity framework of impression formation by suggesting a negativity bias with morality based judgments. It builds on the assumption that bad people do not consistently display negative behavior but sometimes act in a virtuous way, while good people almost exclusively act in a positive way. For a company to be considered ethical, behavior must be consistently virtuous, whereas a single transgression is sufficient to establish a negative perception. Therefore, it is crucial a company avoids and refrains from activities known to generate unethical perceptions.

The lesser likelihood of positive ethical association is also connected to the type of information on which consumers base their judgment. In line with Berry and McEachern (2005) and Mohr and Webb (2005), participants inherently mistrust corporate communication that openly demonstrates virtuous behavior. Thus they prefer to rely on independent media as their primary source of information. However, media reporting skews towards highlighting misconduct and prevailing sensationalism fosters predominantly negative reporting.

Discussions with consumers convey the impression that graphically the slope of the altruism dimension runs less steeply when compared to the norms dimension, implying that marginal impacts differ across dimensions. Given a similar variation in absolute company performance, the magnitude of negative impact on CPE, when violating norms, is larger than the positive impact of altruistic behavior. The finding is in accordance with prospect theory (Kahneman and Tversky 1979; Tversky and Kahneman 1992) which posits that people are risk-averse. They care more about negative than positive outcomes, hence perceived losses have a bigger impact than gains. However, providing empirical evidence in support of this hypothesis is beyond the scope of this exploration.

Zone of Tolerance. Consumer narratives point to the existence of a zone of tolerance. Corporate activities within this zone are unlikely to generate any effect on ethical perceptions, hence a zone of tolerance exhibits consumers’ threshold of acceptability before negative or positive loading occurs. Talking about his negative
ethical perceptions of the company Müller, Frank implies the presence of an impact threshold: “Well with Müller, it really made an impression on me, with other companies I might not be aware of it, but when something becomes so severe then I really pay attention... almost like when a certain acceptance limit has been reached.”

The present study only detects such a threshold in conjunction with negative examples (i.e., in the context of unethical behavior) which is not surprising given that the majority of consumer comments are negative. However, despite the lack of grounded evidence substantiating the presence of a positively valenced zone of tolerance, its existence is probable, and also likely to be somewhat larger than its negative counterpart, due to differences in the dimensions’ slopes.

CONCLUSIONS AND IMPLICATIONS

This research contributes to the existing literature on ethical consumerism by investigating the impact strength and dimensionality of un/ethical business practices on consumers’ ethical perceptions. Grounded in data, the study reveals the novel finding that the effect of im/moral corporate behavior is multi-dimensional. The resulting taxonomy not only establishes the existence of three distinctive CPE impact dimensions, but additionally identifies the nature of business practices pertaining to each dimension: (1) Monovalent ethical dissipaters are corporate acts that can have a negative impact on CPE and refer to adhering to norms; (2) Bivalent ethical dis/satisfiers are business activities that relate to the principle of balancing the needs of the company versus others and, commensurate with a company’s efforts, can positively or negatively influence global CPE; and (3) Monovalent ethical satisfiers may have a positive impact on CPE and include all company transactions relating to altruism, such as philanthropy or other activities going well beyond the scope of standard business responsibilities. A crucial prerequisite for the ethical satisfiers’ ability to favorably influence ethical perceptions is that consumers’ expectations on the norms and balancing needs dimension are met.

The presented findings have important implications for the academic community investigating ethical consumption and the business community, specifically CSR and general management as well as marketing professionals. The fact that altruistic engagement may only enhance ethical perceptions when all other basic moral expectations are met, presents an essential lesson for managers. A company’s first priority should therefore be to get their house in order (so to speak) and prevent any type of behavior known to negatively affect CPE, such as disrespecting laws and moral norms as well as insufficiently balanced decision making. For some companies this may call for strategic re-prioritization of CSR activities, particularly in the common case where a companies’ CSR focus is predominantly on philanthropy. Such altruistic efforts must be backed-up by a scrutinizing audit of operational procedures, processes and standards of business conduct encompassing all business units and suppliers for any potential sources of perceived misconduct, which need to be addressed in turn.

In terms of academic implications, the results of this study provide a useful perspective for interpreting previously cited experimental research that focuses on consumer reactions to un/ethical corporate behavior or CSR initiatives. The fact that not all business transactions have the same degree of impact on CPE requires consideration when interpreting and generalizing findings. Furthermore, considering the prerequisites for a positive ethical loading to occur, employing philanthropy-related stimuli (as in many of the above studies) may lead to an overestimation of CPE enhancement.

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