

THE IMPACT OF ETHICAL CONSIDERATIONS IN PURCHASE BEHAVIOR: A PROPAEDEUTIC TO FURTHER RESEARCH

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Abstract

Many organizations assume that having a good ethical reputation often has an impact on consumers' responses to a service or product. The research reported in this paper sought to confirm this intuition by investigating: 1) consumers' attitudes about the ethics of corporate behavior in relation to stockholders, customers (middlemen and ultimate consumers), suppliers, employees, and host communities; 2) consumer willingness to reward ethical

firms through purchase decisions; and 3) the impact of the consumers' attitudes towards corporate ethical behavior on company behavior. The results indicate that the consumers do care about corporate ethical behavior towards all groups of people and they will reward the firms that behave ethically via their purchase decision. This suggests that corporate ethics is important to the consumers and provides ethical firms with a marketplace advantage.

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1. INTRODUCTION

Ethics refers to principles or values that guide behavior (Sherwin, 1983). It is sometimes said that business and ethics do not mix; for some, the profits that are the basis of a firm's survival are said to take precedence over moral principles or values. The assumption is that the cost of ethical behavior outweighs any benefits of deceptive advertising that might for example, lead to higher sales. This rejection of ethics ignores the role of a business as part of the social fabric and thus subject to moral constraints. We expect a good life and a good society from a free market system and this demands a fair distribution of goods and services. Also important are the social demands related to pollution, the depletion of natural resources, the quality and character of the work environment, and the safety of consumers. For this reason, ethics is necessary for business.

Beginning in the 1980s there was a growing concern about business ethics driven precisely by the awareness of the impact that business organizations had on the natural and social environment. This concern has continued as the concentration of capital into larger units, along with globalization, has resulted as the increasing power and influence of industrial corporations made their policies and actions more able to threaten or enhance the natural environment and the political stability and the prosperity of host societies. Given this new factor, it is hardly

surprising that the ethical basis of their behavior has become a focus of concern (Smith and Johnson, 1996).

In the light of this growing concern, many leading business schools have introduced courses in business ethics and appointed professors to teach and research the subject. Books, articles, and new journals exclusively devoted to business ethics cover subjects ranging from unethical marketing practices to harassment in the workplace. As of 2002, two of the main academic publications, the *Journal of Business Ethics* and *Business Ethics Quarterly* are in their 21st and 12th year of publication, respectively. Moreover, there are large numbers of websites that provide information, articles, research results, and discussion forums for those interested in business ethics.

Various types of ethics-oriented corporate structures and activities have become common in western business organizations over this last twenty years. In a follow-up survey conducted by the Center for Business Ethics, 93% of the 207 U.S. corporations responding to the survey stated that they were currently taking steps to incorporate ethics into the policies and culture of their firms (Center For Business Ethics, 1992). A survey of the Fortune 1000 showed a high level of corporate adoption of ethics policies (Weaver, Trevini, and Cochran, 1999). In a survey of 188 firms in the USA and West European countries, 78 firms stated that they had codes of ethics

(Catherine and Schlegelmilch, 1990). Between 1987 and 1991, a quarter of companies surveyed internationally had sponsored new ethics programs and there was a 40% increase in the number of European company CEOs making ethical announcements (Barlett and Preston, 2000). Boeing, Champion International, Chemical Bank, General mills, GTE, Hewlett—Packard, Johnson and Johnson, Norton, and Xerox all have made a public commitment to higher ethical standards as a key component to their overall business strategy (Laczniak and Murhy, 1993). The Body Shop, IBM, Esso, Procter and Gamble, Audi, ICI, and Mobil are among the firms that have initiated actions to encourage their employees to act ethically in their decision-making process through written codes of conducts (Catherine and Schlegelmilch, 1990). These firms believe that ethics is an important component of organizational effectiveness. Most companies recognize that their ethical actions improve their image among consumers, stockholders, the financial community, and the public. Ethical practices here are seen not simply as part of being a good corporate citizen but also as good business, resulting in a favorable image and ultimately in increased sales. We postulate that perceptions of a company conducting business unethically, negatively affect consumer purchase decisions.

In today's highly competitive environment, many firms attempt to promote themselves by making public

their ethical behavior. Mistine advertisements, for example, seek to inform the public that the firm behaves ethically, taking employees' welfare into its decisions. This raises specific questions asked above and raises the general research problem of: "whether consideration of consumers for corporate ethical behavior towards: stockholders, customers, suppliers, employees and host communities has an impact on consumers' purchase decisions"

2. OBJECTIVES

The purposes of this research are to investigate whether:

- (1) consumers care about corporate ethical behavior;
- (2) they are willing to reward the ethical firms through their purchase decisions; and
- (3) consideration of the consumers for corporate ethical behavior has an impact on consumers' purchase decisions.

3. CONCEPTUAL FOUNDATION AND HYPOTHESES

Conceptual Foundation

Business Ethics

Business ethics is the study of the relationship about what conduct is ethically right for businesses (Hoffman

and Federick, 1995). Ethics seeks to answer questions about whether we ought or ought not to perform certain kinds of actions; and whether those actions are good or bad, right or wrong, virtuous or vicious, worthy of praise or blame, reward or punishment and so on (Chryssides and Kaler, 1996).

Stakeholder concept

The stakeholder concept must be considered when dealing with business ethics. Stakeholder management involves allocating organizational resources in such a way as to take into account the impact of those allocations on various groups within and outside organizations (Freeman, 1984). A stakeholder is any group or individual who is (or can be) affected by the achievement of a firm's objectives. For example, a large organization's typical stakeholders include stockholders, customers, suppliers, employees, and host communities. The stakeholder concept is useful in ethical analysis because it allows firms to gauge the impact of their decision on several affected groups.

Corporate ethical behavior

Corporate ethical behavior is understood to be the behavior or action of corporations that should be performed and can be considered as right.

In this study, ethical behavior is divided into 5 major areas of stakeholder impact: corporate behavior towards: stockholders, customers (middlemen and ultimate consumers), suppliers, employees, and host communities.

Perception

Stanton, Etzel and Walker (1994) define perception as the process of receiving, organizing, and assigning meaning to information or stimuli detected by the five senses. Perception plays a major role in buying decisions where alternatives are compared. What we perceive and the meaning given to what is perceived depend both on the object itself and our experiences. In an instant the mind is capable of receiving information, comparing it to a huge store of images in memory, and providing an interpretation. Perception occurs quickly and often with very little information, but it is a powerful factor in decision-making. Changed product features result in new perceptions which affect sales.

Perception also involves interpreting directly the world through the senses and, more broadly, information received through the senses. Perception is the entire process by which an individual becomes aware of the environment and interprets it so that it will fit into his or her frame of reference. Perception provides a particular emphasis or flavor to the consumer's understanding of all

considerations related to the decision process. In problem solving, the consumers' perception of problems begins the process, and the perception of alternatives, selection criteria, and reasonableness determines how the perceived problem is resolved. Decisions that are based on chance, habit, impulse, social orientation, and heredity also have perception at their heart. In other words, perception flavors the entire consumer decision-making process, including the perception involved in post-purchase assessment (Walters and Bergill, 1989).

The Perceived Importance of Corporate Ethical Behavior and the Purchase Decision

Although there is little research about the business effects of consumer perceptions of ethical behavior, the work of Creyer and Ross (1997), studying "the influence of firm behavior on purchase intention: do consumers really care about business ethics" provided a guideline for conceptualizing the research framework.

Perception is one of the factors that plays an important role in buying behavior, it influences consumers' purchase decisions. In this research study the researcher wishes to study the consumers' perceptions of the importance of corporate ethical behavior and their impact on consumers' purchase decisions.

In the present work, the buyer decision process is viewed in terms of a set of sequential stages in which the buyer moves from problem recognition, through information gathering and alternative evaluation, to the actual decision to buy a product from a particular dealer. Information is processed, and alternatives are evaluated according to some set of comparison factors or decision criteria derived from experience, value, and expectations. The importance given to these criteria vary in degree in shaping alternative evaluations and final selection (Engel *et al.*, 1993) and generally such criteria are grounded in the attributes and benefits buyers desire in the products they buy and the stores in which they shop. Relevant criteria may include price, color, style, opinion, quality, product safety, durability, status, and warranty. Decisions are made on the basis of the relative weight given to these in a particular case; in some cases, for example, price will be more important than style while in others style may be more important than price. To conclude, when consumers use a particular criterion or attribute to evaluate which products or brands they would purchase, they should perceive that this particular criterion or attribute is important during their purchase decision.

Research of Creyer and Ross (1997) suggests that consumers perceive the ethics of a firm's behavior as an important consideration during the purchase decision, making it more

likely that they would purchase a product or service from that firm rather than from a competitor perceived to be less ethical. The purchase decision is thus the dependent variable of the present study.

A review of literature thus suggests that the perceived importance of corporate ethical behavior has a significant effect on the willingness to reward the firms through purchase decisions. Given the conceptual framework presented in figure I, the variable of primary interest in this study is the purchase decision, with perceived ethical status as an independent variable. This independent variable is multi-dimensional insofar as different ethical issues – refusal to discriminate on the basis of age rather than disclosure or product risks, for example – may be given varying weights by different consumers. Thus, the

researcher divided corporate behavior into five groups characterized by stakeholders: stockholders, customers (middlemen and ultimate consumers), suppliers, employees and host communities.

Hypotheses

Eleven hypotheses were proposed in this study. A univariate analysis was used to test whether the consumers care about corporate ethical behavior towards the five stakeholders (Ho1 to Ho5) and the willingness of consumers to reward the firms through purchase decisions (Ho6). A bivariate analysis is used for measuring the relationship between the dependent and the independent variables: the willingness to reward the firms via purchase decision and consideration for corporate ethical behavior towards the five groups of people (Ho7 to Ho11).

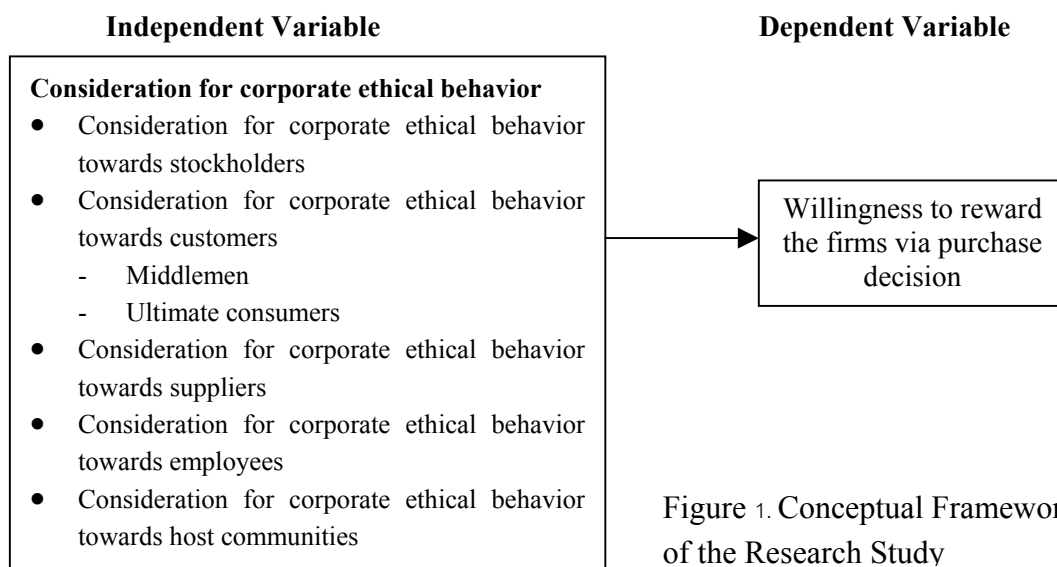


Figure 1. Conceptual Framework of the Research Study

4. METHOD

Sample

Data were collected with a self-administered questionnaire completed by Bangkok residents aged between 20 and 40. 385 sets of questionnaires were distributed by hand to the respondents at department stores, government offices, public offices, schools, and communities located in Bangkok using the convenience sampling technique for selection.

Research Instrument

The scale used in this study was developed from Creyer and Ross's work. A 35-item questionnaire was constructed to measure the following two constructs: (1) the consumers' consideration about corporate ethical behavior towards five groups of stakeholders: stockholders, middlemen, ultimate consumers, suppliers, employees, and host communities; and (2) the willingness to reward the firms through purchase decisions.

Responses to the items were measured on a seven-point scale, with '1' indicating "disagree completely" and 7 "agree completely". An overall score for each construct was obtained by averaging the response to the appropriate items.

The pretest of 40 sets of Thai questionnaires yielded these reliabilities figures towards stockholders,

middlemen, ultimate consumers, suppliers, employees, and host communities and the willingness to reward the firms via purchase decision are 0.76, 0.86, 0.92, 0.89, 0.90, 0.89 and 0.76 respectively. The reliabilities of the scale is adequate according to Nunnally's (1978) minimum standard of reliability: 0.7.

5. RESULTS

The consumers' consideration for corporate ethical behavior

The mean responses for the consumers' consideration for corporate ethical behavior and the willingness to reward the firms via purchase decision are given in Table I. These results indicate that this group of the consumers care about corporate ethical behavior towards the groups of stakeholders. The mean value of the willingness to reward the firms through purchase decision is 4.7953. This indicates that the consumers are willing to reward the ethical firms through their purchase decisions. A T-test was used to determine whether the mean for each construct is greater than four, the midpoint of the seven point measures. For all constructs, the means are significantly greater than four. Accordingly, H_01 to H_06 are accepted, indicating that the consumers consider that corporate ethical behavior towards all groups of people are important during their purchase decision; they do care about corporate ethical behavior

and they will reward the firms that behave ethically via their purchase decision.

Table I. Descriptive Statistics and Univariate Analysis Results

Measure	Mean	Standard deviation	T-statistics
Consideration for corporate ethical behavior towards stockholders	4.3558	0.7184	9.179 ^a
Consideration for corporate ethical behavior towards middlemen	4.4208	0.7294	11.319
Consideration for corporate ethical behavior towards ultimate consumers	5.4888	0.8776	33.325
Consideration for corporate ethical behavior towards suppliers	4.6229	0.7555	16.177
Consideration for corporate ethical behavior towards employees	5.0109	0.8039	24.674
Consideration for corporate ethical behavior towards host communities	5.1621	0.8429	27.050
The willingness to reward the firms via purchase decision	4.7953	0.6995	22.311

Notes: ^a T-statistical tests whether the mean of the scale is significantly different from the midpoint of the scale (value of 4); all are statistically significant at the $p < 0.05$ level

Impact of consideration of the consumers for corporate ethical behavior on consumers’ purchase decision

Regression analysis was used to test whether the independent variable (consideration for corporate ethical behavior) has any significant influence on the dependent variable (the willingness to reward the firms via purchase decisions). As seen in

Table II, the coefficients of the consideration for corporate ethical behavior are all positive and significant for all models. Accordingly, Ho7 to Ho11 are accepted. The results suggest that the consumers’ consideration for corporate ethical behavior towards stockholders, middlemen, ultimate consumers, suppliers, employees, and host communities positively influences the willingness to reward the firms through purchase decisions.

Table II. Regression Analyses

Measure	Beta	T-statistic	Correlation	
			Coefficient	F-statistic
Consideration for corporate ethical behavior towards stockholders	0.369	8.019 ^a	0.379	64.308 ^b
Consideration for corporate ethical behavior towards middlemen	0.392	8.770	0.409	76.907
Consideration for corporate ethical behavior towards ultimate consumers	0.549	9.584	0.438	90.901
Consideration for corporate ethical behavior towards suppliers	0.392	9.137	0.423	83.485
Consideration for corporate ethical behavior towards employees	0.423	10.883	0.486	118.446
Consideration for corporate ethical behavior towards host communities	0.355	9.267	0.428	85.871

Notes: ^a T-statistical tests whether consideration of the consumers for corporate ethical behavior has a relationship with the willingness to reward the firms via purchase decision; all are statistically significant at the $p < 0.05$ level

^b F-statistical tests whether consideration of the consumers for corporate ethical behavior has a relationship with the willingness to reward the firms via purchase decision; all are statistically significant at the $p < 0.05$ level

6. DISCUSSION

Today's consumer product industry is highly competitive, making an understanding of the factors that influence consumers' purchase decisions very important. Every firm attempts to gain a desired share of the market by providing the consumers with high quality products that are readily available at a reasonable price, by providing excellent service, and so on. If consumers perceive little

difference between competing products or brands based on the factors that have been discussed above, corporate ethical behavior might be one of the factors that can be used to differentiate their products on the basis of the ethicality of their firm's actions, aside from the differentiation based on products, price, place and promotion. The results suggest that

- 1) consumers care about corporate ethical behavior towards:

- stockholders, middlemen, ultimate consumers, suppliers, employees and host communities;
- 2) they are willing to reward the ethical firms via their purchase decision;
 - 3) consideration of the consumers for corporate ethical behavior towards stockholders, middlemen, ultimate consumers, suppliers, employees and host communities positively influence consumers' purchase decision.

The findings of this study suggest that the perceived ethics of a firm plays an important role during purchase decisions. Consumers do care about corporate ethical behavior towards many groups of people and this affects their purchase decision. Corporate behavior directly affects only consumers in the purchase decision but that decision is also based on the ethically relevant effect on stockholders, middlemen, suppliers, employees, and host communities. Ethical behavior can thus provide an effective way of differentiating a product in consumer's perceptions. Furthermore, the study also suggests that these perceptions do affect purchase decisions. This indicates that

ethical behavior can affect the business performance of a firm.

These findings indicate that the firms should encourage ethical behavior not only as corporate citizens but because this behavior may benefit the enterprise in a world where consumers care about business ethics and are willing to back up this concern with action when making purchases. These benefits are accrued, however, only if the firm makes its ethical standards public.

7. SUGGESTION FOR FUTURE RESEARCH

Ethical behavior comes in many forms and these will affect the purchase decisions of consumers, and varying groups of consumers, in differing ways. The relative affect of various types of ethical behavior would be a productive subject for further study. If positive behavior affects business performance positively one might expect to find that unethical behavior would negatively influence purchase decisions; the impact of unethical behavior should, however, receive separate investigation.

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APPENDIX

Questionnaire

Instruction: Please put “✓” on the answer that is most applicable to your case.
 Questions 1 to 35 have 7 answers, which use numbers 1 to 7 to represent the meaning as follows:

- Number 1 = Disagree very strongly
- Number 2 = Disagree fairly strongly
- Number 3 = Disagree
- Number 4 = Neither agree nor disagree
- Number 5 = Agree
- Number 6 = Agree fairly strongly
- Number 7 = Agree very strongly

To what extent do you agree with the following sentences

*** Example of ethical behavior towards different groups of people was given in the questionnaire in order to help you have a better understanding about the questions.

	Disagree very strongly	Disagree fairly strongly	Disagree	Neither agree nor disagree	Agree	Agree fairly strongly	Agree very strongly
Example of ethical behavior towards stockholders is disclosing facts regarding income and properties to stockholders							
1.1 I really care whether the stores I patronize have a reputation for ethical behavior towards stockholders.	1	2	3	4	5	6	7
1.2 Whether a firm is ethical to stockholders is important to me in making my decision as to	1	2	3	4	5	6	7

what to buy.							
1.3 I really care whether the companies whose products I buy have a reputation for ethical behavior towards stockholders.	1	2	3	4	5	6	7
1.4 It really pleases me to find out that a firm I buy from has acted ethically to stockholders.	1	2	3	4	5	6	7
1.5 It is more important to me that the firms I deal with have an ethical reputation regarding stockholders.	1	2	3	4	5	6	7
Example of ethical behavior towards middlemen is offering product of expected quality to middlemen.							
2.1.1 I really care whether the stores I patronize have a reputation for ethical behavior towards middlemen.	1	2	3	4	5	6	7
2.1.2 Whether a firm is ethical to middlemen is important to me in making my decision as to what to buy.	1	2	3	4	5	6	7
2.1.3 I really care whether the companies whose products I buy have a reputation for ethical behavior towards middlemen	1	2	3	4	5	6	7
2.1.4 It really pleases me to find out that a firm I buy from has acted ethically to middlemen.	1	2	3	4	5	6	7
2.1.5 It is more important to me that the firms I deal with have an ethical reputation regarding middlemen.	1	2	3	4	5	6	7
Example of ethical behavior towards ultimate consumers is offering products that are safe to consumers.							
2.2.1 I really care whether the stores I patronize have a reputation for ethical behavior towards ultimate consumers.	1	2	3	4	5	6	7
2.2.2 Whether a firm is ethical to ultimate consumers is important to me in making my decision as to what to buy.	1	2	3	4	5	6	7
2.2.3 I really care whether the companies whose products I buy have a reputation for ethical behavior towards ultimate consumers.	1	2	3	4	5	6	7
2.2.4 It really pleases me to find out that a firm I buy from has acted ethically to ultimate	1	2	3	4	5	6	7

consumers.							
2.2.5 It is more important to me that the firms I deal with have an ethical reputation regarding ultimate consumers.	1	2	3	4	5	6	7
Example of ethical behavior towards suppliers is not using reciprocity in the selection of suppliers							
3.1 I really care whether the stores I patronize have a reputation for ethical behavior towards suppliers.	1	2	3	4	5	6	7
3.2 Whether a firm is ethical to suppliers is important to me in making my decision as to what to buy.	1	2	3	4	5	6	7
3.3 I really care whether the companies whose products I buy have a reputation for ethical behavior towards suppliers.	1	2	3	4	5	6	7
3.4 It really pleases me to find out that a firm I buy from has acted ethically to suppliers.	1	2	3	4	5	6	7
3.5 It is more important to me that the firms I deal with have an ethical reputation regarding suppliers.	1	2	3	4	5	6	7
Example of ethical behavior towards employees is providing employees with safe and healthful workplace.							
4.1 I really care whether the stores I patronize have a reputation for ethical behavior towards employees.	1	2	3	4	5	6	7
4.2 Whether a firm is ethical to employees is important to me in making my decision as to what to buy.	1	2	3	4	5	6	7
4.3 I really care whether the companies whose products I buy have a reputation for ethical behavior towards employees.	1	2	3	4	5	6	7
4.4 It really pleases me to find out that a firm I buy from has acted ethically to employees.	1	2	3	4	5	6	7
4.5 It is more important to me that the firms I deal with have an ethical reputation regarding employees.	1	2	3	4	5	6	7

Example of corporate ethical behavior towards host communities is not bothering the communities by producing noise, fire , undue heat or gas , ugly building or ugly environment.							
5.1 I really care whether the stores I patronize have a reputation for ethical behavior towards host communities.	1	2	3	4	5	6	7
5.2 Whether a firm is ethical to host communities is important to me in making my decision as to what to buy	1	2	3	4	5	6	7
5.3 I really care whether the companies whose products I buy have a reputation for ethical behavior towards host communities.	1	2	3	4	5	6	7
5.4 It really pleases me to find out that a firm I buy from has acted ethically to host communities	1	2	3	4	5	6	7
5.5 It is more important to me that the firms I deal with have an ethical reputation regarding host communities.	1	2	3	4	5	6	7
6.1 I would go several kilometers out of my way to buy from a store that I knew to be extremely ethical.	1	2	3	4	5	6	7
6.2 I would pay considerably more money for a product from a firm that I knew to be extremely ethical.	1	2	3	4	5	6	7
6.3 Firms who are extra ethical should do well in the marketplace	1	2	3	4	5	6	7
6.4 Firms who are extra ethical should be allowed to earn greater profits than firm normally do.	1	2	3	4	5	6	7
6.5 Given a choice between two firms, one ethical and the other not especially so, I would always choose to buy from the ethical firm.	1	2	3	4	5	6	7