

Consumer Perceived Corporate Ethicality Impact on Retail Chain Image: Examination from Vicarious and Personal Perspectives

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Abstract

Understanding of consumers perceptions of ethicality in companies' actions has been the focus of increasing attention. Today when companies experience pressure for ethicality, the ethical issues in industries could not be ignored. One of the ways to achieve competitive advantage in retailing industry is to promote the retail chain image. The ethicality of corporate actions is becoming one of the factors which influence consumers' perceptions and retail chain image evaluations.

This paper seeks to broaden the knowledge of how consumers perceive different corporate un/ethical actions from different perspectives – personal and vicarious and how those perceptions are reflected in retail chain image. The data were collected by surveying the biggest retail chain stores customers in Lithuania. The research results confirms that perceived corporate ethicality predicts retail chain image sufficiently well, what is consistent with previous studies, however, only minor differences between two proposed perspectives were found.

Keywords: consumer perceived corporate ethicality, personal perspective, vicarious perspective.

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1. Introduction

Globalization and fast development of high technologies and modern communication channels brings new challenges to corporations, as consumers are becoming more and more informed and sophisticated about the issue of corporate ethics. Although, from today's perspectives, it could be stated, that roots of business ethics, reaches times when human started bartering, however the understanding of the term of business ethics is comparably novel in post-soviet Eastern European countries and only recently it has grown from something "mysterious" to a "hot topic" in a minds of wider society.

Retailing industry and especially retail grocery stores, is the area where the ethical issues could not be ignored. It is common, that there are several very strong retail chains competing in the markets; the retailing chains are well developed thus a risk to lose a customer because of the decline in retail chain image is especially high. The retailing industry in Lithuania as well as in other countries is becoming increasingly competitive; the managers feel a need to differentiate their stores from competitors. One of the ways to achieve it is to promote the retail chain image. Thus the retail chain image should be carefully managed and a special attention to the issue should be paid. What is more, the ethicality of corporate actions is becoming one of the factors which influence customer perceptions and retail chain image evaluations. Thus every mistake can cost more than expected.

Today companies seem to be experiencing pressure for ethicality from two sides: the society and the executives themselves, meaning that both the internal and the external stakeholders are forcing to re-evaluate corporate performance in order to justify their existence in the eyes of stakeholders (Porter & Kramer, 2006). Porter and Kramer (2006) argue that the increased attention to ethical issues is not entirely voluntary and is required by the society (external stakeholders). They also claim that companies awoke only after public reactions to the issues that managers never thought to be a part of their responsibilities.

But in fact, it is also observed, that the demand for companies to be ethical comes from internal sources as well. As Solomon (1993) assures "the call for ethics in business does not come primarily from an outraged public, the polemic-hungry press, or publicity-minded congressional committee" (p. 5). The desire for ethical decisions comes directly from executives themselves who want to clarify the conflicts in which they find their companies on a daily basis.

Furthermore, the recognition that many corporate decisions involve some ethical judgment is increasing (Creyer, 1997). As well as the understanding, that the mistakes of dealing even simple ethical questions could be devastating. Some outcomes could be highly visible – demolition of the nature or even injuries and deaths – other could be known only for insiders – decrease in sales or employees satisfaction. Thus business ethics should not be linked only to scandals and disasters, as it is usually understood by public and even media representatives. Companies' ethicality reflects not only in welfare of the society, the changes are also recognized by observing the change in companies or brand image, financial performance, competitiveness and brand loyalty (Jones, Comfort & Hillier, 2005; Marin, Ruiz, & Rubio, 2009). What is more, the previous researchers reveal (Wagner, Bicen, & Hall, 2008; Chung & Khan, 2008) that consumers differ not only in responding to un/ethical behavior, they mostly differ in agreement of what is ethical and what is not. The question of ethics is critical not only from the perspective of retailer, it is equally or even more important and plays it role from the side of buyer. The idea that people react to different events according to their moral norms and beliefs is supported by Bock and Kenhove (2011).

The situation becomes more complicated, when it comes to understanding that the evaluations of companies' actions may change according to the situation. According to Whalen, Pitts and Wong (1991) the unethical action in and of itself will not cause the change in consumer perceptions; rather, customer's personal well-being may over-ride any consideration of the wider societal impact of unethical behavior. It is

known, that un/ethical behaviors do not have the same degree of severity – “while some acts have far-reaching consequences and implications, others are relatively minor” (Chung et al., 2008, p. 262).

Whalen *et al.* (1991) explains that people reactions differ when being in different roles, or perspectives: when they are affected directly by the un/ethical companies’ action (“personal perspective”), or when the consumer is aware that someone was affected and or harmed by the company’s behavior –“vicarious perspective”.

Thus the **aim of current article** is to (1) broaden the knowledge of how consumers perceive different corporate un/ethical actions from different perspectives – personal and vicarious; and (2) to shed light in understanding of the relationship between the perspectives of consumer perceived corporate ethicality (CPCE) and the retail chain image.

In order to achieve the aim, the further **objectives of the article** were raised: to perform scientific literature review in order to develop theoretical model; later to test the model empirically by surveying the largest retail grocery stores’ customers in Lithuania; and lastly to provide the recommendations based on the results of the study. To address the issues of the relationship between vicarious and personal perspective of CPCE and the retail chain image we conducted the quantitative research (internet based survey).

Although, current study will not provide the recipes how to increase the morality of employees, but the managers will benefit, as it will provide ideas and recommendations, which could help by maximizing CPCE increase retail chain image.

2. Theoretical Considerations

2.1 Consumer Perceived Corporate Ethicality

The early studies of socially conscious consumers focused mainly on local environmental issues (recycling, pollution, etc.) and social inequality, as well as on formation of socioeconomic and demographic profiles of socially conscious consumers (Nijssen & Douglas, 2008). Soon the researchers covered more global topics including CSR, which is understood as voluntary companies’ actions designed to improve social conditions (Mackey, Mackey & Barney, 2007). A number of definitions were given for CSR till our days and still does not have one common description. However, the concept of CSR has developed through years as well or perhaps as a result of great academic, government and society interest in the issue. For example, today Friedman’s (1970) idea that the only social responsibility the company has is to make profits within the law, is broadened with true societal expectations (Chomvilailuk & Butcher, 2010) raising it to strategic level approach (Iyer & Manjula, 2011). Current study looks at corporate ethical behavior through the CSR phenomenon.

The concept of consumer perceived ethicality is explained by Brunk and Bluemelhuber (2010) as a “consumer’s aggregate perception of a subject’s (i.e., a company, brand, product or service) ethicality” (p. 368). A number of studies have investigated the consumer responses to corporate un/ethical behavior, the studies have proved that: CPCE may influence companies’ sales by changing attitudes towards the company (Miller & Sturdivant, 1997), affect consumers’ purchase intentions (Mohr & Webb, 2005; Brown & Dacin, 1997; Sen & Bhattacharya, 2001), CPCE impacts consumers’ attitude towards the brand, brand image and brand loyalty (Mohr, Webb & Harris, 2001). However, Vitell and Muncy (2005) state, that people differ in perceptions of ethics not only by culture and country, but also by gender, education, and even occupation, thus the differences between the customers of different countries or even industries could be significant.

Whalen *et al.* (1991) have introduced the evaluation of retail companies’ behavior from two perspectives: vicarious and personal. The authors (Whalen *et al.*, 1991) separated customers to different groups: one group which would be affected directly by the unethical behavior while other group would be social observers, trading with the unethical firm, but not harmed directly. Authors used a situational evaluation of

unethical behavior when subjects were instructed to respond to one of two scenarios. The results provided by Whalen *et al.* (1991) are indicating that the intention to purchase after the experiencing the unethical behavior is significantly lowers for the group in the personal perspective. The findings of Whalen *et al.* (1991) encourage seeking for the differences in relationship between CPCE from vicarious, personal perspectives and the retail chain image.

2.2 Retail Chain Image

According to Champion, Hunt and Hunt (2010, p. 18) „a store’s image is based upon individual consumer experiences concerning a number of store attributes“, like: employee service, product quality, product selection, atmosphere, convenience, price and value (Chowdhury, Reardon& Srivastava, 1998). What is more, developing a favorable store image is critical to maintain growth in the market, as store image creates consumer’s satisfaction which leads to store loyalty (Steenkamp & Wedel, 1991). Verma (2012) also indicates that the retail brand image is a predictor of store performance. It could be summed up, that image creation is a major component of retail strategy (Borna*et al.*, 2008) and it is becoming very important in differentiating from competitors, especially now, when retail industry is becoming increasingly competitive.

It is agreed, that retail corporate ethicality does influence brand image. Burke and Berry (1974) four decades ago have found the positive relations between corporate ethicality and retail chain image, by finding, that the social actions of corporations can improve the retail chain image and even contribute to favorable economic results.

Retailers should choose to behave ethically, since it is known, that such decision helps to build a positive brand image (Cacho-Elizondo & Loussaïef 2010). Previous research also showed, that ethical retailers actions enhances corporate image among consumers (Blumenthal & Bergstrom, 2003). The study by Cacho-Elizondo and Loussaïef (2010) increases our understanding, it supports previously mentioned Whalen *et al.* (1991) idea that not all people respond to ethical retailers’ behavior in one consistent manner. Although the study by Cacho-Elizondo and Loussaïef (2010) is more recent and people are getting more and more concerned about the ethical issues, the findings of the study revealed some very important aspects of customers’ attitudes to companies’ efforts to act ethically. Young people use to associate companies efforts to be ethical with jeopardizing low-income customers. But on the other hand, respondents found it related to higher prices. The study also reveals that younger respondents find those activities opportunistic. What is more, opportunism they relate to the retailers willingness to improve their image. Thus in some cases even negative relationship between companies’ efforts to act ethically and customer’s perceptions of retailer’s image was found. The existing fact of inconsistency in consumers’ responses and the results of previous studies inspire to continue searching for the direction and strength of the implied relationship. As it is proposed by Borna *et al.* (2008), the deeper understanding of how the brand image is formed and in our case how it is influenced by CPCE could become a factor of success.

2.3 Theoretical Model and Hypotheses

On the basis of the literature review, an assumption can be made that CPCE from vicarious and personal perspectives may have different effect on retail chain image (see Figure 1).

Thus the following hypotheses will be tested:

H1: CPCE from the vicarious perspective has impact on retail chain image.

H2: CPCE from the personal perspective has impact on retail chain image.

The related studies do not provide the credible information required for companies in managing the relationship between CPCE and retail chain image. However, findings of previous studies have shed light in the issue, direct current research and motivate to revise the findings in other cultural contexts.

3. Research Methodology

Drawing on prior research in the literature we developed the research instrument. In order to measure CPCE the constructs proposed by Godfrey, Merrill, and Hansen (2009) was adapted and used. The questionnaire items additionally were divided by nature to personal and vicarious perspectives (Whalen *et al.*, 1991). Retail chain image with 24 items was measured using the scales developed by Chowdhury *et al.*, (1998) which measures main store attributes: employee service, product quality, product selection, atmosphere, convenience, price and value. We used 7-point Likert type scales were 1 is “strongly agree” and 7–“strongly disagree”. The counted Cronbach’s reliability for the questionnaire items resulted in high scores: CPCE scale – 0.92 and retail chain image scale – 0.95 (see Table 1).

The questionnaire was loaded to online surveys software (surveymonkey.net). Respondents were invited to fill the questionnaires by sending messages in social media accounts and by e-mailing. Number of respondents totaled in 284 in three weeks. After surveys were reviewed for missing data or other potential issues, the 203 questionnaires were validated. Hypotheses were tested using averaged scale scores with regression analysis using SPSS 19.

3.1 Sample Characteristics

To test the theoretical model, largest retail chain stores customers were surveyed. The largest retail chain stores in Lithuania Maxima, Rimi, Iki and Norfa were selected. A convenience sample of 203 large retail chains’ consumers in Lithuania was drawn. The sample was filtered by age having in mind that the potential customers of the retail stores are over eighteen years old, as younger customers do not commonly have enough power for purchasing or decision making. Respondents were also filtered leaving only customers of the largest retail chain stores, the filtering question asked respondents to remember and to write the retail chain store in which they did their last shopping.

The demographical characteristics of the sample demonstrate a balanced profile. According to the gender of respondents the sample is distributed rather evenly, as the percentage of men and women questioned was respectively 49.8% (n=101) and 50.2% (n=102).

The distribution of sample by gender is not far from the situation of whole population of the country, as well as the actual distribution of the customers’ of grocery retail chains in Lithuania (Lithuanian Free Market Institute, 2010). The actual distribution by gender as well as by the grocery retail chain they do their shopping has a very small error from the one got from current survey.

The results show that the majority of respondents were 20 to 40 years old, and the average age of the participants is 34.65 years ($\bar{x}=34.65$). The sample of current study represents the part of the population with a higher educational level than a whole population. The respondents’ distribution by education show that the majority (82.8%) of participants in the survey have higher education, when Lithuanian Department of Statistics (2013) provided number of people having higher education is 59,1% of whole population. Most of the respondents live in the biggest cities in the country (Vilnius, Kaunas or Klaipeda), this represents 91.6% of the sample, and only 8.4% are from other places in the country (smaller cities).

4. Research Results

4.1 Factor Analysis and Descriptive Statistics

In order to reach the aim of the article and to broaden the knowledge of how consumers perceive different corporate un/ethical actions from different perspectives –personal and vicarious, the means of the constructs were counted. An index of Kaiser-Meyer-Olkin (KMO) measure (0.922>0.5) and Bartlett’s test of sphericity (Chi-square=4221.99, df=276, p<0.001) suggested that the data were suitable for the Factor analysis. Factor analysis was used for investigating whether the variables are related to personal and vicarious factors. Data were analyzed by a common factor analysis using VARIMAX rotation. All the item loadings were statistically significant and Eigen values were more than 1, 0.

In order to test the association between the two variables with a normal or non-normal distribution, the Spearman or Pearson rank correlation coefficients were calculated, respectively. As the measures are provided in 7-point Likert’s type scale, the calculation of groups by means has determined, that evaluation of >4 stands for good evaluation, and <4 for bad evaluation. The test provides with understanding how the results should be interpreted. Therefore, elaborating on the research results it should be distinguished, that the overall consumers evaluates retail chain image as being only a little bit above average, with one exception – Price/Value, which was found to be lower (M=3.809). Means of the retail chain image attributes range from M=3.809 (Price/Value) to M=4.942 (Convenience).

It should be also noted, that neither the gender nor the age, education or the place of living plays a role in customer perceived corporate ethicality impact on retail chain image. Therefore, there is one exception, the negative correlation between the age of the respondents and the “Products selection” was found to be significant (r=-0,156; p=0,021). Meaning, that the younger the customer is, the more likely he/she will be satisfied with the product selection and vice versa.

4.2 Hypotheses Testing

The results of the regression analysis suggest that the data fit the model reasonably well with R-squared values above 34% for the CPCE from vicarious perspective, and over 49% for the CPCE from personal perspective impacts on retail chain image. It could be stated, that the investigated variables impacting retail chain image explanatory power of this degree can be considered rather high.

The hypotheses were examined using regression analysis; this enabled us to determine whether CPCE from vicarious and personal perspectives had an influence on retail chain image.

To test our hypotheses we estimate the following equations:

$$RCI = \alpha_0 + \alpha_1 \times VP$$

and

$$RCI = \alpha_0 + \alpha_1 \times PP$$

were

RCI – Retail chain image;

VP – Vicarious perspective;

PP – Personal perspective.

Our model was supported by the regression analysis results (see Table 2). Vicarious perspective by itself would explain 34.6% and personal perspective would explain 49.4% of variation in retail chain image.

Because of multi-collinearity between personal perspective and vicarious perspective ($r=0,836$; $p<0,001$) these percentages cannot be summed up.

For hypothesis **H1** that the CPCE from the vicarious perspective has impact on retail chain image, the path coefficient was **.563**($p=.000$), which was statistically meaningful. Thus, **H1** is supported. These results demonstrate that a consumers' perceived corporate ethicality when knowing that someone was affected and/or harmed by the company will have a meaningful effect on retail chain image. For hypothesis **H2** that the CPCE from the personal perspective has impact on retail chain image the path coefficient was **.676** ($p=.000$), which was statistically meaningful. Thus, **H2** is supported as well. The results suggest that consumers who have been affected directly by companies' un/ethical behavior perceptions of companies' ethicality is sufficient to elicit a change in retail chain image.

The results from regression analysis are summarized as follows:

$$RCI = 2.031 + 0.563 \times VP; R=0.591, p<0.001$$

and

$$RCI = 1.394 + 0.676 \times PP; R=0.705, p<0.001$$

Overall, our study shows that personal perspective and vicarious perspective positively influence retail chain image.

4. Conclusions and Limitations

As the hypotheses of the study were supported the proposed theoretical framework is confirmed. The results supports that perceived corporate ethicality predicts retail chain image sufficiently well, what is consistent with previous studies, however, only minor differences between two proposed perspectives to look at the phenomena were found.

The study supports Whalen *et al.* (1991), stating that personal perspective is more influential than vicarious, however, it could not back up Whalen *et al.* (1991) who found the significantly higher influence of personal perspective, as current study found minor differences between two perspectives.

It was also found that no significant differences were determined between responses of people having different characteristics: age, gender, education and the place of living does not play a role in the evaluation of the model.

The finding is interesting as contradicts most of earlier studies: Wagner *et al.* (2008) states that male and female significantly differ in terms of their agreement of what is or is not the unethical behavior; the overview of previous studies by McIntyre, Thomas and Gilbert (1999) also summarizes that people of different age, education or gender use to evaluate ethicality significantly different. This inconsistency between previous studies and the current study could be explained by differences between the cultures.

Porter and Kumar (2006) states that the social and environmental concerns should be integrated in business strategy, as people expect companies to act ethically. The results of current study are beneficial for corporate leaders, as provide some tangible benefits for business world by presenting managerial insights based on the empirical results.

The study encourages promoting positive CPCE in order to strengthen retail chain image. It also provides with information what are the aspects which requires greater focusing.

Firstly, all companies' behaviors which could directly or indirectly affect customers should be managed with great care, in order to ensure the best possible result on retail chain image.

However, CPCE from personal perspective does influence the retail chain image more than from vicarious perspective, thus special attention to the issues likedirect communication with consumers, pricing practices, advertising, implementation of sales, loyalty programs, ensuring product safety, as well as product quality should be paid.

The less, bus still very important issues are related to: competition in the retailing market, relationship with local suppliers and state, care of nature and environment, as well as contribution to the health of society and care of safe working conditions.

The most effective way to ensure higher retail chain image would be to act ethically in all situations, or at least to try minimizing unethical actions which are affecting consumers directly.

Summarizing the above, since it was already agreed that image creation is a major component of retail strategy (Borna *et al.*, 2008), as well as developing a favorable store image is critical to maintain growth in the market, and store image leads to store loyalty (Steenkamp & Wedel, 1991), the current article fulfilled the aim to broaden the knowledge of how consumers perceive different corporate un/ethical actions from different perspectives – personal and vicarious; and shed the light to understanding the relationship between the two perspectives of CPCE and the retail chain image.

Current study measures consumers' perceptions of corporate ethicality using event specific events, thus future studies should consider using other types of events. Because this study only looks at the perceptions and evaluations of retail chain stores and their customers, the results of the study are industry specific and their generalizability could be questioned and examined in other industries in Lithuania or other countries. Moreover, the managerial implications are also industry and culture specific and managers from other countries should use them only as guidelines.

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Figure 1. **Theoretical Framework**

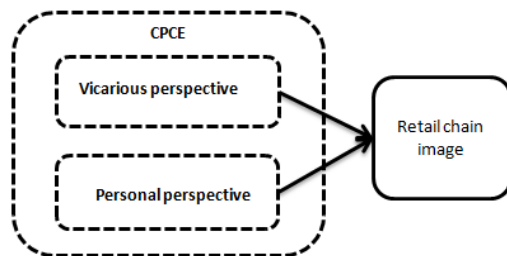


Table 1. **Internal Consistency of Scale**

Scale / subscale	Items number	Cronbach alfa
Retail Chain Image	24	0,95
Employee service	4	0,91
Product quality	4	0,89
Product selection	4	0,87
Atmosphere	4	0,90
Convenience	4	0,82
Price/value	4	0,82
Customer Perceived Corporate Ethicality	14	0,92
Vicarious Perspective	5	0,85
Personal Perspective	9	0,92

Table 2. **Results of the Regression Analysis**

Independent variables	Adjusted R square	Unstandartized coefficients		Coefficients Beta (β)	t	Sig.
		B	Std. error			
Vicarious Perspective	0,346	0,563	0,053	0,591	10,689	0,000
Personal Perspective	0,494	0,676	0,047	0,705	14,497	0,000

Dependent variable – Retail Chain Image; n=215.