Ethics and Customer Loyalty: Some Insights into Online Retailing Services

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Abstract

The internet has created tremendous opportunities for businesses and customers alike. Distribution channel members can extend their reach and visibility to partners beyond geographical boundaries. Although many businesses are acknowledging the importance of the internet and online retail activities, little academic attention is given to the community’s perception of this medium. The main purpose of this study is to offer insights using the case of Trinidad and Tobago’s (T&T) customers’ perception regarding ethical issues of online retailers. This study employed Structural Equation Modeling. The findings revealed that issues relating to a site’s security and reliability are important influences on consumers’ perceptions of online retailers’ ethical practices. Issues relating to trust closely followed. The study provided empirical support for a direct positive relationship between customer perceptions of online retailers’ ethics and customer loyalty. The established relationships have direct implications for online retailers intended to appeal to Caribbean customers.

Keywords: Online Retailers, Ethics, Customer Loyalty, Customer Perception, Trust, Security, Reliability, Caribbean.

1.1 Introduction

The internet has emerged as a viable alternative channel to physical retailing. Through the internet, marketers can realize lucrative business opportunities worldwide. In this regard, the internet is a widely used medium that acquires and delivers information and services to customers and business. It is perpetually transforming the way people and businesses interact with each other. With such transformation, impressions of expressed ethical conduct by both parties are now at the forefront. Bricks and mortar stores may be able to signal longevity and ethical behavior by external factors such as their location or by the behaviors and attitudes of their employees. These characteristics are not present in virtual companies which offer online purchase options (Romain, 2007). The internet is often seen as a new environment for unethical behavior (Freestone & Mitchell, 2004). Citera et al. (2005) cited that ethical transgressions are more likely to happen in e-transactions as compared to face-to-face transactions because of the very nature of the medium. The theory of physical proximity propagate a warmer and closer interpersonal relationship between individuals and organizations. The internet by its very nature facilitates geographically dispersed users to interact with one another. This physical distance can translate into a psychological distance, therefore creating a barrier that further complicates customer perception of business ethics.

However, despite this prominence, little research has been conducted on the ethical issues consumers deem important with respect to online retailers. This study will address this deficit. It will identify and evaluate key indicators of customers’ transaction that judge online retailer’s ethics. The study operationalizes the Customer Perception of Online Retailers Ethics (CPEOR) model originally designed to evaluate Spanish customers, for the case of Trinidad and Tobago (T&T). Additionally, the study investigates the statistical relationship between customers’ perception of online retailers’ ethics and level of loyalty to the site. Specifically, the study will answer the following research questions: (1) What factors contribute to consumers’ perception of online retailer’s ethics, and (2) Does consumers’ perception of online retailers ethics have any effect on customer loyalty? This paper provides valuable insights for online retailers targeting Caribbean customers. While the model of understanding customer perception of online retailers’ ethics is exploratory, it still provides a useful platform on which retailers can build.
The study identifies key indicators Caribbean customers consider as essential components for online sites. It also provides meaningful level of understanding of the relationship among these essential components relative to the ethical practices of online retailers.

2.1 Literature Review

It is now layman’s jargon to hear the term ethical retailing although what actually constitutes ethical retailing is open to variations in interpretation. For the most part, being ethical entails terms such as equality, honesty, justice, integrity and respect. Retail matters with an ethical dimension have become increasingly prominent in both academic literature and in the general media. Discussions of inequalities in the retail workforce, infringements of intellectual copyright through ‘copy cat’ branding or fake goods and unfair pricing are a few examples of what is prominently discussed. While several studies have examined how website characteristics (ease of use, navigation, interactivity, site aesthetics, etc.) can have a direct impact on perception of service quality, customer value and profitability, few studies have ventured into the ethical domain of this subject. This lack of research interest is surprising as there is sufficient evidence of online firms facing ethical dilemmas in their operations. The following example presents one of the many prominent cases:

“In 1999, the New York times ran a story that disclosed amazon.com arrangements with book publishers for book promotions. Amazon was accepting payment up to $10,000 from publishers to give their books editorial reviews and placement on the list of recommended books as part of its cooperative advertising program. When the news broke, amazon.com issued a statement that it has done nothing wrong and that such advertising program was a standard part of publisher-bookstore relationship. The outcry was overwhelming. Two days after, amazon.com announced that it would be end the practice and offer unconditional refunds to any customer who purchased a promoted book. Although the practice of amazon.com was not illegal, the practice appeared to be unethical by many of its existing and potential customers” (Schneider, 2007, p. 34)

On a daily basis online retailers are confronted with several ethical issues such as privacy rights and obligations. Ethical issues are significant in the area of privacy because laws have not kept pace with the growth of the internet and the web. The nature and the degree of personal information registered on websites can threaten the privacy rights of those individuals who visit sites. Companies have received negative publicity because they allowed confidential information about individuals to be released without their consent. Toysmart is one such example:

“Toysmart was a popular website that marketed and sold educational and non-violent children’s toys over the Internet. Through its website, Toysmart collected detailed personal information about its visitors, including name, address, billing information, shopping preferences, and family profiles. In September 1999, Toysmart posted a privacy policy which stated that information collected from customers will never be shared with third parties. When it ran into financial difficulties, however, it attempted to sell all of its assets, including its detailed customer databases. On July 10, 2000, the FTC filed a lawsuit against Toysmart to prevent the sale of the customer information. After that, Toysmart.com went bankrupt (Federal Trade Commission, 2000)” (Romain & Cuestas, 2008, p.83).

The issue of privacy is related to the concept of information risk (Romain & Cuestas, 2008). Privacy extends itself beyond the uncertainty of providing personal information on a website, but includes the degree to which information is shared, rented or sold to third parties that have marketing-related interests (Miyazaki & Fernandez, 2000). Security is closely related to privacy. Security refers to protection of credit card and other financial information from computer virus attacks. It is the extent to which customers believes that the site is safe regarding payment methods (Bart et al., 2005). According to http://www.access-ecom.info/article security concerns include a wide range of issues: disruption or denial of service attacks, defacing web sites, unauthorized use of credit cards, invasion of privacy (especially as related to minors), unauthorized changes to database records, fraud, misuse of data about vulnerable populations, spreading viruses, employee misuse of the net, employee privacy, and email harassment.

The problem of security can be a result of the vulnerabilities of the internet upon which online retail or e-commerce is based resulting in a higher risk of information theft, theft of service, and corruption of data is a reality in this medium. Additionally, the probability of fraudulent activities can be significantly increased because of complexities of accounting for the use of services (Suh & Han, 2003). Studies of internet security and control were interested mainly in its implementation and effectiveness. However, from a customer perspective, the success of site security measures often goes unnoticed. Customers are often oblivious to the controls implemented on any given internet site. They can only perceive the strength of security controls on a site indirectly through advertisements and publicized information.
If security breaches occur, customers may incur damage ranging from invasions of their privacy to financial loss. Organizations will suffer severe losses ranging from the loss of valuable information to a bad public image, and even legal penalties by regulatory agencies. Security control for confidentiality, reliability, and protection of information is therefore a crucial prerequisite for the effective functioning of e-commerce. Other aspects of online retailers’ ethics include reliability and non-deception. Reliability relates to customer trust and belief that obligations will be fulfilled. Customers believe that the selling company will behave in a manner that is of interest to them. This measure included that the price billed is actually what the customer expected based on the information accessed from the site (Nardal & Sahin, 2011). It can also refer to the availability and delivery of the products ordered. Generally, reliability refers the site owners’ ability to honor the promises made on the site. Deception on the other hand, refers to the site’s tendency to exaggerate the benefits and characteristics of its offerings. It includes the use of misleading tactics to convince consumers to buy its product (Roman, 2007) and retailers taking advantage of less experienced customers (Nardal & Sahin, 2011). Deception occurs when the retailer leaves the consumer with an overall image or belief that is different from what one could reasonable expect. Deception is a critical connotation that implies negative intent.

According to the Federal Trade Commission (FTC), deception exists if there is a misrepresentation, omission, or any practice that is likely to mislead the consumer acting reasonably in the circumstances, to the consumer's detriment (Aditya, 2001). An advantage of shopping on the internet is the ability to check out several brands and stores while sitting at one’s computer. However, this situation brings with it new opportunities for exploitation of the unwary consumer. On the surface, it appears that consumers are totally in charge of the situation if they are evaluating products and prices over the web, without the intimidating presence of an aggressive salesperson. However, web pages can be carefully constructed to distract attention and ‘force’ consumer choice therefore customers are not insulated from marketers’ persuasive strategies (Aditya, 2001).

The main purpose of this study is to offer insights into customer perception of online retailers’ ethics. The CPEOR ethical evaluation model was used as the basis of conceptualizing the construct (Romain, 2007). While the CPEOR model is a thorough and concise model that withstood basic validity and reliability tests, it must be noted that the model was developed and tested in Spain, and reflects the perception of Spanish customers. From marketing ethics theory, culture is generally recognized as one of the most important factors influencing ethical decision-making (Ferrell & Gresham 1985; Ferrell et al. 1989). This conclusion is also supported by Hunt and Vitell (1986) who concluded that stakeholders cultural environment directly influence their marketing ethics. Consequently, different cultural practices imbedded in different societies may become a critical factor in terms of expressed ethical expectations. This study will investigate this proposition as we apply the CPEOR model on T&T customers.

2.1.1 Customer Loyalty and Ethical Perceptions

Creating online customer loyalty through retaining existing customers is a necessity for online retailers. Attracting new customers cost online retailers at least twenty percent (20%) to forty percent (40%) more than it cost serving an equivalent traditional market (Reichheld & Schefter, 2000). To recoup these costs and show a profit, online retailers, evenmoreso than their counterparts in the traditional marketplace, must encourage customer loyalty. This implies that convincing customers to return for many additional purchases from their site is a significant factor (Gefen, 2002). Loyalty research suggests that in a traditional marketplace customer loyalty is primarily based on quality of goods and services (Caruana, 2002), customer satisfaction (Murphy, 1996), customer trust (Laurn, 2003) and value (Andreassen & Lindestad, 1998). Loyalty is defined as the degree of continuity in patronage and customers’ disposition relative to their expressed preferences in purchase decisions. It is ingrained in the psyche of the customer and resembles brand commitment (Sudharah et al., 2006). Although customer loyalty has been studied in an online environment, there are no empirical studies examining the theory of customer loyalty and customers’ perception of the ethics of online retailers. This study will address this deficit and will also test whether the relationship between customer perceptions of online retailer’s ethics and loyalty is positive.

3.1 Research Method

A survey was administered to a convenience sample taken from The University of the West Indies (UWI) students at the T&T campus. Potential research participants were approached at different times (between 9 am and 7 pm) on different days. Data collection extended over two weeks (March 3rd to March 17th 2011). Data were collected from 200 students. A necessary requirement for subjects to participate in this study related to timing of their online purchase. Participants were required to purchase at least one item online over the last three months. Subjects were not placed in emotional or physical harm. Therefore informed consent was not necessary. Only those participants who volunteered to participate and met the specified criterion for selection were sampled. Data were collected using a structured self-administered questionnaire.
Participants were asked to complete the questionnaire referring to the website on which they made their last online purchase.

3.1.1 Questionnaire Design

The questionnaire used in this study consists of items developed and tested by previous researchers. The items used in the study were derived from a two scales: (1) The equity scale comprised of nineteen (19) items adopted from the CPEOR scale which tested four constructs: security, privacy, non-deception and fulfillment/reliability, and (2) SERVLOYAL scale that measured facets of attitude and behavioral loyalty. The SERVLOYAL scale consisted of eight (8) items and was adapted to reflect the context of this study. Because of the wording of the items in the non-deception construct in the ethics scale, each item was reversed-coded when entered into SPSS. The instrument was pretested for structure using a convenience sample of ten (10) post graduate students enrolled at UWI. These students reviewed the instruments for clarity with respect to the phrasing of questions, question structure, clarity of instructions and overall questionnaire flow. These students were chosen because of their experience and academic training in research methods and questionnaire development. According to contributors to research methodology (Li et al. 2008; Neuman, 2010) pretesting is an important step in questionnaire design. This step ensured that all questions are clear and concise by removing ambiguities and errors. The instrument was revised accordingly. Participants were asked to rate their level of agreement on structured questions on a five point Likert Scale that ranged from 1 (strongly disagree) to 5 (strongly agree).

3.1.2 Data Analysis

The sample comprised of two hundred (200) respondents which comprised thirty eight percent (38%) male and sixty three percent (63%) female. Two thirds of the respondents fell in the age category twenty to thirty (20-30) age category. Mostly full-time under-graduate students were interviewed which accounted for sixty three percent (63%) of the respondents.

3.1.3 Customer Perception of Online Retailers’ Ethics

According to Churchill (1979), the first step in purifying the measurement instrument was to calculate variables inter-correlated coefficients so as to remove any unusable variables. Variables failing to correlate higher than 0.5 on the preconceived factor were removed from the analysis. Two variables were eliminated from further analysis: security policy and company information. Cronbach alpha for the remaining item scale for each factor is: Security (0.757), Privacy (0.725), Non Deception (0.867) and Fulfillment/Reliability (0.779). The two endogenous constructs (Ethics and Customer Loyalty) were also factor analyzed. The three variables that comprise the ethics construct were statistically significant and explained seventy three percent (73%) of total variance. In terms of the loyalty construct, four variables were eliminated because of the lack of statistical significance in inter-item correlations. The variables eliminated from further analysis were: future transactions, willingness to pay increase service charges, willingness to patronize site despite low fees and strong customer preference. Cronbach alpha for the remaining item scale for each endogenous construct are: Ethics (0.814) and Customer Loyalty (0.804).

Exploratory factor analysis was subsequently performed on the remaining seventeen (17) variables to check whether or not the theoretical structure of CPEOR instrument was supported by the data. The Kaiser-Meyer-Olkin (KMO) statistics and Bartlett’s test of sphericity were used to evaluate the suitability of patterns of correlations so as to judge the suitability factor analysis. Kaiser (1974) recommends a value greater than 0.5 to be acceptable. The statistic produced a value of 0.812 which is well above the minimum. Additionally, the Bartlett’s test yielded a chi-squared value of 861.566 (p<0.05). This suggests that there is sufficient inter-correlations among variables to warrant factor analysis. Using principal component factor analysis with varimax rotation, the data were further analyzed. The items retained for further analysis met the following criteria: (1) all inter-correlation coefficients were statistically significant at a 95% level of testing, and (2) items did not load on more than two factors.

Five (5) variables did not meet these criteria. These were: secure payment, user information, personal information, rules and regulations, and exaggerated benefits. The remaining twelve (12) variables loaded on two (2) factors which accounted for fifty-seven percent (57%) of total variance. The first factor explained approximately forty-three (43%) of total variance and comprised of eight (8) variables. The second factor explained approximately fourteen percent (14%) of total variance and comprised of four variables. The Cronbach alpha reliability test showed that the scale were within the acceptable limit with values of 0.850 and 0.855 respectively (see Table 1).
Table 1
Rotated Component Matrix*

<table>
<thead>
<tr>
<th>Component</th>
<th>1</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>terms and conditions</td>
<td>.533</td>
<td></td>
</tr>
<tr>
<td>transaction details</td>
<td>.552</td>
<td></td>
</tr>
<tr>
<td>security features</td>
<td>.745</td>
<td></td>
</tr>
<tr>
<td>privacy policy info</td>
<td>.725</td>
<td></td>
</tr>
<tr>
<td>honesty</td>
<td></td>
<td>.750</td>
</tr>
<tr>
<td>misleading tactics</td>
<td></td>
<td>.849</td>
</tr>
<tr>
<td>take advantage of</td>
<td></td>
<td>.866</td>
</tr>
<tr>
<td>customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>persuasion</td>
<td></td>
<td>.758</td>
</tr>
<tr>
<td>actual amount billed</td>
<td></td>
<td>.669</td>
</tr>
<tr>
<td>get what you ordered from site</td>
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<td>.690</td>
</tr>
<tr>
<td>product availability</td>
<td></td>
<td>.724</td>
</tr>
<tr>
<td>timing</td>
<td></td>
<td>.727</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

3.1.4 Confirmatory Factor Analysis

The remaining items were examined through Confirmatory Factor Analysis (CFA) to establish uni-dimensionality for each factor. Through the use of AMOS 8, a Structural Equation Model (SEM) was specified. Two factors and the twelve variables were retained. Factor 1 was labeled ‘Security and Reliability’ and Factor 2 labeled ‘Trust’.

The SEM turned out to be a poor representation of the data with fit indices failing to meet acceptable levels (Hair et al. 2010). The chi-squared value of 306.419 for the overall model was relatively high compared to the degree of freedom of 186. This suggests that there is sufficient difference between the data set and the theoretical model. The significant chi-squared value was less than 0.05 further supporting the conclusion that there is a significant difference between the sample and model covariance. The GFI and AGFI fell below the recommended 0.9 and NFI was less than the recommended 0.95 (Hair et al., 2010).

3.1.5 Model Re Specification

In order to improve the fit of the model, a series of iterative procedures were employed. This included an investigation into the statistical significance of the computed regression coefficients, the modification indices and the correlation of error terms. A final model was supported by the values of the fit indices. The chi-squared value of 48.395 is acceptable with the corresponding degree of freedom of 48. This suggests that there is no difference between the data set and the theoretical model. The significant value is more than 0.05 which further suggest that there is no significant difference between the sample and model covariance. The GFI, AGFI and NFI all fall above the recommended 0.9 (Hair et al., 2010). Figure 1 shows the SEM results for the respecified SEM model.

An examination of individual parameter estimates revealed that all loading estimates are statistically significant at a ninety-five percent (95%) confidence interval. This provides evidence of convergent validity. Additionally, all indicators share at least fifty percent (50%) of common variance with their respective factors. Discriminant validity is an attempt to examine the degree to which each construct is similar to or different from other constructs. To establish discriminant validity the squared correlations between these constructs are compared with the amount of variance extracted by each construct.
In terms of the Security and Reliability construct, the amount of variance extracted is 0.56 while squared-correlation is 0.1024. In terms of the Trust construct, there is also discriminant validity since the amount of variance extracted is 0.65 while squared correlation is 0.1024. The model explains sixty-one percent (61%) of total variance on customer's perception of online retailers’ ethics and sixty seven percent (67%) of customer loyalty. The correlation between Security and Reliability and Overall Ethics (0.71) is higher than that of Trust (0.16).

3.1.6 Ethics and Customer Loyalty
From the final model, four (4) indicators were statistically significant in measuring this construct: customers perception of their overall loyalty site, their willingness to recommend the site to others, the willingness to try new products, and the preference for shopping on the site in comparison to other sites. The model showed that consumers’ willingness to recommend the site to others was the strongest indicator accounting for sixty-two percent (62%) of the total variance. This is followed by consumers’ preference for shopping on the site in comparison to other sites (50%) of total variance, the willingness to try new products and customer’s perception of their overall loyalty site (45%) of total variance. In terms of the relationship to overall customer perception of the online retailers’ ethics, the model revealed a very strong relationship with two-thirds (67%) of overall customer loyalty accounted for by the ethics model. The standardized correlation coefficient is 0.82 which suggests that for every one standard deviation increase in customer perception of online retailer’s ethics, their loyalty increase by 0.83 times.

4.1 Discussions and Conclusions
This study provided a direct link between customers’ perception of the online retailers’ ethical conduct and their level of loyalty. The study showed that customers in T&T are more willing to demonstrate attitudinal and behavioral loyalty towards an ethical retailer. Therefore online retailers who fail to provide services that can boost customers’ perception of their level of ethics will suffer severe consequences of eroding their customer-base and rising marketing costs. Additionally, the study also presents an SEM that maps out the relationship among key constructs related to customers perception of online retailers ethics. Through the use of exploratory and confirmatory factor analyses, the study presents a parsimonious model which can be used by online retailers to measure T&T’s customer’s perception of ethical practices.
From a series of statistical estimation, the scale proposed by this model possesses psychometric properties which suggest that ethics is a multidimensional construct that comprise two main service related areas: Security and Reliability, and Trust. While these two constructs are distinct, there is a statistical relationship to each other. This is not in contrary to previous findings in measuring customers’ perception of ethics (Romain 2007; Romain & Cuestas 2008). This final model consisting of five items (two constructs) is parsimonious and can be of great interest to practitioners.

The study found that a site’s security and reliability is the most important contributor in shaping customers’ perception of an online retailer’s ethics. This suggests that online retailers must invest in areas of security and reliability in order to improve the level of customer loyalty customer give to the site. Online retailers must have very clear and concise privacy policy which protects the right of their users from unauthorized disclosure. This policy must be reinforced and prominently placed on websites so as to reassure customers that identity and confidentiality will never be compromised. Online retailers must therefore invest in incorporating security features into their site that will protect customer transaction details, credit and personal information, as well as their computer system from unsolicited hacking. It is essential that online retailers make their users feel comfortable, that they feel protected from monetary and psychological losses during their interaction with the site. Product availability also significantly contributes to consumer perception of online retailers ethics. This finding empirically supports Romain (2007) contribution. By ensuring that the stock list is always current, the level of skepticism and distrust that is normally associated with merchandise which customers have not seen will be reduced. Online retailers must also ensure that promises are kept. Romain (2007) referred to this as online fraud whereby goods were purposely not delivered to the customers.

Trust is the second predictor of overall ethics. Two key areas emerged from the study that affected trust: misleading claims and perception of being exploited. Misleading claims accounted for the most amount of variance which suggests that online retailers must resist manipulative communication and marketing practices which create false impressions. Online retailers should desist from making claims that cannot be substantiated, and from using ambiguous statements in which the reader must make inferences on the message the online retailer intends to deny. Consumers are more likely to recognize an online retailer as an ethical retailer, based on the amount of trust they ascribe to the retailer and its operations which directly impact on the level of loyalty they assign to the retailer. Ethics therefore plays an essential role in customer relationship management (Gundlach & Murphy, 1993; Ruiz, 2005).

This study provides empirical support of the importance of customers’ perception of online retailers’ ethics to customer loyalty. In today’s highly competitive business environment, all marketing activities involve developing and implementing long-term customer relationships which is one of the best ways to insulate the firm against competitive rivalry and changing consumer tastes and preferences (Ferrell & Hartline, 2008). Long-term relationships translate into customer loyalty. This study adds a new perspective on loyalty as it shows that loyalty extends well beyond product and service related issues. This study also enhances our understanding of the loyalty construct as it reveals that consumers’ perception of the ethics of online retailers is an antecedent to customer loyalty. Customers are likely to keep buying from companies perceived as doing the right thing and to associate positive images with their products. It is therefore imperative that online retailers invest in activities that will create a positive customers perception of their overall ethics.

5.1 Limitations and Opportunities for Future Research

This study provides useful insights into customers’ perception of online retailers’ ethics and the consequential impact on the level of loyalty pledge to the site. However, it must be noted that the study was conducted using a relatively small sample of UWI students. Future research should consider using a larger more representative sample drawn from the wider consumer population. Additionally, future researchers should consider extending the CPEOR model to link the CPEOR to key performance indicators such as site’s profitability, site’s market share, share price or site’s brand equity. Furthermore, it is reasonable to presume that differences in perception could be attributable to demographical variables such as age, ethnicity, or levels of education and computer literacy. It will therefore be an interesting extension to the model if future researchers investigated whether ethical perceptions vary among these identified variables.

References


