CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

In the business and marketing ethics literature, there have been a lot of studies focussing on organizational or professional norms (Laczniak & Murphy, 1993; Smith & Quelch, 1993; Chonko, 1995; Schlegelmilch, 1998; Chonko & Hunt, 2000; Sparks & Hunt, 1998). However, the ethical brand, which is seen as a brand that is morally conscious and considers economic, social, and environmental responsibilities, has received little attention from researchers in exploring its effect regarding buyers' responses (Fan, 2005). According to Fan (2005), being seen as ethical in branding is important due to the increasing number of buyers becoming more aware of the ethical business practice. For example, one survey conducted by Creyer and Ross (1997) found that ethical business practice is a vital consideration during the product/brand selection and that customers are willing to pay a premium price for such a product/brand (Fan, 2005). This dramatic growth in ethical consciousness is influenced by the liberalization of economies, industrial deregulation, globalization of markets, higher customer expectations, and the new information technology era resulting from the Internet revolution (e.g. Ainin, 2005; Doyle, 2000; McKenna, 1991; Sheth et al., 2000).

The use of global information systems to achieve a sustainable competitive advantage (Day, 1991) has already been a very important aspect of every company. Thus, selecting the technology logistic (i.e. electronic office equipment) is a vital decision in the buying process made by industry (Kohli & Jaworski, 1990). One of the references to be considered by the buyers is the role of brand's responsibility as an expression of ethical consciousness of the company offering in the global marketplace (see, eg

Pearson, 1995; Halme, 1997; Dienhart and Curnutt, 1998; Sen, 1995, 1999). Environmental and social responsibilities have become a concern in the business ethics that has manifested as a consideration in any purchasing decision (Fan, 2005; Sumiani et al., 2007). For example, the electronic products which contain hazardous waste when disposed become the issues among industrial buyers when the equipments need to be replaced due to all of hazardous negatively effect on the environment due to waste and create the problem for society and explained by Nnorom and Osibanjo (2008).

These issues become a question of ethics and affect every type of business, enterprise, organization and person (Sharp, 2003). Therefore, the responsibility dimensions of brand management that reflects the ethical trading issues such as environment, employees and community need to be considered. As Fan (2005) argues that a good brand not only provides the brand power, but it must also have the ethical standards as an expression of its responsibility not only for the buyers, but also for the community and environment. However, a study on these ethical standards of branding in the past related to how the buyers' response to these issues and what attribute performing brand seem to be ethical is very limited. Thus, this situation provides an unclear understanding among academicians and practitioners of the current issue of branding as the ongoing debate still exists due to the lack of empirical studies and the consequent gap in meaningful studies concerning this current issue. Therefore; there is a pressing need for academics and practitioners to understand the customer's perception about the issue of branding.

Based on the above viewpoint, and due to an unclear understanding in the literature about the current issue of ethical branding, providing a clearer understanding is necessary to enrich literature and also fill the gaps pertaining to this key current issue. Therefore, this study investigates which aspects of the ethical brand are more important

in influencing the buyer's responses. The study explores whether the ethical brand will influence the buyers behaviour responses in the context of electronic equipment.

The following section justifies why it is important to research the ethical aspect of branding.

1.2 RESEARCH JUSTIFICATION

1.2.1 Is the Ethical Aspect a Critical Issue Today?

According to Attfield (1999: p. 46) *'the ethical aspect has focused on the responsibility of businesses towards future generations of people and other species (stakeholders)'*. Based on this point of view, Attfield (1999) indicates several important ethical aspects that consist of ethics and good values, scope of moral consideration and community, life- versus people-centred approaches, and dominion.

The importance of the ethical aspects is to provide an explicit, rational, moral underpinning in business practices for the whole natural world (i.e. stakeholders) (Worrel and Appleby, 2000). Having such an underpinning allows business to challenge other forms of management based on indifference to the stakeholders or the natural world. Furthermore, Worrel and Appleby (2000, p. 266) argues that *'the success of "sustainable management is an excellent example of the power of a management concept that is based on an explicit ethical current issue'*.

In the marketing literature, ethical issues have been noted as having a positive impact and an important determinant of company performance (Singhapakdi et al. 1996, 1999). This is due to the ethical judgments being made by customers, which are, consequently, likely to affect the customers acceptance or rejection of a company's products. As

Laczniak and Murphy (1993) point out that customers normally recognize firms that intent to be responsive to behave ethically and consider social responsibility for its wider stakeholders. This is because ethical business practice and social responsibility may have a positive effect on the company's performance in the long run as noted by Singhapakdi (1999). Thus, ethical business practices are a vital factor of a company's success. In order for a company to achieve the image of success and to convey that the company is well managed, ethical and social responsibility is an important concern in marketing activities. Particularly, a company's success and being well managed are attributes of a company reputation according to Cretu and Brodie (2005). Therefore, the need to incorporate ethical and social considerations into marketing practices is essential, especially in business-to-business context to maintain the relationships among them. Generally, an ethical guide that comes from the complexity of marketing is not easy to explain. The ethical framework's purpose of addressing the widest problems of society (such as social and environmental) can also be justified by marketing concerns (Whysall, 2000).

The above viewpoint indicates that social and environmental consideration has appeared as a moral standard to express the business responsibility. Ethical business practices have become an important issue in every business conversation. This is consistent with Zabid and Alsagoff (1993), who indicated that a business seen as ethical in the Malaysia scenario has been a critical element to be considered, and offering not only quality, and price in business competition, but also a product with ethical standard has been the main strategy in business practices. Therefore, providing products/brands with responsibility as an ethical concern for all stakeholders (Fan, 2005) becomes a critical issue that should be applied in marketing business practices.

Thus, there is a pressing managerial need to recognize how to manage the ethical standards to cover the issues mentioned above. There is very few companies that understand what ethical standards must be applied. Therefore, in order to present a clearer picture to practitioners what the current study is able to explore which aspects of ethical standards might be emphasized are to provide a superior value of product/brand in business-to-business (B2B) context.

1.2.2 The Creation of Ethical Value in Branding

One of the issues which is gaining increasing prominence in marketing concepts today is ethical value. Indeed, the responsibility of marketing is to support the firm to develop new creation of value for its buyers that is different from the competitors (Tzokas & Saren, 1999; Lindgreen & Wynstra, 2005). However, the concept of value is not new in marketing literature and most companies have the intention of creating value for their customers. Thus, the concept of value illustrates that buyers and sellers benefit from their business relationships and create long term relationships between customers and buyers. In this context, building relationships with the customer is an essential aspect and a corner stone in order to establish a long term relationship. This may well be the prerequisite to customer loyalty and consequent to higher sales to the company (Reynolds, 2002). For example, the intention of a customer to purchase a branded product is to get its added value. If a customer values a brand they should also be willing to pay extra for that particular brand (Costadino, 1998). In addition, successful value-based corporate branding encourages customers to see for themselves in the light of the brand narrative (Belk et al., 1989; Bhattacharya & Sen, 2003), and at the same time, it could raise the bar for higher ethical standards in its core business activities (Kay, 2006).

Consequently, brand success becomes deeply entwined within a corporation's corporate social responsibility performance (Zyglidopoulos, 2002), even though, a successful brand may not be ethical (Fan, 2005). The foundation for this social responsibility emphasizes the responsibility of the company towards the community (i.e., responsibility for social life), although its effect on stakeholders responsibilities as a whole is still limited (Aaker, 1991; Kapferer, 1997; Keller, 1998). Therefore, branding with ethical concern needs to be investigated to enrich the creation of ethical value.

According to Fan (2005), the ethical brand cannot promise a company success in the marketplace, however, this premise does not automatically become observable in the actual purchasing decision as many customers emphasize ethical concerns. For example, a survey in the USA discovered that ethical behaviour is an essential factor to be considered during the selection process and that buyers are willing to pay higher prices for products from firms exhibiting ethical behaviour (Creyer & Ross, 1997 cited in Fan, 2005). Although the business buyers are more sophisticated today it does not mean that this can be translated into behaviour that ethically business practices are more profitable compared to unethically ones (Carrigan and Attalla, 2001). The consequence is that the higher report a brand has, the higher the confidence for ethical performance to be associated with that brand by the public.

In addition, according to Fan (2005), the business environment faces increasing pressure from two sides: shareholders and wider stakeholders. From the shareholders' point of view the pressure is to increase benefit as an economic responsibility, whereas from the wider stakeholders point of view it is required to consider social and environmental responsibility. For these reasons, the ethical brand may encourage a company's goodwill through providing differential value compared to competitor; and, this strategic point might also encourage positive customers' responses towards the

brand. However, the superior value of the ethical brand is a complicated issue; therefore, there is some confusion about whether good or bad brand represents the value of the brand itself as a part of marketing in which it may be ethical or unethical (Fan, 2005).

From an ethical perspective, according to Fan's (2005) viewpoint, the ethical brand recognizes not only economic responsibility, but also the integrity of the social and environmental responsibility to do the right thing. Thus, integrity becomes a moral standard to explain an ethical view of branding that is responsible to its stakeholders.

The previous studies on the ethical brand have predominantly been conceptual rather than empirical, and most of these studies were conducted on the consumers' responses or business to consumers (Ambler, 1997; Murphy, 1999; Fan, 2005; and Paluszek, 2006). How industrial buyers (business to business) view an ethical brand is an interesting question as to whether the ethical brand is appropriate in a business-to-business perspective, and as a new construct, whether the ethical brand (using the type of measure) is expected to be an important aspect when it is applied in a business-to-business context. Although, there is no consensus regarding these issues, Fan (2005) argues that society today gives the impression of being more concerned with ethical issues in marketing compared to two decades ago. The public expects a higher ethical behaviour for higher reputation brands. Also with the increase in the number of ethically conscious customers the more customers pay serious attention to ethical issues in branding. Thus, what is required is a clearer point of view of how ethical issues affect the buyer's response. Nevertheless, this point of view is absent, caused by the lack of empirical research on the ethical brands. Furthermore, available literature to provide an understanding of what aspects of the ethical brand play an important role among the buyers is limited (Fan, 2005; Paluszek, 2006). Therefore, the lack of

empirical research is a major challenge in providing a clearer understanding of the ethical concerns of branding, particularly from a business-to-business perspective. Thus, this study tries to fill the gap as mentioned above by investigating which aspects of ethical branding are more important in order to understand the business buyer's responses.

The next section will justify the need to incorporate the ethical aspects in the branding model in order to understand the business buyers' responses.

1.2.3 The Need to Incorporate the Ethical Brand in order to Understand the Business Buyers' Responses

This study is also inspired by the critics of the view that business is only profit oriented and not stakeholder oriented (Szwajkowski, 1997). Furthermore, Szwajkowski (1997) explained that stakeholder oriented is necessary in the marketplace due to the business environment facing growing pressure from stakeholders to consider both social and environmental responsibility (Fan, 2005). In this context, the legal and ethical problems become big issues when some or all of these conditions appear. Thus, the view of the "invisible hand" (released by Adam Smith) is not relevant to customers today who want protection against questionable advertising and poor products that are released in the market. Hence, stakeholder oriented is a more useful approach in identifying moral and legal issues surrounding product/brand and service safety.

This viewpoint is consistent with Fan's (2005) argument that there are two important elements missing from the concept of branding, namely; the ethics and legality. These critical components can be a foundation for strengthening brand equity. Thus, a strong and good brand has an ethical standard and legality. Consequently, a worthy brand should be measured by not only in terms of its economy or financial aspect, but also in

terms of its ethical standard. According to Fan (2005), the brand model in the past (presented by Aaker, 1991; Kapferer, 1997; and Keller, 1997) consider more of product brands rather than ethical standard of branding. However, society as a whole and the environment has been impacted by the product brands. It is because a wider stakeholder may also be potentially affected by branding decisions in every market. For example, industrial buyers who buy electronic equipments might also need to replace with the latest technology after using for several years. When business buyers need to dispose the equipment, several issues may appear. These may include – employees, suppliers, and the wider community that are affected by the hazardous waste of these electronic products as pointed by Nnorom and Osibanjo (2008). Thus, a brand that positively affects one group (i.e. business buyers) may also possibly negatively affect another (e.g. social and environment). Therefore, Fan (2005) suggests that brands should pay attention to stakeholders as a whole because they are also impacted by branding. In spite of providing benefits to owners and users, a brand must ensure there no negative impact on society in general. In other words, brands should be able to contribute positively to the public by incorporating the ethical aspects through social activities and respect to law and social custom. Consequently, this condition may create a relationship between the brand and its public.

In addition, the above picture is compatible with Narver and Slater (1990) emphasizing that the marketer needs to include stakeholder issues in the concept of market orientation as Maignan et al. (1999) concludes that market orientation has an empirical relationship with the corporate citizenship. Thus, considering the ethical obligation is very important to response to customers' concern in the marketing practice. Introducing an ethical responsibility is required to be able to anticipate stakeholders' pressure in order to maintain the company reputation and commitment of the buyer. Therefore,

improving the company reputation can be achieved through the enforcement of ethical responsibility towards stakeholders as a whole

The above point of view indicates that maintaining a company reputation can be achieved and derived from the perceptions of all stakeholders (Whetten & Mackey, 2002). Wartick (2002) suggest that marketers not only focus its activities on their customers because a wider stakeholder is the greatest group influencing. Moreover, Greyser (1996) discovers that company reputation will have an attractive relationship with corporate performance based upon its social and environmental responsibility (Fan, 2005). Meanwhile, Paluszek (2006) points out that there is a close link between ethical branding and company reputation. Furthermore, Cretu and Brodie (2005) use the customer value as the ethical concerns which were developed by Gale (1994) and Rust et al. (1995). Cretu and Brodie (2005) extended their work by paying explicit attention to the influences on company reputation. The results of their study revealed that customer value as an expression of ethical aspect via corporate reputation is expected to enhance customer loyalty.

Moreover, the term the ethical brand is still new, even research on how the ethical brand affects loyalty is very limited (Fan, 2005; and Paluszek, 2006). Also, information about the effect of incorporating brand knowledge (e.g. including product and service related to ethical dimension) on industrial buyers' behaviour responses is scarce (Paluszek, 2006). Therefore, incorporating the ethical brand and analyzing its effect on industrial buyer's behaviour becomes relevant in the area of business-to-business brand representation. It might contribute both conceptually and managerially. Furthermore, with such incorporation, it can reduce the negative perception of customers and stakeholders, and management can identify which ethical attributes of branding besides the existing variables may explain the response from industrial buyers. This will minimize any inequality between brand perception of industrial buyers, company

reputation and loyalty. Therefore, this current study tries to incorporate the ethical brand perspective to explore the business buyers' responses in order to present a clearer viewpoint of branding perception through considering responsibility toward the stakeholders as a whole. Furthermore, the following section will specifically justify the aims of this study.

1.3 RESEARCH AIMS

As discussed earlier, the effect of the ethical brand is still unclear due to a lack of empirical evidence in this area. Yet, the ethical brand is important despite being a relatively new construct (Fan, 2005; and Paluszek, 2006). By using ethical issues as the study background, the main aim of this study is to explore the ethical aspects/attribute in branding and its effect on the responses of industrial buyers. Therefore, this study hopes to provide a further understanding on the relationship between the antecedents (e.g. quality of product and service, and perception of price) and the ethical brand, and subsequently, its effect regarding the industrial buyers' responses (e.g. company reputation and brand loyalty). It is important to investigate whether this new value as the ethical brand, has a significant role and also has an effect on industrial buyers' responses as it might provide a comprehensive value for companies to include in their marketing strategy for business-to-business context. Consistently, Sheth et al. (2000) suggested that companies have to adjust their traditional model by adopting some studies that can overcome new phenomena, and include them in their marketing strategy in order to respond to the ever changing market environment.

Based upon the above explanation, this study outlines several research questions that will be viewed in the following section.

11

1.4 RESEARCH QUESTION

The research questions for this study are as follows:

1.   What are the components of the ethical brand?

2.   Does having better quality of product, service and price perception enhance a company reputation, perceive brand as ethical, and increase brand loyalty?

3.   Does the ethical brand enhance a company reputation?

4.   Are there any indirect relationships between antecedents (product and service quality, and price perception) and a company reputation, and subsequently its brand loyalty via the ethical brand?

5.   Finally, can a company reputation mediate the relationship between the ethical brand and loyalty?

Based upon the above research questions, this study proposes the research objectives that will be outlined in the following section.

1.5 RESEARCH OBJECTIVES

The research objectives are as follows:

1.   In order to answer Research Question 1, this study plans to incorporate the ethical brand into a model and evaluate what components/dimensions of the ethical brand are in the industrial buyers' context.

2.   To answer Research Question 2, this study plans to investigate the relationships between the quality of product and service, the perception of price with the ethical brand, company reputation and brand loyalty.

3. In order to investigate Research Question 3, this study correlates the ethical brand with the company reputation.

4. To answer Research Question 4, this study plans to investigate the indirect effect of the antecedents (product and service quality, and price perception) on company reputation, and subsequently brand loyalty of industrial buyers (via the ethical brand). The concept of 'the ethical brand', which is an integrated element of the new paradigm is an additional variable included in the model (Paluszek, 2006).

5. To answer Research Question 5, by correlating between the ethical brand to brand loyalty, this study plans to investigate the indirect effect via a company reputation. In this regard, this study may identify brands as the key success factor to achieve competitive advantage for firms through differentiation (Wood, 2000). This competitive advantage may be achieved by the ethical brands in terms of a brand being one construct, in addition to the existing variables, to set up a company reputation and loyalty.

In order to get a clearer picture, some clarification and justification of this study's conceptual framework will be discussed in Chapters 3 and 4. The next section will describe the definitions of key words that are employed in this study in order to present a clear understanding of the terms.

1.6 OPERATIONAL DEFINITION OF KEY WORDS

Sometimes, definitions for various terms vary between disciplines. To avoid a misunderstanding of the terms and other key words used in the current study, the particular operational definitions are introduced as follows.

- **Brand**

Brand is described by a name, term, symbol, design, or combinations of them that categorizes a supplier's products/services and distinguish them from a competitor's products/services (Kotler, 2003). According to Kotler (2003), a brand is a sophisticated symbol that could be mentioned in the six levels of meaning. It consisted of attribute: a brand conveys to mind several attributes; profits: attributes must be interpreted into rational and irrational benefits. The attribute "durable" could be translated into the functional benefit. The attribute "expensive" translates into the irrational benefit or values.

- **Business Ethics**

According to Weiss (2002), business ethics deal with what is right and wrong in decisions making, behaviour, and procedures. Ethics and the guiding principle provided by business ethics help managers or individual in making a decision to stabilize economic and social responsibilities. It means that ethical reasoning could help people sort out conflicting ideas and information to solve moral dilemmas.

- **The ethical brand**

A good brand not only provides the brand power, but it must also have the ethical standards as expression of its responsibility not only to the buyers, but also to the community and environment (Fan, 2005). According to Fan (2005), a good brand contains a legal as well as an ethical standard. Therefore, an ethical brand is regarded as a moral actor that is responsible towards social, economic and environment and has the integrity to do the right thing and also gives superior value to its stakeholders. By providing an ethical brand, an organization will behave professionally that result in

positive outcomes for the firm and avoid harmful for its stakeholders (see: Anderson & Narus, 1990; and paluszek, 2006).

- **Product Quality**

A product or everything, both favourable and unfavourable, that the people accept in an exchange. Products could be described as tangible or intangible, an object or a thought, hardware or software, information or knowledge, a system or method, a service or function, or a new creation of concept (Kotler, 2003). While, product quality has been seen as on overall excellence or superiority of product that are described as "performance", "feature", "reliability", "conformance", "durability", and "aesthetics" (Crosby et al., 2003).

- **Service Quality**

Service has been seen as customer-oriented outcome. This outcome is produced when a firm acts upon performances that are effort to people or objects (Aaker, 1997). According to Aaker (1997) service quality is determined by the capability to recommend the buyers on technical and business questions.

- **Price**

Price has been described as that which is given up in an exchange to purchase goods or services. The price charged to buyers multiplied by the number of goods/services sold to get income (Kotler, 2003). While, price in business markets is what a customer firm pays a supplier firm for its product offering (Anderson et al, 2000).

- **Company Reputation**

Company reputation has been generally described as the long-term arrangement of the stakeholders' consideration about ''what the firm is'', ''how well the firm meets its commitments and conforms to stakeholders' expectations'', and ''how well the firm's overall performance fits with its socio-political environment'' (Logsdon & Wood, 2002). Accordingly, company (corporate) reputation has been defined as *'a particular type of feed-back received by an organization from its stakeholders, concerning the credibility of the organization's identity claims' (Whetten & Mackey, 2002, p. 401).*

- **Brand Loyalty**

Brand Loyalty has been seen as the commitment of the buyer to continue stability in a long-term affiliation with its supplier/firm (Lam, 2004; Oliver, 1999). The theory of loyalty has been much viewed in marketing history and this concept has been applied interchangeably with its characteristic, referring to repeat purchase (Ehrenberg, 1988), preference (Guest, 1944), commitment (Hawkes, 1996), buying intention, or buyer retention (Rust & Zahorik, 1993).

In an industrial buyer context, loyalty emphasizes on a long-term relationship between a firm's customers and its supplier. For example, customer loyalty is described as 'a behavioural intention to continue the current relationship with supplier (Singh & Sindeshmukh, 2000). In this study, brand loyalty is defined as the commitment of the industrial buyer of electronic office equipment to continue the relationship with the brand's manufacturer.

The following section will outline the order of this thesis as viewed in the thesis structure.

1.7 THE THESIS STRUCTURE

The thesis consists of seven chapters. **Chapter One** concentrates on a synopsis of the thesis and provides the foundation for choosing the research project. This chapter also describes the aim of the research, identifies the main questions and the objectives of the research.

Chapter Two justifies the selection of ethical issues in Malaysia and the product 'electronic office equipment' in relation to the industrial buyers' responses. The opportunity for Malaysia's electronic industry is also highlighted and related to the recent economic growth in this sector.

Chapter Three provides the foundation of the theoretical framework for the study. It also presents a brief review of business ethics and the current issues in marketing. It also discusses issues of ethical branding in general and the industrial buyers' perspective. This issue is critical and is one of several reasons why the present study is being undertaken. It is followed by an explanation of the business-to-business perspective relating to branding. Brief summaries of the main references and practical issues reviewed are also presented in this chapter. In general, the purpose of this chapter is to illustrate an understanding of the theoretical basis for the current study.

Chapter Four specifically provides the rationalization of the theoretical framework of this study. This also describes the constructs of product and service quality; perception of price, which is seen as an antecedent to the ethical brand; company reputation; and brand loyalty. It also explains how the ethical brand may be related to company reputation and loyalty. In detail, their potential relationships are discussed, from which the hypotheses of this study and theoretical model are developed.

Chapter Five attempts to present the methodological process and the research methods and also the statistical techniques used for this study. The beginning of this chapter provides the research perspective introducing the epistemological and ontological views. It is followed by explaining the type of research. Additionally, this study refers to the quantitative method. How measures are developed from the established literature for measuring each construct is briefly explained in this methodology chapter. The justification of the survey method chosen in this study is also presented in this chapter.

Chapter Six provides a comprehensive report of how every hypothesis is tested and analysed in this study. This chapter also reports the data screening analysis in detail before conducting hypotheses testing. The results of data analysis are listed in a table systematically and an analysis of the results are also provided to obtain a clear understanding of what kind of significant relationship occurs for each hypothesis.

Chapter Seven draws the discussion of the research findings. This chapter comprehensively discusses the findings that are related to the proposed theoretical model. The discussion also provides the theoretical and managerial contribution from the research. At the end of this chapter, the discussion explains the limitation of the current study. According to the research findings and the limitations, it recommends future research planning for those who are interested in this area.