When Ethical Transgressions of Customers Have Beneficial Long-term Effects in Retailing: An Empirical Investigation

Zhao Yang[1], René Algesheimer[1], Utpal M. Dholakia[2]
[1]Department of Business Administration, URPP Social Networks, University of Zurich
[2]Jesse H. Jones Graduate School of Management, Rice University

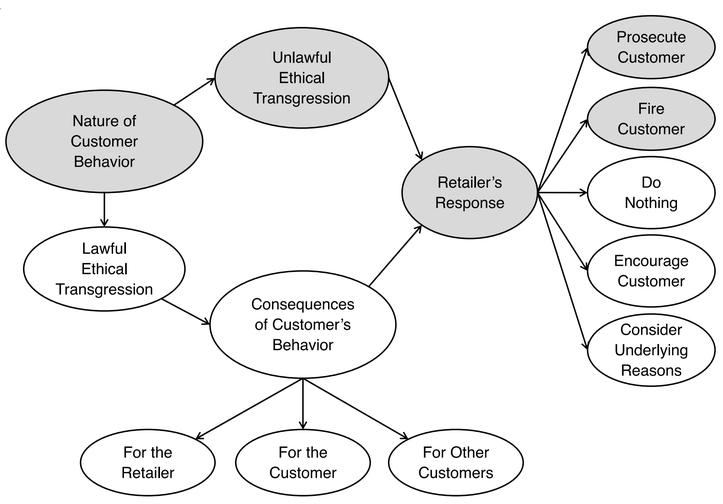
1. Background

Customers could behave in ways that violate the law, transgress widely held moral principles, or disobey the retailer's rules or policies. It's widely accepted that even when a small fraction of customers engages in such behaviors, it can generate significant ramifications for the retailers and the other customers. However, to our knowledge, many existing studies in ethical transgressions made no distinction between unlawful customer behavior and behavior that is an ethical transgression but lawful, and treated them as equivalent. In this paper, we highlight **the importance of distinguishing between unlawful and lawful unethical customer behavior for retailers,** and **the need to consider lawful ethical transgressions in a nuanced way**.

2. Research Questions

1. Can lawful ethical transgressions by a customer have **beneficial consequences** for the retailer and other customers?
2. How should retailers respond to unethical customer behavior?

3. Framework



4. Data and Method

Data

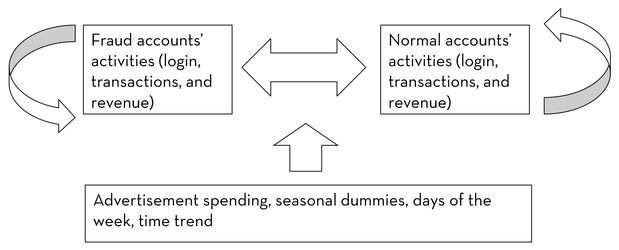
- **Online retailer** that combines **social gaming** and **price promotions**. Customer are encouraged to collect and trade coupons to gain higher discounts.
- The retailer stipulates in the "terms and conditions" that each person can open only one account and the account must be associated with only that person. However, some customers still misrepresent themselves and open multiple accounts.
- Observation period: July 4, 2012 ~ November 22, 2013.
- 48,782 unique accounts, including 5,576 unique fraudulent accounts.
- 3,083,936 logins, 2,022,666 total transactions, 316,564 successful transactions, and 19,416 purchases records.
- Weekly advertisement spending.

Method

- Survey-based study of consumers' perceptions of different ethical transgressions.
- **Vector autoregressive models** with generalized impulse response functions, conceptual experiments, generalized forecast error variance decomposition, and robustness check.
- Survey-based study of managers' decision making.

5. Results

1. Survey 1: 200 participants are asked to evaluate a series of ten transgressions. The results show that the most serious transgression is "Using a stolen check or credit card to buy merchandise from the retailer" (M = 9.32, sd = 2.35), and the least serious one is "registering multiple accounts on a retailer's site to get rewards" (M = 4.01, sd = 2.44). Besides, 75% of respondents indicated that **"registering multiple accounts on a retailer's site to get rewards" is the least serious one**.
2. The Vector autoregressive models



	A Shock on Fraudulent Account Levels			
Effects on Retailer	# Logins	# Proposed Transactions	# Successful Transactions	Revenue
# Logins	17.79%	–	–	–
# Proposed Transactions	–	27.82%	–	–
# Successful Transactions	–	–	34.9%	–
Revenue	–	–	–	40.25%
	A Shock on Normal Account Levels			
Effects on Retailer	# Logins	# Proposed Transactions	# Successful Transactions	Revenue
# Logins	12.19%	–	–	–
# Proposed Transactions	–	19.77%	–	–
# Successful Transactions	–	–	18.25%	–
Revenue	–	–	–	58.39%

Table 1: Elasticity of the retailer in response to the unexpected positive one-standard-deviation shock on fraudulent account levels and normal account levels.

Panel A: Direct effects **Structural decomposition impulse response functions**				
	A Shock on Fraudulent Account Levels			
Effects on Retailer	# Logins (E1)	# Proposed Transactions (E2)	# Successful Transactions (E3)	Revenue (E4)
# Logins	114	–	–	–
# Proposed Transactions	–	115	–	–
# Successful Transactions	–	–	48	–
Revenue	–	–	–	24043
Panel B: Indirect effects **Difference between the generalized impulse response functions and the structural decomposition impulse response functions**				
	A Shock on Normal Account Levels			
Effects on Retailer	# Logins	# Proposed Transactions	# Successful Transactions	Revenue
# Logins	45	–	–	–
# Proposed Transactions	–	142	–	–
# Successful Transactions	–	–	16	–
Revenue	–	–	–	1112

Table 2: Direct versus indirect effects through conceptual experiments.

Panel A: Relative impact of shocks initiated by each individual endogenous variable after 5 time periods				
	A Shock on Fraudulent Account Levels			
Effects on Normal accounts (%)	# Logins	# Proposed Transactions	# Successful Transactions	Revenue
# Logins	7.542	4.350	4.048	0.667
# Proposed Transactions	5.803	9.186	5.898	0.502
# Successful Transactions	6.877	9.987	9.532	0.603
Revenue	0.745	0.651	0.235	10.374
Panel B: Relative impact of shocks initiated by each individual endogenous variable after 10 time periods				
	A Shock on Normal Account Levels			
Effects on Normal accounts (%)	# Logins	# Proposed Transactions	# Successful Transactions	Revenue
# Logins	7.666	4.345	4.102	0.687
# Proposed Transactions	5.846	9.166	5.953	0.499
# Successful Transactions	6.927	9.939	9.575	0.609
Revenue	0.746	0.652	0.273	10.361

Table 3: Dynamic influence of fraudulent accounts on normal accounts after 5 time periods and 10 time periods.

3. Survey 2: 136 participants are asked how they would deal with unethical customer behavior, and then they completed a 20-item ethics position questionnaire to assess their idealism and relativism. 19.9% of respondents indicated that they would get rid of the unethical customers, whereas **80.1% of them indicated that they would keep the unethical customers**. Besides, greater trait idealism was associated with a greater insistence on banning multiple-account customers, but trait relativism did not affect the decision.

6. General Discussion

Why Did Customers' Ethical Transgressions Have Positive Effects?

- Customer's ethical transgressions concern an **information good** that the retailer produced and distributed with the accrual of negligible variable costs.
- The customer's initial unethical action of registering multiple accounts might have propelled the **customer's relationship with the retailer** into a different, more active trajectory.
- There was **no obvious harm to any identifiable victim** – either other customers or the retailer itself – from the unethical customer's transgressions.

7. Conclusion

- This study finds that an ethical customer transgression can have predominantly **positive consequences** for the retailer and other customers when longer-term effects are considered.
- It empirically illustrates the observation made by Donaldson and Dunfee (1994, p. 258), that **"the ethical norms must be contoured to the rules of the specific economic practices and the notions of fairness of participants."**
- It raises the possibility to **consider ethical transgressions in more nuanced and balanced ways**, especially when such behaviors arise from violating retailer policies, and to devise solutions that are equally nuanced and lead to the best possible out- comes for the customer base and retailers as a whole.

References

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