

PERCEIVED UNETHICAL E-STORE CONDUCT NEGATIVELY IMPACTS REPUTATION AND OPPORTUNITIES

Is it worth it?

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Abstract: What is the extent to which ethical conduct by e-stores impacts their reputation and, in turn, their business opportunities? Employing the ethical factors of: (i) accurate product description, (ii) e-vendor accountability and (iii) data privacy and security, we assess e-stores' ethical conduct. 174 e-stores engaged in business to consumer retail are surveyed. A comparative website which compares the products or services and prices of e-stores and scores their reputation amongst e-consumers is utilized. The ratings attained by e-stores with respect to the ethical factors, reputation and number of actual buyers are studied. The findings of the study indicate that the perceived unethical conduct of e-stores is highly correlated (0.38) with a negative reputation, which results, in turn, in relatively fewer actual buyers (correlation of 0.43).

1 INTRODUCTION

The role of e-store ethical conduct has been studied from a variety of points of view (Sisson and Fontrodona, 2006; Dillon and Reif, 2006; Flavián and Guinalú, 2006). In the Internet environment, ethical issues and legal regulation overlap, but both lag behind technological developments. Furthermore, legal regulation of the Internet, which would partially legislate for ethical conduct, is lacking (Bowie and Jamal, 2006). Notwithstanding, ethical conduct, e.g. trustworthy behavior, which is a requirement for transactions, is recognized as an important component of e-commerce. Since trust in the Internet is hard to come by in a Business to Consumer (B2C) transaction, several aspects of the ethical conduct of e-vendors need be studied. Investigating these aspects is a great challenge, particularly since the theory pertaining to conduct on the Internet is being created in tandem with construction of the Internet itself, which is in constant flux. Since e-commerce growth continues despite these hurdles, we were curious to assess some of our beliefs about the importance, if any,

between ethical conduct and business transactions in this medium.

Thus, exploration of the role of e-stores' ethical conduct has become the focus of a number of our investigations. In an earlier research paper we explored the question: "Does ethics matter to e-consumers?" That research resulted in findings which indicate that when ethical factors, viz. product description, vendor accountability and privacy and security, conflict with commercial factors, namely, good price and a high quality product, e-consumers tend to ignore ethical deficiencies (Adam, Aderet and Sadeh, 2007). In a subsequent paper, we explored another avenue of enquiry; e-vendor conduct as observed and perceived by e-consumers. We distinguished between the vendors' explicit commitments to ethical behaviour, as evident from their web design and from the ethical policy statements etc they displayed in their e-stores, and customers' perceptions of the vendors' level of ethical commitment. In this pursuit (Aderet, Sadeh and Adam, 2007) our findings indicated that e-consumers mistrust vendors' ethical commitments to product description and to privacy and security.

Now the research question of this paper is: "What is the extent to which e-stores' ethical conduct impacts their reputation and, in turn, their business opportunities?" Employing the three ethical factors mentioned above, we assess e-stores' ethical conduct in B2C retail. In addition, we look at a comparative web site, which compares the prices of e-store products or services and displays reputation scores awarded to them by e-consumers.

Our hypothesis is that unethical conduct is reflected in a negative reputation, which in turn leads to a decrease in business opportunities. A study of the reputation scores of sellers on the ebay website corroborates this hypothesis (Resnick and Zeckhauser, 2001). To explore this hypothesis, we investigated the Israeli comparative website www.zap.co.il (henceforth, ZAP). We drew from this site a list of e-stores, and examined the relationship between the above three ethical factors and the ZAP reputation scores given to the same list of e-stores. Our principal aim is to see whether the e-stores' poor ethical conduct and the reputation scores negatively impact their business opportunities

2 METHODOLOGY

We collected 648 questionnaires relating to 174 e-stores, filled out by 228 respondents (Aderet, Sadeh and Adam, 2007). The e-stores included in this research offer goods in all areas of e-commerce: computers and computer accessories, electronic appliances, books, furniture, gifts, jewellery, cosmetics, flowers, and toys. Some e-stores offered services such as entertainment ticketing. The list of

that compares e-stores (648 stores during the data collection period) and offers consumers the opportunity to score their reputation. The ZAP site represents the entire population of B2C websites in Israel, excluding electronic malls and auction websites. We used strata sampling whereby a percentage of sites from a given area of e-retail constituted the percentage of that area in our sample. Each e-store was evaluated by three or four e-consumers using a 30-item questionnaire with the aim of obtaining 3 or 4 evaluations of each site.

In the questionnaire, we asked e-consumers to report the extent to which e-vendors displayed ethical protocols addressing each of three ethical factors: (i) product description, (ii) e-vendor accountability, and (iii) privacy and security on a scale of 1 to 10. These are referred to as objective measures. Participants were also asked to record their impressions of the e-vendors' sincerity with respect to these three ethical factors on a scale of 1 to ten. These are referred to as subjective measures. Each factor was examined using several variables. The full list of the 30 variables used is provided in the appendix.

The overall grade for each ethical factor is included in the questionnaire (these are variables 17, 25 and 30 in the appendix). These three variables were then averaged to achieve an overall mean score reflecting the ethical standing of the e-store (henceforth "ethical score").

The sample distribution of the "ethical scores" is presented in Figure 1, where 'frequency' refers to then number of e-stores achieving a certain score on the 1-10 scale out of the 174 e-stores examined. We found that the average "ethical score" is 5.79 and the standard deviation is 1.63.

Table 1: Correlations among main variables of the study.

	a	b	c	d	e	f	g	h	i	j	k	l
Product Description												
a Objective	1.00											
b Subjective	0.87	1.00										
c Overall	0.83	0.90	1.00									
Vendor's Accountability												
d Objective	0.73	0.71	0.73	1.00								
e Subjective	0.72	0.79	0.81	0.83	1.00							
f Overall	0.68	0.75	0.77	0.83	0.91	1.00						
Privacy and Security												
g Objective	0.54	0.62	0.59	0.60	0.61	0.60	1.00					
h Subjective	0.55	0.63	0.62	0.59	0.65	0.64	0.91	1.00				
i Overall	0.53	0.63	0.63	0.57	0.64	0.63	0.91	0.97	1.00			
j Ethical Score	0.76	0.85	0.89	0.80	0.89	0.90	0.80	0.85	0.87	1.00		
k Reputation Score	0.33	0.38	0.35	0.38	0.38	0.40	0.29	0.27	0.25	0.38	1.00	
l Actual Buyers	0.27	0.16	0.16	0.28	0.24	0.25	0.22	0.22	0.18	0.23	0.42	1.00

e-stores was drawn from the popular Israeli ZAP site

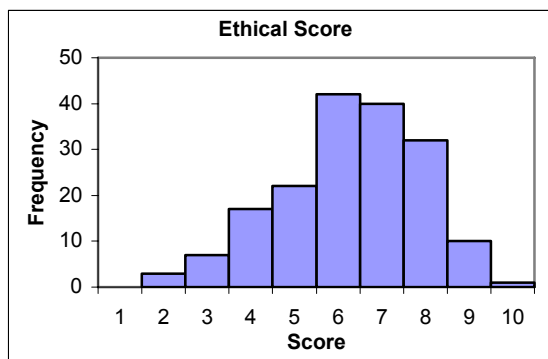


Figure 1: Frequency of Ethical Scores for the 174 e-stores examined.

The reputation of each e-store (henceforth "reputation score") was provided by the ZAP website on a scale of 1 to 5. Figure 2 presents the sample distribution of the "reputation score" for 117 e-stores for which the rating was available.

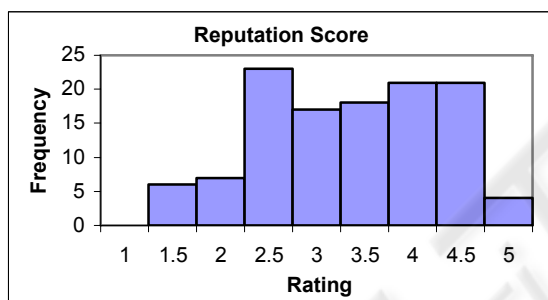


Figure 2: The frequency of the evaluated score provided by the ZAP comparison site.

The average "reputation score" of the 117 e-stores is 3.36 and the standard deviation is 0.93

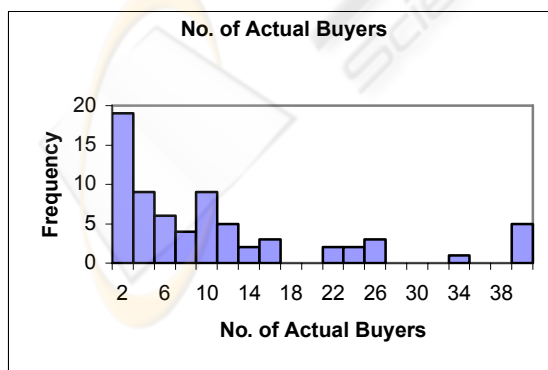


Figure 3: Frequency of Actual Buyers from the 174 sites. Frequency with which the 70 e-stores rated attracted different numbers of actual buyers.

The third variable investigated was the e-store's business activity as reflected by the number of e-consumers who actually bought goods or services from the e-store and sent back their evaluations, rating and opinions regarding the purchasing transaction to the comparative ZAP website ("actual buyers"). Such ratings were available for 70 of the 174 e-stores we examined. Figure 3 shows the frequency with which e-stores obtained a certain number of actual buyers. The number of actual buyers ranged from 2 to 102, but for simplicity, stores for which there were 39 or more evaluations received were grouped together.

Figure 3 shows that the distribution of actual buyers is very asymmetrical: In most e-store, less than 10 e-consumers purchased goods and sent their evaluations to the comparison website.

3 RESULTS

Firstly, we examined the relationships among the main variables – ethical score, reputation score and the number of actual buyers. Table 1 presents these variables and shows the correlations between the three ethical factors in terms of their "objective measures", and "subjective measures" as well as the overall grade variables for each factor.

The e-stores' ethical conduct measures, both objective and subjective, are significantly correlated with their reputation scores. With respect to objective measures of "product description", "e-vendor accountability" and "privacy and security" the correlations with reputation are 0.33, 0.38 and 0.29, while the equivalent values with respect to the subjective measures of the ethical factors are 0.38, 0.38 and 0.27.

The correlation of the overall "ethical score" with the "reputation score" is 0.38. This correlation shows that as e-stores manifest higher ethical standards, as observed from their websites, their reputation scores rise.

Table 1 also shows that there is a relatively high correlation between the reputation score and the number of actual buyers ($r=0.42$, $p<.05$). This relatively high correlation indicates that as an e-store achieves a higher reputation score its business opportunities increase..

In a separate analysis, a comparison between the ethical scores of each of the 50 most ethical e-stores and of each of the 50 least ethical e-stores was made. Results are presented in Table 2.

Table 2: t tests for the 50 most ethical e-stores vs. the 50 least ethical e-stores in terms of our ethical measures, their ZAP reputation scores and the number of actual buyers.

	Means of 50 most ethical sites	Means of 50 least ethical sites	t-stat	P value
Product Description				
Objective	8.29	5.66	11.99	0.00
Subjective	7.78	4.90	13.96	0.00
Overall	8.19	4.60	18.89	0.00
e-Vendor Accountability				
Objective	6.94	2.92	14.32	0.00
Subjective	7.23	3.86	16.11	0.00
Overall	6.98	3.12	16.68	0.00
Privacy and Security				
Objective	8.15	3.53	15.75	0.00
Subjective	7.42	3.39	15.55	0.00
Overall	7.64	3.47	16.33	0.00
Ethical Score	7.61	4.32	15.35	0.00
Reputation Score	3.73	2.98	3.31	0.00
No. of Actual Buyers	17.23	7.71	1.84	0.07
No. of e-stores	39	27		

Table 2 shows that for all the variables investigated, there are significant differences between the two groups. The groups are significantly different from each other with regard to all the objective and subjective measures of the 3 ethical categories. For example, the average "ethical score" for the least ethical group is 3.73 while that for the most ethical group is 7.60 ($p < .001$).

Consistently with our hypothesis, these two groups also differ significantly from each other with regard to their reputation scores (3.73 vs. 2.98, $p < .05$) and with regard to the number of actual buyers (17.23 vs. 7.71, $p < .10$). These results indicate that the unethical conduct of an e-store impacts negatively on its reputation, which, in turn, impacts negatively on business opportunities, and vice versa for the positive effect of ethical conduct on reputation and business opportunities.

4 DISCUSSION

In previous research, we explored the ethical conduct of e-stores as perceived by e-consumers and as displayed by e-vendors. Based on these studies, here we investigated the relationships between ethical factors pertaining to e-stores' websites, their reputation and their business opportunities.

The present research indicates that **unethical conduct on the part of e-stores impacts negatively on their reputation and business opportunities**. The current study not only corroborates this hypothesis, it incidentally also indicates that the converse is plausible: ethical conduct by e-stores has a positive impact on their reputation and business opportunities.

The question we posed in the title of this paper was "is it worth it?", i.e. does it pay to engage in unethical conduct. Our results show that it does not. Furthermore, we find that ethical conduct may lead to a positive reputation and is reflected in a website's commitments and statements, which in turn also lead to better business opportunities, as measured by the number of actual buyers.

In other words, e-stores whose product description is accurate, whose accountability policy is clearly stated, and that maintain e-consumer privacy and security acquire a better reputation and more actual buyers.

The statistically significant differences between the ethical scores of each of the 50 most ethical e-stores and of each of the 50 least ethical e-stores regarding numbers of "actual buyers" implies its business opportunities. We shall explore this conjunction in future research.

5 CONCLUSIONS

Our findings support previous research suggesting that ethical factors play an important role in e-stores' reputations. Ratings of e-store websites in terms of defined ethical factors, their reputation scores from a comparative web site, and the number of actual buyers were studied for 174 e-stores engaged in B2C retail. Findings indicate that perceived unethical conduct correlates highly (0.37) with a negative reputation which, in turn, results in relatively low numbers of actual buyers (the correlation is 0.42).

E-stores that present an accurate description of their products, a clear statement of their policy regarding e-vendor accountability, and who assure e-consumers of data privacy and security are found to have a good reputation and more business opportunities.

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APPENDIX

Section A: Product Description		Mean	S.D.
I. Objective Measures			
i. Product information			
1	The extent to which there is a graphical image	8.94	1.69
2	The extent to which there is a fully detailed explanation of the product	8.07	2.3
3	The extent to which there is a fully detailed explanation of the product's price	8.92	1.74
7	The extent to which the product price information is visible on the website	8.72	1.89
ii Delivery information			
4	The extent to which there is a fully detailed explanation of the delivery methods	6.48	3.46
5	The extent to which there is a fully detailed explanation of the delivery timetable	6.72	3.48
6	The extent to which there is a fully detailed explanation of payment conditions	6.8	3.3
8	The extent to which the delivery methods information is visible on the website	5.39	3.18
9	The extent to which the delivery timetable information is visible on the website	5.88	3.3
iii Website policies			
10	The extent to which the website policy is accessible on the website	7.04	3.59
11	The extent to which the policy is accessible from different pages on the web	7.33	3.56
II. Subjective Measures			
i. Product information			
12	The perceived quality of the product description	7.19	2.4
15	The extent to which you trust the graphical image displayed	7.07	2.39
ii Delivery information			
13	The perceived quality of the payment conditions	6.05	3.15
14	The extent to which you trust the delivery and timetable conditions as presented on the website	6	2.76
iii Website policies			
16	The extent to which the explanations in the policy are clear and comprehensible	6.57	3.01
17	Overall grade for the website's product description	6.69	2.43
Section B: E-Vendor Accountability			
I. Objective Measures			
18	The extent to which the website owner assumes accountability for his/her products	5.41	3.42
19	The extent to which the website states its policy regarding product return	6.19	3.51
20	The extent to which the website states its policy in case of failure of delivery	3.66	3.25
21	The extent to which the website policy describes the commercial conditions	5.64	3.24
II. Subjective Measures			
22	The perceived quality (simplicity and clarity) of the website's commercial language	6.87	2.54
23	The perceived ease with which products can be returned and money reimbursed.	4.78	3
24	The perceived trust in doing trade in the website	5.75	2.64
25	Overall grade for the website's accountability	5.2	2.73
Section C: Privacy and Security			
I. Objective Measures			
26	The extent to which the website is committed to confidentiality	5.88	3.36
27	The extent to which the website is committed to credit card security	6.14	3.28
II. Subjective Measures			
28	The perceived impression of confidentiality in the website	5.59	3.03
29	The perceived impression of credit card security in the website	5.36	3.04
30	Overall grade for website's confidentiality and security	5.62	2.92