The Relationship between Ethical Brand and Company Reputation: The Malaysian Perspective

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Abstract

This paper reports the initial finding on examination of the effect of product and service quality on 'ethical brand', which in turn may influence a company's reputation among industrial buyers that use electronic office equipment. The current study is informed by 50 experienced industrial buyers when buying electronic office equipment in Malaysia. The initial result does show that ethical brand has a full mediation impact on corporate reputation. In general, this study adds to the existing literature on branding and reputation by introducing the concept of the 'ethical brand' in order to understand the formation of a company reputation.

Keywords: Ethical brand, company's reputation, corporate reputation, industrial buyers

1. Introduction

The Internet revolution took place in the early 1990s and has brought us into a new era—the digital era. Consequently, business practice conditions are dramatically influenced by the adoption of digital technology, and strategies must change to remain innovative and competitive (Ainin, 2005).

The use of new technology, global logistics, and information systems is a part of industrial buyer's process, and has been identified as source of firm's market orientation (Kohli and Jaworski, 1990) and sustainable competitive advantage (Day, 1991). In this wake of globalization, one specific issue with increasing relevance in business and theoretical studies is the role of ethics in business (see, e.g. Pearson, 1995; Halme, 1997; Dienhart and Curnutt, 1998; Sen, 1995, 1999). Reasons for the rise of ethical concerns in business are many-sided and complex. Social and environmental concerns have also materialized as a consequence. Ethical aspects have already been noted as important factors in business encounters. One can also cite the increasing integration of environmental issues within the industrial buyer is office equipment products. According to regulation of Malaysia (E-waste.com, 2005), waste will affect the quality of the environment. The above issues clearly affect every type of business, enterprise,

organization and person, which then becoming the question of ethics. Zabid and Alsagoff (1993) indicate that the ethical business climate in Malaysia was at a critical stage, and the companies compete on three issues: quality, price and ethical standard.

In the past, the effects of product and service quality on industrial buyers' responses have been commonly researched (e.g. Bendixen et al., 2004; Mudambi et al., 1997; Chaudhuri and Holbrook, 2001; Bliemel and Leone, 1998; Bozzo, 2001; Reicheld, 1996). Price is also viewed as the most important purchasing decision criterion (e.g. Mudambi et al., 1997; Alvarez and Galera, 2001; Neslin and Gedenk, 1999). However, Fan (2005) argues that customer buying behaviour is not necessarily based on product and service quality or price perception but also on how ethical the company has performed in manufacturing products and services (i.e. ethical brand). This area has however, received little attention previously. Ethical brands, which promise social performance as well as economic and environment performance, clearly indicate that there is a close link between ethical branding and company's reputation. Moreover, corporate ethics is important in globalization as it has positive affect on company's reputation (Singhapakdi et. al, 1999) and enhances a company's reputation. (Fan, 2005 & Paluszek, 2006).

It is thus the present study intention to determine the importance of the role of ethical brands on the behaviour of industrial buyers. The specific research questions are as follows:

1. Does having a better quality of product and service will lead customers to perceive the brand as ethical?

2. Do ethical brands mediate the effect between predictors (product and service quality) and a company's reputation?

This study will determine whether or not ethical brands and the already existing independent variables (such as product and service quality) influence company's reputation of industrial buyers towards electronic office equipment in Malaysia.

2. Literature review

In previous studies, quality (Bendixen et al., 2004), or more specifically performance components (Mudambi et al., 1997), have been identified as the main drivers of industrial brand equity. The positive and significant relationships between product and service quality and repeated buying behaviour of industrial buyer's was also reported by Bliemel and Eggert (1998), Bozzo (2001), Reicheld (1996).

A current study based on the model of branding that is useful in explaining the brand power has a number of deficiencies. According to Fan (2005), there are two basic elements missing: legality and ethics. Consequently, a good brand contains a legal as well as an ethical standard. Thus brand value needs to be assessed by both financial and ethical measures. Second, the past model of branding (conventional brand model) truly emphasizes product brands rather than corporate brands. However, brands and branding have a considerable impact on the customers who buys them as well as on society as whole. Brands that satisfy one group may also possible negatively affect another. Therefore, stakeholders as a whole, who are impacted by branding, should be considerate. It means that brands must contribute positively to society by inserting ethical values, especially in the broader social context. Thus, responding to customer

concerns for marketing practices, including ethical obligation to anticipate the complaint are very crucial to be applied in order to maintain the reputation.

While the company's reputation is derived from perceptions of all stakeholders (Whetten & Mackey, 2002, p. 401), Wartick (2002, p. 377) suggests it is pragmatic to focus on just the immediate customers, as they usually are the group that have the major influence. Greyser (1996) advocates that the core component of corporate reputation is a corporate brand. Moreover, he also discovers that there is an interesting relationship between corporate reputation and corporate performance, especially from social performance. Thus, with regards to ethical brands, which promise social performance as well as economic and environmental performance, it appears that there may be a close link between ethical brand and corporate reputation. Furthermore, ethical brand can be a strategic differentiation to provide a superior value to customer by high standards of business integrity and social responsibility (Paluszek, 2006). 'Ethical brand' thus should be incorporated in research to better model industrial buyers' responses (Paluszek, 2006). This additional construct may have a mediation impact between service, product quality and a company's reputation.

4. Theoretical framework and hypotheses development

The link between product and service quality and company reputation:

In the present study, twelve elements have been combined to conceptualize product quality: (1) Good performance, (2) Good features, (3) Good specification, (4) Good durability, (5) Aesthetics (Crosby, et al., 2003), (6) High quality product, (7) Dependable and consistent, (8) Innovative (Van Riel, et al., 2005), (9) Digitalizability, (10) Tangibility, (11) Perishability, (12) Fulfillment ease (Yadav and Varadarajan, 2005).

Service quality on the other hands is about the ability to advise the customers in technical and commercial questions in the business to business context (Aaker, 1997). In general, with the increased use of the internet, this situation is changing, and service quality is conceptualized by (1) Visually appealing of physical facilities, (2) The appearance of the physical facilities, (3) Promise to do by a certain time, (4) Sympathetic and reassuring staff, (5) Dependable, (6) Trust employees, (7) Polite employees, (8) Personal attention, (9) Know what our needs (Jayawardhena et al., 2005), (10) Good information, (11) Good online information, (12) Good documentation, (13) Quickly receive supplementary information (Van Riel, et al., 2005). A leading electronic company that offers high quality can enhance customer confident (Wall street Journal, 2000), neglecting it would damage company reputation (Lancanster and Allen, 1992). Rationally, company reputation is influenced by: (1) Product Quality; (2) Service Quality; and (3) Ethical Brand. Thus, it could be posited that:

H_1 Product quality will have a positive direct relationship with Corporate Reputation.

H_2 Service quality will have a positive direct relationship with Corporate Reputation.

The link between product quality and ethical brand:

According to Fan (2005), brand value needs to be assessed by ethical measures. In this case, it needs to develop standards for marketing practice and standards for stakeholder

as whole to continue the business relationship. In rational, quality of product that is perceived by business buyer, may effect the perception on ethical value of the brand. Thus, it could be hypothesized that:

H_3 Product quality will have a positive direct relationship with ethical brand.

The link between service quality and ethical brand:

Service after sales indicates commitment of the firm, how serious is the firm to care for its customers particularly for electronic product (e g. electronic office equipments, such as Computer Server, Notebook, Desktop, Printer, Photocopier and so on). If a company provides better quality of service than its competitor, the company will be seen as concerns with the ethical value which in turn lead to a positive image for the company. The buyer believes that brand (or company) along with the truly quality of service has paid attention to social life by considering social responsibility. The hypothesis can then be stated as:

H_4 Service quality will have a positive direct relationship with ethical brand.

The indirect relationship between products, service quality and company reputation (via Ethical Brand):

Whetten & Mackey (2002) define company reputation as a particular type of feed-back received by an organization from its stakeholders, concerning the credibility of the organization's identity claims. Wartick (2002) proposes that company's reputation is derived from perceptions of all stakeholders; indicating that corporate reputation and corporate performance might enjoy close relationship particularly from the aspect of social performance. The previous paragraph has explained that quality of product and service are antecedent to ethical brand. Thus, there are indirect effects indicated between product and service quality and company reputation via ethical brand. The associations can be then hypothesised as follows:

H_5 Product quality will have positive relationship with company's reputation via ethical brand (indirect effect).

H_6 Service quality will have positive relationship with company's reputation via ethical brand (indirect effect).

5. Methodology

5.1 Data collection

As mentioned, the current study reports on the initial result as data collection is currently still in progress. Online and mail survey are used to assist data collection in Malaysia for three areas (Kuala Lumpur, Selangor, and Negeri Sembilan) from industrial buyers that use electronic office equipment. As the target group is sufficiently large and the people in the sample frame are accessible and available, simple random sampling is constructed to get respondents using the electronic office equipment. All the respondents are the executives involved in buying decision-making.

5.2 Questionnaire development

There are four main constructs identified in the present study: (1) Product Quality (PQ); (2) Service Quality (SQ); (3) Ethical Brand (EB); and (4) Company's Reputation (CR). Measures for the variables were developed from Crosby, et al., (2003), Van Riel, et al., (2005), Enderle, G. and Tavis, L.A., (1998), Cretu and Brodie (2005) and Jayawardhena et al., (2005). Content and face validity were conducted through the reviews of experts in scale construction and, by participants in this pre-test. Seven Point likert scale has been used (i.e. 1= strongly disagree and 7= strongly agree). A validity testing was also conducted. The questions were viewed as valid and understandable for the current study.

6. Analysis and results

6.1 Factor Analysis and Reliability

Data was analysed using SPSS. To investigate the initial result, factor analysis and reliability test are commonly used. Malhotra (1996) suggested to indicate some variables correlating each other's, and its must be reduced first before conducting the further analysis. According to Hair et al., (1998), minimum value of factor loading depended on number of respondent. Having 50 respondents, this study used .6 as minimum value of factor loading. Composition of measures and number of items for the resulting factors are presented in Appendix at Table 1.

Reliability test shows that Cronbach's Alpha of constructs is between 0.953 and 0.976. The result of Cronbach's Alpha for product quality (0.976), service quality (0.972), ethical brand (0.968) and company reputation (0.953).

In term of discriminant validity inspection, Pearson Correlation was used and the result indicates that there is no collenearity among the constructs as there is no high correlation (above .90) as being considered by Hair et al, 1998. Correlation for the resulting factors is presented in Appendix at Table 2. Besides that, there is no indication of heterocedasticity from scatterplot graph and standardized residual and data appear to be normally distributed around the diagonal line as the predictive line.

6.2 Regression Analysis

Linear regression is used to test direct relationship of the conceptual model. Results are presented in the following table.

Table 1: Linear Regression Estimates Conceptual Model

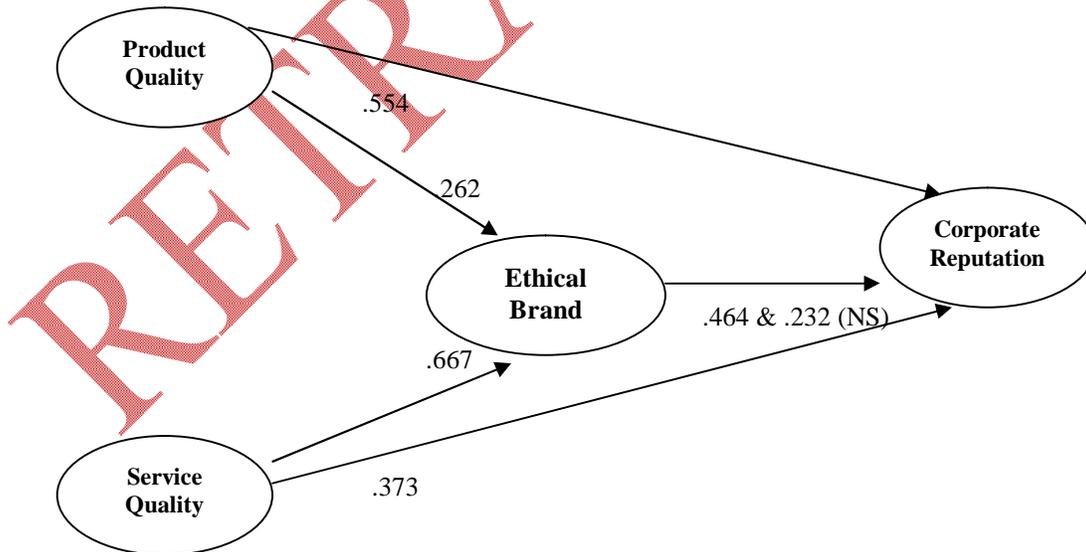| Equation	Model fit	Relationship	Coefficient	t-value	p-value	Conclusion
1	R Square = .660; F = 96.017 (p<0.000)	PQ to CR	0.554	5.249	<0.05	Supports H1
2	R Square = .725; F = 65.705 (p<0.001)	SQ to CR	0.373	3.530	<0.05	Supports H2
3	R Square = .750; F = 74.357 (p<0.001)	PQ to EB	0.262	2.604	<0.05	Supports H3
4	R Square = .725; F = 126.675 (p<0.000)	SQ to EB	0.667	6.617	<0.05	Supports H4

The above table indicates that all hypotheses (direct relationship) are supported. The next step was performing hierarchical regression in order to analyse indirect relationships among variables of the model following Baron and Kenny's step (1986). Results are presented in the following table:

Table: 2: Hierarchical regression estimates conceptual model

No	Relationships	R	R^2	Adjusted R^2	R^2 Change	F Change	Sig. F Change	Conclusions
1	PQ – CR	.817(a)	0.667	0.660	0.667	96.017	0.000	Partially mediated
2	PQ – EB -- CR	.880(b)	0.774	0.765	0.107	22.371	0.000	Supports H5
1	SQ – CR	.763(a)	0.582	0.573	0.582	66.864	0.000	Fully mediated
2	SQ – EB -- CR	.830(b)	0.689	0.676	0.107	16.165	0.000	Supports H6

The indirect relationship between SQ and CR exhibits a fully mediated impact via ethical brand because as insignificant p-value of beta in which β3 = .232, and level of sig. = 0.142 > 0.05 was found when mediating variable was controlled. The overall model is presented in the following figure-1:

The Full Model Based on Coefficient Significant at p<.001

7. Conclusion

Finding of this study indicates that quality of product and service can also play an important role in the business markets and affect ethical brand and company reputation. Ethical brand, when controlled, appears to indicate a significant role in the business market. This study discovers that ethical brand is a significant component as a mediating variable in the model of industrial buyer. This current study appear consistent with previous research by Whetten & Mackey, 2002; Wartick, 2002; Greyser 1996 who argue that company's reputation is derived from perceptions of all stakeholders, therefore, spending attention for social responsibility is necessary for the company. Therefore, a strong brand with ethical concerned is counted as a valuable asset of a company (Fan, 2005) to achieve good reputation.

The current paper has its managerial contribution for practitioners who want to understand what the role of ethical brand of the electronic equipment in industrial buyers' context is. Incorporating ethical brand in the marketing programme is necessary to enhance the reputation. A company must encourage ethical decision-making in ethically ideal marketing programmes by providing a commitment to ethical analysis using moral philosophy. This is relevant with Bowen (2004) who addresses some factors encouraging ethical decision-making to achieve a good image of the organization. It is also in line with Caza, and Cameron (2004) who note that business ethics help create and facilitate self-reinforcing positive outcomes and can help protect individuals and corporations from attack.

8. Limitations and suggestions for future research

The current study is not without its limitations. As the current study is still in progress, 50 sample respondents from the industrial buyers are yet to be sufficient for generalisation but the current study will be increasing its sample sizes in near future. Although low in sample size as what is reported here is our initial finding, however, 50 responses from industrial buyers may not be comparable with individual consumers. Moreover, the present study examines the industrial buyers' responses of the electronic office equipment. Thus, the findings of this study could not be generalized in other industries. Cross-validation to other industries could not be performed in this study as it is out with scope. Replicating this research in similar or other industries is therefore essential in generalizing the findings of this study. Adding new construct into this constructed model is also requested in order to outcome the future model will be more sophisticated.

This current study has incorporated the 'ethical brand' construct and investigating its effect on company's reputation among industrial's buyers toward electronic office equipment. Future studies could replicate this research in other product categories such as business to consumers market.

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Appendix

Table 2 Constructs, Amount of Indicators and References

No.	Construct	Amout of Indicator	References
1	Product Quality (PQ)	10	Adapted from Crosby et al., (2003), Van Riel et al. (2005), and Yadav and Varadarajan (2005)
2	Service Quality (SQ)	8	Adapted from Jayawardhena et al., (2005) and Van Riel et al., (2005)
3	Price Perception (Pr)	5	d from Kukar-Kinney et at, (2006), nstein, Ridgway and Netemeyer (1993), and Kannan (2000), Lowengart, Mizrahi, osef (2003).
4	Ethical Brand (EB)	12	Adapted from Enderle, G. and Tavis, L.A., (1998), and Malaysia Regulation cited by E-waste.com, (2005).
5	Company Reputation (CR)	6	Adapted from Cretu and Brodie (2005)
6	Brand Loyalty (BL)	6	Adapted from Van Riel et al, (2005) and Davis (2003)

Table 3: Description of Final Model: Means (μ), Standard deviation (σ) and Zero Order Correlation

No.	Variables	Mean	S.D	1	2	3	4	5	6
1	Product quality	5.2495	.76842	1					
2	Service Quality	5.2439	.88143	*** .454	1				
3	Price Perception	5.4384	.69136	*** .406	*** .514	1			
4	Ethical Brand	5.2153	.82884	*** .519	*** .601	*** .468	1		
5	Company Reputation	5.3382	.84747	*** .583	*** .412	*** .443	*** .572	1	
6	Brand Loyalty	5.2730	.89235	*** .617	*** .596	*** .428	*** .607	*** .566	1

***Correlation is significant at $p<.001$