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

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Abstract

The conventional wisdom, grounded in deontological ethics, is that retailers should extinguish unethical customer behavior. However, there exists an opposing teleological view that unethical behavior may be tolerated if its ultimate consequences are beneficial for all stakeholders. This is supported by a survey of retail managers conducted by the authors that revealed over 80% of the respondents are inclined to tolerate unethical customers whose actions have beneficial effects. The primary goal of this research is to investigate the boundaries of this teleological perspective, that is, whether ethical transgressions that appear to have negative short-term consequences for the retailer and other ethical customers can have beneficial longer-term consequences for all parties. We examine this question empirically with a longitudinal dataset, covering seventy weeks and over 48,000 accounts, from a popular Swiss online retailer. We focus on increased revenues and customer engagement as the benefit for the retailer. Our results show that customers registering multiple accounts in violation of the retailer's policy comprise fewer than 11.5% of accounts, yet generate more than 27.6% of the retailer's revenue. Specifically, their behavior leads to higher retailer revenues and greater engagement by other customers in the long-run. We discuss the implications of this insight for retailing managers as well as scholars.

Keywords: Unethical customer behavior; Marketing ethics; Online shopping; Ethical transgression; Gamification

> "Rationality in economic ethics is bounded in three ways: by a finite human capacity to assess facts, by a limited capacity of ethical theory to capture moral truth, and by the plastic or artefactual nature of economic systems and practices."
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> Donaldson and Dunfee 1994, p. 258.

Customers often behave in ways that violate the law, transgress widely held moral principles, or disobey the retailer's rules or policies. Such behaviors can take many forms (Cox, Cox, and Moschis 1990; Jones 1991; Kim, Kim, and Park 2012; Mazar, Amir, and Ariely 2008; Vitell 2003; Wilkes 1978). Common instances include shoplifting, returning purchased items for a refund after using them or beyond the return date, accidentally or willfully damaging in-store merchandise, and providing false or misleading personal information such as a telephone number (Blanco et al. 2008; Harris 2008; Reynolds and Harris 2009). Not surprisingly, even when a small fraction of customers engages in such behaviors, it can generate significant ramifications for retailers and its other customers.

One noteworthy aspect of extant research is that much of it makes no distinction between unlawful customer behavior and behavior that is an ethical transgression but lawful, treating them as equivalent. Philosophers, lawyers, and ethicists, on the other hand, draw a sharp distinction (e.g., Bommer et al. 1987; Chappell 2014; Shell 1991). The core difference rests in the fact that unlawful behavior is, by definition, prohibited by law. Engaging in such behavior makes the customer liable to prosecution. Shoplifting, stealing someone's identity and defrauding

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a retailer by writing a bad check are examples of unlawful customer behaviors. An ethical transgression, on the other hand, covers a broader spectrum of activities, and involves crossing the bounds of moral standards that govern what people should or should not do, but staying within the law. The moral standards that govern unethical behavior are often ill-defined and subject to change across contexts (Chappell 2014). For example, violating a retailer's policies, even if they are relatively arbitrary, constitutes an ethical transgression by the customer.

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. Specifically, we investigate whether lawful ethical transgressions by a customer can have beneficial consequences for the retailer and other customers. We develop a theoretical framework of retailer response that accommodates this nuanced view of unethical customer behavior and provides retailers with a wider assortment of response options to consider.

Using a longitudinal dataset covering seventy weeks and over 48,000 accounts from a popular Swiss online retailer, we discover that an initial lawful ethical transgression, defined as a violation of the retailer's policies by signing up for multiple accounts, has positive longer-term consequences for the retailer and its other customers. With this study, we extend extant investigations of unethical customer behavior beyond shorter-term decisions and actions usually examined with controlled lab experimentation (e.g., Bohns, Roghanizad, and Xu 2014; Gino, Ayal, and Ariely 2013; Levine and Schweitzer 2014; Mazar, Amir, and Ariely 2008; Ruedy et al. 2013) to a longitudinal field study of its consequences on a retailer's actual revenues and on its customers' actual purchase behaviors and activity over a period spanning more than a year. Our study is conducted in an online retailing context involving discounted purchases and customer-to-customer interactions centered on collecting and trading virtual cards. We utilize a list of customer accounts identified as behaving unethically (i.e., registering multiple accounts by providing false information in violation of the retailer's policies) through a robust multiple-stage verification method (Bolton and Hand 2002).

We also investigate how retailers should respond when they encounter unethical behaviors with predominantly positive longer-term effects by surveying retail managers. The results reveal that consistent with our prediction, a majority of surveyed retail managers (80.1%) are inclined to let these unethical customers remain. However, we also find that managers who are high in the chronic trait of ethical idealism (Forsyth 1980) are more likely to take a stand against transgressing customers regardless of outcomes.

The rest of the paper is organized as follows. In the next section, we develop our theoretical framework. We then describe our main study's setting and explain how unethical consumer behavior is defined, detected, and tracked by the retailer. Our modeling approach is explained next followed by the results. After that, we present the results of a second survey-based study conducted with retail managers. We conclude with a discussion of the contributions and implications of this work.

A Theory of Retailer Response to Ethical Transgressions by Customers

In considering how retailers conceive of and deal with ethical transgressions by customers, two opposing moral philosophies provide a useful starting point. These are the deontological and teleological perspectives on what constitutes ethical behavior and how we should respond to it (Hunt and Vitell 2006; Jones, Felps, and Bigley 2007; Vitell 2003). A *deontological* perspective, exemplified by Kantian ethics (Kant 1785), focuses solely on the inherent rightness or wrongness of an action, disregarding its consequences. Emphasis is given to the individual's motives for acting, with the ultimate goal of behaving in a certain way for the right reasons. Contrarily, in assessing a behavior's ethicality, a *teleological* perspective, having its conceptual foundations in the Utilitarianism School developed by British philosophers Jeremy Bentham and David Hume (Bentham 1789), weighs the cumulative positive and negative effects of consequences and does not focus on the nature of the behavior itself. Under its purview, a behavior is considered as moral and to be encouraged as long as its total beneficial consequences outweigh its harmful consequences.

Notably, the conventional wisdom in retailing circles implicitly endorses deontological ethics. This is because retailers fail to distinguish between unlawful and lawful unethical customer behavior. They treat all unethical customer behavior as if it were unlawful (Bamfield 2012; Bellur 1981; Reynolds and Harris 2009) and harmful to the bottom line. Not surprisingly, this leads to the belief that any time an unethical customer behavior is detected, retailers should use any and all available means to extinguish it because it causes harm (e.g., Harris 2010; Hoekman 2015; Sennewald and Christman 2008).

Here, we advance the idea that when deciding how to respond the retailer should distinguish between unlawful and lawful unethical behavior. When the behavior is lawful but unethical, the retailer should consider what makes it unethical and longer-term consequences for itself and its other customers. Consistent with teleological ethics, and customer relationship management principles (Mark et al. 2013), we propose that lawful customer behaviors that are unethical because they violate retailer policy can have a range of consequences stretching out over the customer's relationship with the retailer.

Such a perspective of retailer response to unethical customer behavior requires two conditions. First, the customer's unethical behavior must be lawful. When the behavior violates the law (e.g., assaulting a fellow customer in a store, outright stealing, etc.), consequences are immaterial. The retailer must report such customer behavior and prosecute the customer without any teleological ethical considerations. A greater, more nuanced range of retailer responses that support broader response using teleological ethics presupposes a lawful, ethical transgression that retailing researchers and practitioners have not yet considered (see Fig. 1). An example is the customer's violation of a policy set forth by the retailer such as the requirement of a unique telephone number or email address for each account. The second condition is that the customer's transgression should lead