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Ethical brands boost customer loyalty (and satisfaction)

Brands that behave ethically also increase positive word-of-mouth, customers' commitment and perceived quality

Customers are increasingly expecting brands to have ethical values. Brands that behave unethically risk making their customers angry and seeing their reputations dented. Companies that do not make business ethics a priority are also missing out on the positive effects that exemplary corporate behavior has on customers.

Brands with a conscience are a great opportunity for business – they boost customer loyalty and foster long-term relationships with firms, according to research led by Associate Professor Oriol Iglesias and his coauthor Professor Vicenta Sierra in the *Journal of Business Ethics*.

"An ethical brand acts with integrity, responsibility, honesty, respect and accountability. Companies that place ethics at the core of their business strategy have a positive impact on their customers' affective commitment towards the brand. Ethical brands also increase customer satisfaction, service quality, financial performance and customer retention," write the authors.

5 major benefits of ethical brands

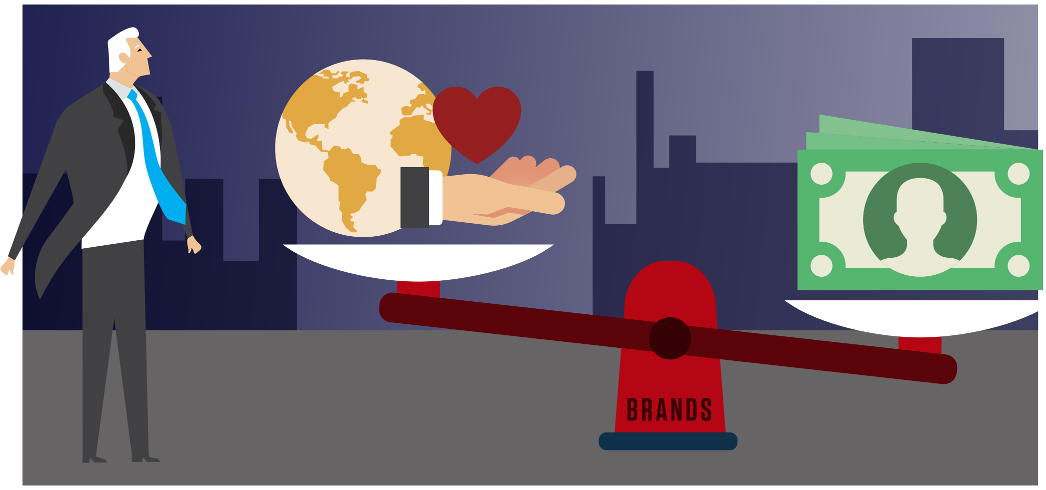
The researchers analyzed the perceptions of 2,179 customers from 18 to 65 years old regarding their involvement in purchasing services from financial institutions, clothing retail chains, insurance companies, internet and telephone service providers, hypermarket and supermarket chains, gas stations, utility companies and hotel chains utility companies and hotel chains.

Oriol Iglesias

Oriol Iglesias is an Associate Professor at the Marketing Department. Previously at ESADE, he has also been Director of the Marketing Department, as well as Director of the ESADE Brand Institute and Chair of the Research Group on Brand Management.

He is member of the Executive Committee of the European Academy of Marketing and the Scientific Committee of the Special Interest Group on Brand, Identity, and Corporate Reputation of the Academy of Marketing. Prof. Iglesias is also member of the Editorial Board of the *Journal of Brand Management*, the Editorial Review Board of the *Journal of Product and Brand Management*, and the Scientific Committee of the Global Brand Conference.

His research has been published in top international academic journals, such as *California Management Review*, *Journal of Business Ethics*, and *European Journal of Marketing*.



The data provide empirical evidence that service brands engaging in ethical behavior reap the following 5 major benefits:

1. Commitment toward the brand

Customers have a greater affective commitment and emotional attachment to those brands they see as being more 'ethical' than others.

Furthermore, committed customers are less sensitive to price differences in relation to competitors and are willing to pay more. They are also more likely to blame service failures on external factors or even themselves, thereby becoming more forgiving of poor brand performance.

2. Customer perceived quality

A company embracing ethical behavior transmits trust to customers. This positive behavior boosts a customer's perception of quality service rendered by the company.

When customers recognize a company as ethical, they perceive the brand's service excellence as superior compared to its competitors.

3. Empathy and satisfaction

Customers value being treated in a helpful manner by a company's employees. Brands with staffers who show empathy elicit greater positive emotions from customers, raising relationship satisfaction and commitment to the brand.

Empathic employees are also better at understanding customer needs and so are more able to personalize their services for each client.

Vicenta Sierra

Vicenta Sierra is Professor in the Department of Operations, Data Sciences and Innovation at ESADE.

Her major fields of specialization are research methods, advanced statistics, and psychometrics. She has published her research widely in peer-reviewed scientific journals.

Her primary research emphasis is based on her academic training in psychology, experimental design and behavioral research methods.

Prof. Sierra's latest research has appeared in a range of journals, including *Journal of Business Ethics, Journal of Public Administration Research and Theory, Public Administration, Journal of Cleaner Production, Public Administration, Public Policy & Management, Supply Chain Management: An international journal, The International Public Management Review.*

4. Customer loyalty

Compared to their counterparts, ethical brands benefit from higher levels of loyalty and customers' strong commitment to repurchase a company's products or services.

The emotional commitment that people develop toward a service provider boosts customer retention and loyalty and prevents the search for alternatives among competing brands.

5. Positive word-of-mouth

Brands that behave ethically make customers' more loyal. The findings confirm that greater loyalty also boosts positive conversations about the brand.

When customers are loyal to a brand, they are more likely to share their positive feelings with others, thus 'spreading the good word' about the company and its products and services.

Managerial implications

The results of this research have major implications for managers. Companies operating in service industries need to build their ethical commitment from within and behave accordingly. This means that a company's brand strategy needs to be aligned with human resource policies and practices.

"Human Resources Departments have to implement recruitment, training and promotion policies and practices that allow for ethicality to flourish and turn into employee behavior," write the authors. "Corporate service brands require employees who behave in an empathic and ethical way during every single interaction and touch-point with customers."

The researchers warn that managers need to reverse the current trend of hiring poorly-skilled, minimum-wage service employees and start to hire and train qualified staff that are highly empathic and ethical.

> "Ethical brands benefit from higher levels of loyalty and customers' strong commitment to repurchase a company's products or services"

3 leadership traits in the era of data

How can leaders use data to optimize their decision-making?

Having a traditional leadership mindset can be a handicap in the era of data. Things that used to work in the past no longer work in today's data-driven world. Leaders need to embrace new skills to compete and make sound decisions.

Manu Carricano, Director of the ESADE Institute for Data-Driven Decisions, has identified in *Harvard Deusto Business Review* the following three major leadership traits that characterize leaders in the era of data.

1. Know the context

The modern leader is not defined by his 'vision', but by his knowledge of the context in which his company operates. Knowing and understanding the context allows leaders to shed light in a world of high volatility in which external information is accessible in real time.

Exxon, for instance, systematically collects external indicators about macroeconomic changes (GDP, unemployment, etc.), sector dynamics (unbalances between production and stocks, commodity prices and so on), and customer sentiment, among others. The company synthesizes these data into a control panel which serves to establish automated tactical scenarios.

The ability to adjust strategic scenarios to external indicator variations is critical to allow leaders to combine a sound strategy with execution agility.

Manu Carricano

Prof. Carricano is Director of the ESADE Institute for Data-Driven Decisions and Senior Lecturer in the Department of Operations, Innovation and Data Sciences. His work encompasses a wide range of data science and pricing issues and has been published in international academic journals and major industry and academic conferences.

Prof. Carricano is also an expert in Analytics and the author of the book Data Analysis with SPSS (Pearson, France), as well as a mentor for the Open Data Incubator for Europe (ODINE).

He is one of Europe's leading Pricing & Analytics educators and has trained several thousand participants worldwide. He has designed popular curricula for Masters and MBA programs, as well as successful customized courses for multinational companies in a variety of industries.

2. Make learning a privilege

The second trait of the modern leader is his capacity to make learning a privilege. The current decision-making systems can be summarized in two major alternatives: ‘delivering the fish’ (programming, ‘rule’ engines) or ‘showing one how to fish’ (algorithms and machine learning).

In the first scenario, companies risk dying a slow death due to the growing complexity of data accumulation and consumption. In the second system, however, leaders can use analytical ‘bricks’ that can be accumulated, recycled and combined to improve the resolution of business problems.

Walmart is an example of this new capacity. In order to exploit its world’s largest private cloud, the company has created a Data Cafe (collaborative analytics facilities for enterprises) where smart boards and alert systems invite external teams to solve its business problems. Stock challenges, delivery route issues and promotional campaigns that used to take weeks or months to manage now are solved in the Data Cafe within hours by using preestablished models updated in real time.

Combining these analytical ‘bricks’ with testing models and large amounts of data is one of the keys to boosting a company’s learning capabilities.

> “The modern leader is not defined by his ‘vision’, but by his knowledge of the context in which his company operates. Knowing and understanding the context allows leaders to shed light in a world of high volatility in which external information is accessible in real time”

3. Embrace automation

Modern leaders use technology to solve complex problems in real time. Thinking analytically to solve business problems means boosting human decision-making with additional capabilities. Since 2015, artificial intelligence models have already surpassed humans in a number of tasks, such as image recognition, among others.

Embracing more efficient technologies is another trait that characterizes leaders in the era of data. Examples of big data usage show the same tendency: using models when these surpass manual results.

For instance, in 2016 O'Reilly estimated that the first case of big data usage was fraud. In most companies, fraud is detected through manual processes — an approach that has its limitations: teams of 20-30 people checking only 10% of the total company transactions, which implies a very low success rate. In other more advanced companies, machine-learning models scan 100% of the transactions, achieving unheard-of success rates.

Reinvent or die

Leaders have to take advantage of this unique moment in history to reinvent themselves. If they do not, their competitors will, tapping the new talented generations of workers entering the market. Leaving beliefs aside and replacing these by evidence is the key to embracing a new world full of opportunities.

“Leaders have to take advantage of this unique moment in history to reinvent themselves. If they do not, their competitors will, tapping the new talented generations of workers entering the market”

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10 challenges posed by the gig-economy

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In the context of the sharing economy, many digital platforms, through crowd sourcing and on-demand hiring, have revolutionized how services are provided. Jobs traditionally done by workers have been replaced by very short-term work carried out by supposedly 'self-employed' workers. These 'self-employed' workers are not covered by many of the legal protections afforded by Labor Law to regular workers.

This article by ESADE Assistant Professor Anna Ginès looks at ten challenges that platform work poses for the Spanish legal-labor system and analyzes these in relation to the business models used by these platforms and their impact on labor relations.

1. Delimiting the phenomenon

The sharing economy offers scope for globalizing human relationships that previously could only be generated within small communities of people — families, friends, neighbors, acquaintances, etc., making it possible for users to exchange, lend or share goods or services.

Platforms such as Uber, Deliveroo, and Amazon Mechanical Turk, despite considering themselves part of the sharing economy, escape from its logic by developing true business models based on saving labor costs.

2. Delineating the current business model

Through the intensive use of new technologies, these digital platforms have been able to develop a business model that completely outsources the services they provide. This is possible by reducing the service to the level of micro-tasks and crowd-sourcing it to a sufficiently high number of external workers using an on-demand hiring system.

Anna Ginès

Anna Ginès is Coordinator at the Institute for Labour Studies and Assistant Professor in the Department of Law at ESADE.

Anna Ginès i Fabrellas graduated in Law and Economics from Pompeu Fabra University and in 2011 obtained her PhD on 'Compensation of damages arising from labor accidents or occupational diseases'. She was awarded the V PhD Extraordinary Prize from the Law Department at Pompeu Fabra University.

Her main research interests include workplace health and safety, comparative labor law, and law and economics.

She has published numerous books, chapters and papers in national and international scientific journals, has participated in multiple research projects and as a lecturer in many conferences and seminars.

3. Determine if the digital platforms are technological companies or service providers

Digital platforms operating within the framework of the gig-economy claim to be mere technology companies but the European Union Court of Justice recently stated that one of its paradigmatic companies — Uber — must be considered a service company. The boundary between the two concepts is a fuzzy one, hence the need to study each case.

4. Update the legal classification of the relationship between service providers and digital platforms

New forms of work emerging within the framework of the gig-economy do not fit well with the traditional characterization of employee. Nevertheless, one needs to take indirect business control formulas into greater account in work assignment, work performance, and market control.

5. Take indirect business control into consideration

While working for digital platforms seems to fit better with self-employment, there is substantial evidence of dependence on and subordination to the company through indirect forms of business management with regard to working time, assignment of tasks and control of work performance.

> “Platforms such as Uber, Deliveroo, and Amazon Mechanical Turk, despite considering themselves part of the sharing economy, escape from its logic by developing true business models based on saving labor costs”

6. Resizing market intervention

In digital platforms, workers assume the costs of the service, use their own infrastructure and means of production and receive an economic benefit directly related to the quantity of services provided. Yet these workers lack an autonomous business organization to determine the terms and conditions of the service they offer and to set the corresponding prices.

7. Setting fair working conditions in terms of working time and salary

Digital platforms use, *de facto*, the 'zero hours' contract, as service providers are not subject to a minimum period of working time. This contract, however, is not lawful in the Spanish legal-labor system and the excessive flexibility that comes with it brings an increase in job insecurity.

8. Guaranteeing workers' collective action rights

Treating workers in digital platforms as employees will not solve their problems as the geographical dispersion in performance of work, the discontinuity in the provision of services and the high turnover of workers makes it difficult for them to exercise collective rights. Virtual forms of participation are needed, along with electronic voting systems in union elections and forms of virtual action (for instance, the disconnection of the platform), to guarantee the collective rights of such workers.

9. Disassembling the need for a third category

Given the supposedly unclassifiable work in digital platforms under current law, one strand of Spanish labor doctrine suggests the creation of a new category for workers in platforms. However, drawing up an *ad hoc* regulation would only protect the business interests of a sector that is ruthlessly exploiting the competitive advantage conferred by the fraudulent use of self-employment to save labor costs.

10. Expanding the boundaries of Labor Law

Labor law must widen its bounds (both legal and financial) to include all forms of dependent work. The concept of employee must take into account the new digital environment, to replace legal dependence with financial dependence.

“Digital platforms use, *de facto*, the 'zero hours' contract, as service providers are not subject to a minimum period of working time”

Focus on values to keep public servants motivated

Bureaucratic work might be hard for public servants, but they will find it even harder if they receive lower pay and are asked to work more hours. That's what happened – and is still happening – in many developed countries since the onset of the financial and economic crisis in 2008.

For years, public organizations have been asked to simultaneously be austere and provide better public services, a trend summarized in the mantra "doing more with less." In the wake of the financial problems suffered by many states after the 2008 crisis, 20 member countries of the Organization for Economic Co-operation and Development (OECD) have imposed public-sector wage cuts since 2009 and an additional 15 countries have implemented staff-reduction programs.

A paper by ESADE faculty members Marc Esteve and Carlos Losada, published in the journal *Public Administration Review*, analyzes the impact of these policies on work motivation and job satisfaction in 9,761 public servants from 34 European countries using data from the 2010 European Working Conditions Survey.

The results confirm the authors' hypothesis, showing strong evidence that cutbacks leave public employees less motivated and less satisfied with their jobs. "There are thus no free austerity lunches: while public employees in Europe may work longer hours at lower pay, they are less satisfied and less motivated to perform for their organizations when doing so," summarizes Dr. Esteve.

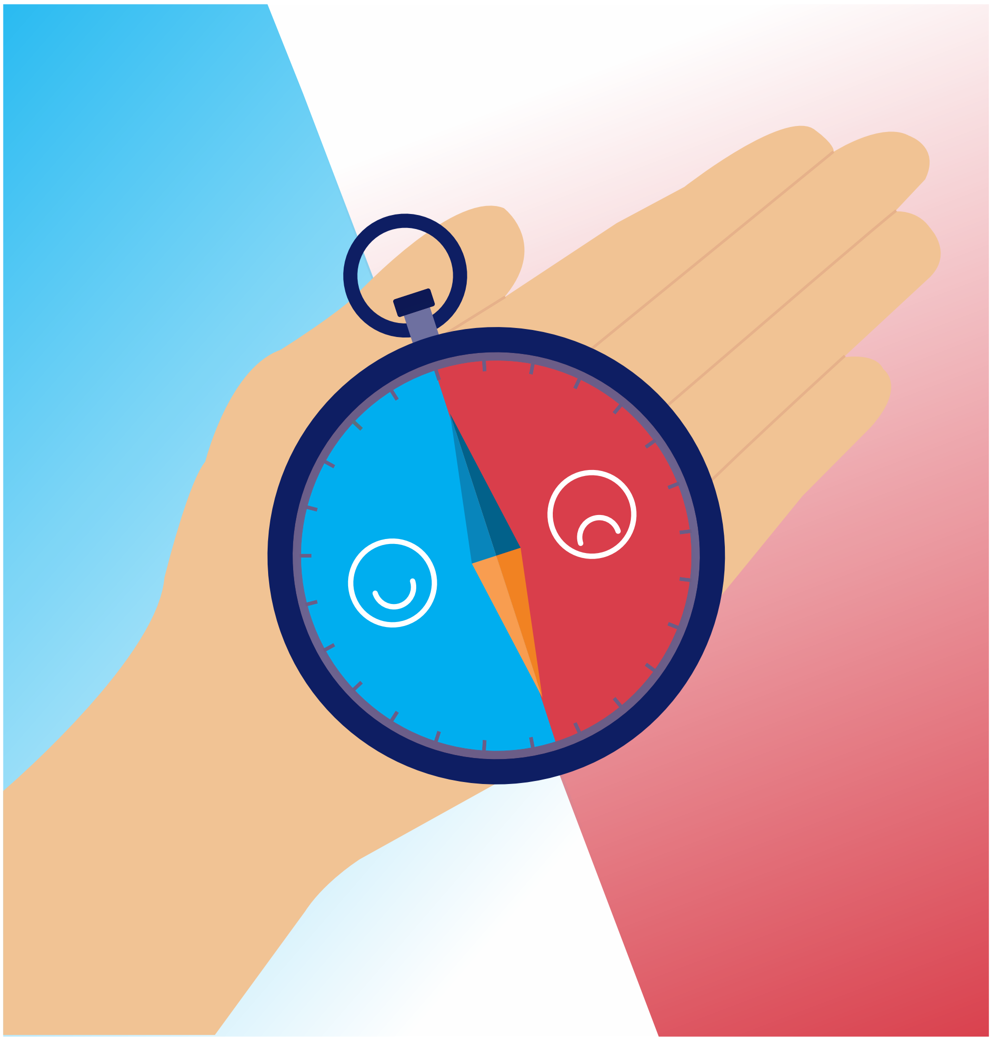
Marc Esteve

Marc Esteve joined the UCL School of Public Policy in September 2013. He received his PhD in management sciences from ESADE Business School – Ramon Llull University in 2012. Prior to joining UCL, he was a visiting research fellow at Cardiff Business School (2011) and a postdoc at the Institute of Public Governance and Management (ESADE Business School). Dr. Esteve's primary research interests are focused on understanding how individual characteristics influence decision-making, specifically in interorganizational collaborations. He is currently delving more deeply into the mechanisms and effects of personality in the context of collaboration; his present research involves a study that uses experimental designs to explore the role of core personality variables in collaboration outcomes.

Public servants' feelings show a strong relationship between work pressure and changing working conditions, on the one hand, and decreasing job satisfaction and work motivation, on the other. The authors conclude that these results are consistent with job demand theory (worse working conditions exhaust employees, thus decreasing their satisfaction) as well as psychological contract theory (cutbacks are perceived as breaches of contract that curb employee satisfaction).

But there's still hope: the results also show that value alignment between employees and organizations moderated this negative effect. The employees interviewed said that the fact that their organization's values were aligned with their own made them feel less unmotivated by wage cuts and higher workload. Although this moderating effect does not apply to job satisfaction, value alignment might offer a suitable "shield" for preventing the negative impact of austerity on public employees.

"Public-sector leaders should put a premium on measures that strengthen value alignment, particularly when it is arguably hardest to achieve: in times of cutbacks," argues Prof. Esteve.



Carlos Losada

Carlos Losada began his academic career in 1986 in the Department of Strategy and General Management at ESADE, where he lectured on organizational governance, managerial functions, strategy and organization, combining his teaching with strategic consulting.

He has spent most of his academic career at ESADE, although he has also taught at other universities and participated in numerous national and international seminars and conferences. In 2000, he was appointed Director General of ESADE, a position he held until 2010.

He has held numerous management positions in both the private and public sectors. He began his career by co-founding Kernel, a startup in the tech sector. Since 1982, he has held various technical and political posts in the Catalan government, most recently that of Secretary General for Public Administration and Civil Service. In 1997, he joined the Inter-American Development Bank (IDB) in Washington, D.C.

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