The interference of marketing ethics in customer attraction, loyalty, and financial performance-in FDI companies operating in Addis Ababa-Ethiopia

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Abstract
In today's heightened foreign investment flow and increased competitive pressure, the implications of ethical behavior for FDI companies have become a very important determinant of the companies' success. The study empirically assessed the interference of marketing ethics in customer attraction, loyalty, and financial performance. Drawing on formulation of conceptual framework; hypothesized that companies with a strong ethical identity achieve greater degree of customer attraction and loyalty, which in turn, has a positive effect on the financial performance of FDI companies. In order to analysis this causality; the study has collected data from 353 customers through Likert scaling questionnaires and then used structural equation modeling (SEM). Specifically, it employed PCA, CFA and then path analysis. The model has been built and tested for fit; the model fit indices were chi-square to degree of freedom ration, RMSEA, SRMR, TLI and CFI. The SEM estimation result revealed the value of causal relationship between variables. As a result, marketing ethics practices was perceived as an important direct predictor of customer attraction and loyalty as well as to profitability. However, it revealed that, customer attraction and loyalty in turn has not a significant positive effect on the profitability of FDI companies.

Keywords: Marketing ethics, customer attraction and loyalty, financial performance, FDI companies, Structural equation modeling, Addis Ababa

1. Introduction

Ethics is a branch of social science; it comes from the Greek word ethos – means moral character or custom (Diener, 1997) [22]. Accordance with Olena (2005) [68], ethics is conceived as a way of life or general pattern, a set of rules of conduct or moral code. Ethics deals with moral principles and social values; helps us to classify what is bad and what is good. Likewise, Akrani (2011) [3] explains ethics used to separate right and wrong, moral and immoral, fair and unfair, and proper and improper doings.

The world has many different ethical systems mostly derived from different religions (Irwin, 2009) [46], culture, laws and Philosophical systems (Steiner and Steiner, 1980) [78]. Different systems can lead to different opinions about what is an ethical conduct and moral values governing actions and decisions in the work environment (Irwin, 2009) [46]. Thus, when being engaged in international business, the businessman should aware of the different business practices and ethical standpoints around the world (Lee, 2013) [58]. This is for the reason that, many of the ethical issues and dilemmas are rooted by political, law, economical, and cultural difference significantly from nation to nation (Irwin, 2009) [46]. All these conditions make the international business more complicated.

Ethics and morals: The term 'ethics' and 'morality' often used interchangeably and they are closely related; but it is essential to identify the different. Morality seems to be more general and perspective. Being immoral is completely different than being unethical. Unethical actions on some circumstance to be immoral, it has to be fundamental or permanent (Babu, 2007) [6]. Value Vs ethics: values are fundamental beliefs that make actions, traits, and objectives of anyone good or bad (Babu, 2007) [6]. They are the principles or standards that we use to define something. It considers the word "evaluate". When we evaluate something we compare it to a standard. Typical values include honesty, integrity, compassion, courage, honor, responsibility, patriotism, respect and fairness (Navran, 2010) [65]. Ethics Vs legal: Laws are more limited; legal standards are negative and forbid to harm peoples rather than

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require help them (Gohsman, 2008) [33]. Legal means recognized or made effective by a court of law. While ethics has much to do with the inner self since they are moral principles of an individual. The decision making factor for an illegal act is the law agent; whereas, unethical acts can be judged or decided by the man's own conscience (Kaushik, 2011) [50].

Marketing ethics is nothing but it is the application of ethics in marketing decisions; it can also be defined as a standard by which a marketing action may be judge "right" or "wrong" (Fernando, 2009) [25]. Marketing ethics can vary across cultures, legal, political and social differences (Toyne and Nigh, 1997) [84]; thus, an ethical decision lies in the point where the accepted ethical standards no longer serve for all situations. The ability to recognize and deal with complex marketing ethics issues has become a significant priority in twenty-first-century to a market economy companies (Ferrell *et al.*, 2012) [26]. The companies today are expected to meet standards of ethics that go beyond what had been expected traditionally (U.S. Department of Commerce, 2004) [87]. Good ethics in marketing encourage better customer loyalty and strengthen the financial performance (Mitchell, 2009) [63]. And also Ferrell and colleagues (2012) [26] argues that ethical practices contributes to customer satisfaction and loyalty and which in turn for profit. A company cannot nurture, develop and practice an ethical behavior unless it has achieved adequate financial performance in terms of profits. (Ferrell *et al.* 2012) [26]. In the present time, the failure to good business ethics practices can result in a failure to maximize shareholders' wealth (Francis and Mishra, 2009) [30].

The company performance indicators can be classified in to two categories-nonfinancial and financial. Financial performances are indicated based on the output of income statements; while, non-financial are based on other measures used to assess the activities seen as important to the achievement of the financial performance objectives (Chen *et al.*, 2009; Chow and Van der stede, 2006) [17, 18]. Financial indicators have been the main scorecard of success for hundreds of years, but by themselves they don't measure the complete health of a business (Hanks, 2013) [37]. A financial aspect is incomplete evaluation of company performance as the internal; while non-financial performance like customer attraction and loyalty can describe the company's internal potential and future perspectives (Kotane and Kuzmina-Merlino, 2011) [54]. Many scholars argued that customer attraction and loyalty is one of a dimension of non-financial performance indicators (Sadler, 2002; Chow and Van der stede, 2006) [74, 18].

Customer attraction is the process of identifying the potential customers and then bringing the company goods and services to their attention; it may be through advertisement and public relation with the intent to get the customer to come to sale place (Barajas, 2007) [7]. Customer loyalty is the extent to which customers experience positive feelings for and purchasing decision toward a company's brand (Kotler, 2012) [56].

1.1 Objective of the study
The core objective of this study was to *analyze the causal relationship between corporate marketing ethic practices and the companies' performance*
In order to address this objective; the companies' performances were categorized as nonfinancial and financial

performance. And then, it needs to evaluate the type and the extent of strength of the causal relations between ethical practices, nonfinancial, and financial performance. Furthermore, it seeks to appraise the extent to which FDI companies should employ marketing ethics as a strategy to development.

2. Literature study
2.1 Ethics, morals and values Ethics and morals: The term 'ethics' and 'morality' often used interchangeably and they are closely related; but it is essential to identify the different. Morality seems to be more general and perspective. The concept about tastes, manner, and customs may be outlined as ethical beliefs, but they are not always the part of morality. Being immoral is completely different than being unethical. Unethical actions on some circumstance to be immoral, it has to be fundamental or permanent (Babu, 2007) [6]. If a society is dominated by a single religious or single culture, ethics and moral may be defined as the same thing (Navran, 2010) [65].

2.1.1 Values: are fundamental beliefs that make actions, traits, and objectives of anyone good or bad (Babu, 2007) [6]. They are the principles or standards that we use to define something. It considers the word "evaluate". When we evaluate something we compare it to a standard. Typical values include honesty, integrity, compassion, courage, honour, responsibility, patriotism, respect and fairness (Navran, 2010) [65].

2.2 Ethics Vs legal
In order to clearly understand the difference between illegal and unethical act; first, we have to consider legal and ethical limits. Laws are more limited, legal standards are negative and forbid to harm peoples rather than require help them (Gohsman, 2008) [33].

Another different is that legal means recognized or made effective by a court of law. Ethics has much to do with the inner self since they are moral principles of an individual. The decision making factor for an illegal act is the law agent; whereas, unethical acts can be judged or decided by the man's own conscience (Kaushik, 2011) [50]. Ethics is right for right's sake, whereas the low is a set of minimum requirements that society will operate; thus, unethical act can be legal and also illegal acts can be ethical (Pivar and Harlan, 1995) [70]. The summary of their difference is that Illegal is an act against the law while unethical is against morality. Illegal acts are easily detectable; however, unethical behaviors are difficult to detect easily. International laws may be similar for all, but ethics can vary across different cultures and regions (Kaushik, 2011) [50].

2.3 Ethical dilemma
Defining an ethical dilemma is the first step in making critical marketing decisions that can determine the company's success and make conscience clear (Flamand, 2011) [28]. According to Jakhotiya (2003) [47] definition, ethical dilemma is a situation in which an ethical individual or organization being forced to accept an unethical or semi ethical solutions to a problem in the large interest of organization, employee, and society. An ethical dilemma occurs when there are at least two possible choices and each option is problematic (Fletcher and Holt, 1995) [29]. It refers to situations in which a person face lots of choices and no

clear cut right answer; each option may have major negative consequences. Thus, it is also known as ethical paradox (Flamand, 2011) [28].

A situation to be viewed as an ethical dilemma, it should satisfy three prerequisites. The first prerequisite is that an individual, called the "agent," must have a responsibility to make a critical decision that is intends to be best. The second prerequisite for ethical dilemma is that the different options should be there from which an individual, responsible to making decision, chooses. A person must want to do what is right. Third, in an ethical dilemma, each option should be problematic. In other words, there is no perfect solution (Allen, 2012) [4].

2.4 Marketing ethics
Marketing ethics is nothing but it is the application of ethics in marketing decisions, it can also be defined as a standard by which a marketing action may be judge "right" or "wrong" (Fernando, 2009) [25]. Marketing ethics can vary across cultures, legal, political and social differences (Toyne and Nigh, 1997) [84]; thus, an ethical decision lies in the point where the accepted ethical standards no longer serve for all situations. The ability to recognize and deal with complex marketing ethics issues has become a significant priority in twenty-first-century to a market economy companies (Ferrell *et al.*, 2012) [26]. The companies today are expected to meet standards of ethics that go beyond what had been expected traditionally (U.S. Department of Commerce, 2004) [87]. Good ethics in marketing encourage better customer loyalty and strengthen the financial performance (Mitchell, 2009) [63]. And also Ferrell and colleagues (2012) [26] Argues that ethical practices contributes to customer satisfaction and loyalty and which in turn for profit. A company cannot nurture, develop and practice an ethical behavior unless it has achieved adequate financial performance in terms of profits. (Ferrell *et al.* 2012) [26]. in the present time, the failure to good business ethics practices can result in a failure to maximize shareholders' wealth (Francis and Mishra, 2009) [30].

2.5 Customer attraction and loyalty
A company's sale volume is derived from both new customers and repeat customers. Customer attraction is the process of identifying the potential customers and then bringing the company goods and services to their attention; it may be through advertisement and public relation with the intent to get the customer to come to sale office (Barajas, 2007) [7]. New customer attraction is mostly more costly than to retain the existing customers (Barnes, 2001) [8]. Customer loyalty is the extent to which customers experience positive feelings for and purchasing decision toward a company's brand (Kotler, 2012) [56]. Customer Loyalty is grouped in to two broad categories of loyalty: emotional and transactional. *Emotional loyalty* is about how customers generally feel about a particular brand regardless of price (Hayes, 2013) [39]; it is when the shared identity created between the individual and the brand. Transactional is based, on the other hand, is about the actions of repeat purchase; it is a loyalty based on the dimension such as price, value, and perception and convenient. Customers want to deal for better services (McKean, 2010) [61].

Customer Loyalty can be measured though a rapid loyalty approach. This approach is based on the index of Retention, Advocacy and Purchasing loyalty. Each of the RAPID loyalty indices has excellent measurement properties; that is, each index is a reliable, valid and useful indicator of customer loyalty and is predictive of future business (Hayes, 2013) [39]. Retention Loyalty Index (RLI): measures and is calculated as an average of top purchasing, switching, and the degree to which customers will remain as customers or not leave to competitors. Advocacy Loyalty Index (ALI): measures the positive words of mouth about the goods or services spreader by the customers. It is the extent to which the customers feel positively toward the brand and recommend others to buy. Purchasing Loyalty Index (PLI): measure the willingness of the customers to repeat and bulk purchase or increase their purchasing behaviour (Trott and Sople, 2016) [85]. Many scholars argued that customer attraction and loyalty is one of the a dimension of non-financial performance indicators (Sadler, 2002; Chow and Van der stede, 2006) [74, 18].

2.6 Financial performance
The financial performance is widely evaluated through Ratio analysis such as; Profitability ratios, liquidity ratios, management efficiency ratios, solvency ratios, and investment ratios and also using percentage analysis and cash flows analysis (Ho, 2010) [43]. The financial analysis of a company is mostly done based on the information from income statements such as profit, revenue and cost (Chen *et al.*, 2009; Chow and Van der stede, 2006) [17, 18]. Financial indicators have been the main scorecard of success for hundreds of years, but by themselves they don't measure the complete health of a business (Hanks, 2013) [37]. Traditional methods for evaluation of business activity are based on the calculations of financial performance indicators and their evaluation, but they do not identify all factors influencing company development (Kotane and Kuzmina-Merlino, 2011) [54]. So, a financial aspect is incomplete evaluation of company performance as the internal; while non-financial performance like customer attraction and loyalty can describe the company's internal potential and future perspectives (Kotane and Kuzmina-Merlino, 2011) [54].

3. Conceptual framework and hypothesis
The conceptual framework provides a basis to understand the effects and causal relation of different variables and allows the development of hypotheses. The theoretical perspective of corporate marketing ethics, customer attraction and loyalty and the companies' profitability are the stand point to the development of this conceptual framework

The conceptual framework (Figure: 1.1) shows the association between the corporate marketing ethics practices and the indicators of customer attraction and loyalty. Evidence from empirical research suggests that there are several indicators of the customer attraction and loyalty; such as customer attraction, customer retention, customer advocacy, customer repeat purchase and the customers' amount of purchase. Likewise, there are many financial performances indicators; however, the present study has not directly measured quantitative indicators; rather, a financial performance has been appraised based on opinions on the companies' profits, revenues and costs, and analysed by using structural equation modelling.

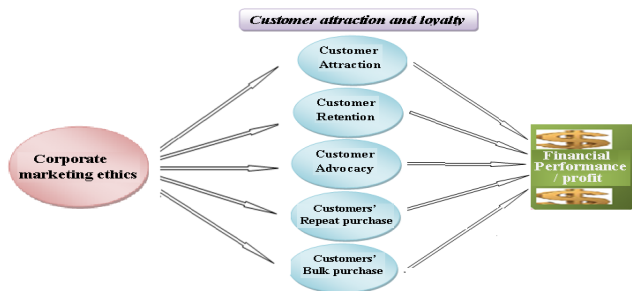## 3.1 Conceptual framework: Causal relationship between Marketing ethics and Companies' performance

Figure: 1.1. Conceptual framework

3.2 Hypothesis

The hypotheses of this study were based on the proposition that good marketing ethics practices affect directly nonfinancial performance and indirectly financial performance. The other proposition is that good financial performance is directly affected by nonfinancial performance. The followings was the tentative statement of the study.

➢ **H1:** There is no a significant positive relationship between Marketing ethics practice and Customer attraction and loyalty.

➢ **H2:** There is no a significant positive relationship between the Customer attraction and loyalty and financial performance.

➢ **H3:** A Marketing ethics practice has no a significant effect on FDI companies' profitability (total effect)

4. Data and Methodology

The main research question of the study is "What is the causal relationship between marketing ethics practices and the companies' performance" in case of FDI companies operating in Addis Ababa. In order to answer this research question, the study has used a mix of qualitative and quantitative methodology. The study has been organized in to three sections. The first section analyzed the marketing ethics practices. Second section, investigated the companies' performance (both customer attraction & loyalty and financial profitability). Finally, the study investigated the causal relationship between marketing ethics practices and the companies' performance.

4.1 Data, Sample Size, and data collections

In the process of conducting research, at least five major activities are included: 1. matching the research design with research questions, 2. Sample determination, 3. selecting the research inventories, 4. Selecting methods of data collection, and 5. Selecting methods of data analysis (Heppner et al. 2007) [41]. In the previous section, the activities with related to matching the research design with research questions was discussed. The next section will discuss the rest major activities of the study

Before sample design, the data sources and data type required to the study should be determined (Kothari, 2004) [55]. To properly answer the research questions, primary data was the main sources of the study. According to the study's finding of Nicholson and Bennett (2008) [66], 84% of business ethics dissertations included primary data as major sources. Likewise, 51% of business ethics dissertations employed Primary data only (Nicholson and Bennett, 2008) [66].

The study was conducted in Addis Ababa; it is a capital City of the Federal Democratic Republic of Ethiopia. The total numbers of foreign investment operating in Addis Ababa now reached at 1047. However, merely 156 companies were at operation stage, of which105 companies were service and trade and 51 were manufacturing companies (AAIA Report, 2014) [1]. Companies at operation stage were the focusing area of the study. The sample size of the study was 48 FDI companies; of which 19 from manufacturing and 29 from service and trade types of business proportionally. This means 31% of the population. The sample size of 30% seemed to be ideal (Range Manangement Society of India, 2000) [71]. In order to select sample FDI companies, the study has administered a multistage sampling (proportional stratified sampling and then systematic random sampling). Furthermore, sample size is one of the most essential issues in SEM since the sample size affects the ability of the model to be estimated correctly and to recognize specification error (Khine, 2013) [52]. Sample size plays a significant role in the estimation and interpretation of SEM results (Hair et al. 2006) [35]. Thus, almost all scholars have consensus on that larger samples provide suitable and correct parameter estimates; however, there is no agreement as to what constitutes an adequately large sample size (Mueller, 2012) [64]. As the sample size increases, the sensitivity to detect differences among the data will be increased (Khine, 2013) [52]. According to the recommendation of Anderson and Gerbing (1982) [5], the minimum sample size in SEM, should be 150. Other authors recommended 200 as a minimum sample size (Hair et al. 2006) [35]. Moreover, according to Dwivedi et al. (2009) [23], the median sample size for all SEM application was 212.

The respondents of the study were customers and managers of FDI companies. Based on the most commonly used formula of Cochran's (1977), the study has taken 353 sample customer respondents and administered convenient sampling to select these required numbers of respondents from customer groups, and purposive sampling to select 76 managers from FDI companies. The *data was collected* by using questionnaire. Likert scale has been the most widely used technique.

4.2 Methods of data analysis

The analysis was done through SEM; specifically, by using principal component analysis (PCA), confirmatory factor analysis (CFA), model fit test, inclusive path analysis and effect analysis, and then the data was tested through Z-test. STATA12 software has been important statistical software to conduct SEM analysis. According to a rule of thumb, a rotated factor loading would need to be at least 0.32, and it is considered as statistically meaningful since 0.32 gives us approximately 10% of the overlapping variance. Percentage of overlapping variance = (Factor loading)^2 (Tabachnick & Fidell, 1996) [83]. However, the choice of cut-off point may depend on the complexity of variables that are being handled. Thus, this study used 0.5 as a cut- off point. Principal component analysis was performed through oblique (oblimin with Kaiser Normality) rotation. Eigenvalue ≥ 1 was taken as a cut off value to extract the number of component factors. A factor loading ≥ 0.5 was viewed as significant cut-off value and any variables that have significantly low value of factor loading (below 0.5) were dropped before conducting CFA. Furthermore, a variable to be considered as an indicator of a given factor,

its correlation value with other indicators should be greater than or equals to 0.5 (Weinberg and Abramowitz, 2002) [90]. Accordingly, the study computed the correlation values of indicators. As a rule of thumb, a correlation coefficient equal or exceed 0.5 is considered as a strong correlation; but exceed 0.8 considered as very strong correlation. When the correlation value is ≥ 0.8, it is subject for dropping either of the two (Rubin, 2012); because, it would be considered that the two items measure the same thing (Weinberg and Abramowitz, 2002) [90]. In this study, when items had a correlation coefficient equal or exceed 0.8, then one item was selected and the other was dropped.

This study, furthermore, used Cronbach's alpha as an often used technique measures internal consistency or reliability of a group of construct indicators; it is considered to be a measure of scale reliability; ranges between 0 and1; high value shows high reliability (UCLA Institute for Digital Research and Education, 2016) [88]. In this study, 0.7 was applied as a threshold value

CFA is a means to confirm a hypothesized model when a researcher has knowledge about the indicators variables and factors (Bruck, 2009) [15]. Accordance with Wang and colleagues (2012) [2.2], following to EFA, CFA to validate the initial factor structure, was conducted. Factor loading ≥ 0.5 was also taken as significant cut-off value for CFA. Beside, through CFA model fit indices, conclusion was made about whether the data fit well with the factor structure.

In this study, moreover, the model fit indices that were used for measuring the fitness of an identified indicators were CFI (Comparative fit index: over 0.9), TLI (Tucker-Lewis index: over 0.9), RMSEA (Root mean squared error of approximation: below 0.05), and SRMR (Standardized root mean squared residual: below 0.05). And in case of more than three indicators, it has used the ration of chi-square to degree of freedom as a measurement tool of model fit. Finally, following to EFA and CFA, path analysis has been undertaken with incorporating all variables in inclusive single model.

5. Introduction to Structural Equation Modeling (SEM)

Structural Equation Modeling (SEM) has roots in the beginning of this century (Hoyle, 1995) [45]. The study of latent variables and analysis their relation involving structural equation models has provided researchers considerable ways either to develop new theories or test or modify the existing one (Anderson and Gerbing, 1982) [5]. It is a comprehensive statistical approach to test hypotheses (Hoyle, 1995) [45]. SEM comprises both factor analysis and multiple regression analysis (Hair *et al*. 2006) [35].

Structural equation modeling (SEM) utilizes various types of models to depict relationships among variables, with the some basic goal of providing a quantitative test of a theoretical model hypothesized by the researcher. (Schumacker and Lomax, 2012)[75]. It represents the hybrid of two separate statistical traditions. The first is factor analysis developed in the disciplines of psychology. The second is simultaneous equation modeling developed mainly in econometrics (Kaplan, 2000) [49].

Structural Equation Modeling (SEM) originated from factor analysis (Wang and Wang, 2012) [89] and path analysis

(Hox, 2002) [44]. Even presently, it can be viewed as a combination of measurement (factor analysis) and structure (path analysis) (Schumacker and Lomax, 2012, Hox, 2002, Wang and Wang, 2012, Hoyle, 1995) [75, 44, 89, 45].

Factor analysis is a data reduction tool which removes redundancy or duplication (Mayer, 2006) [60]; it assumes that the covariance between a set of observed variables can be reduced (Swanson and Holton III, 2005) [81]. Principal component factor analysis (PCA) is the most widely used factor analysis through this factor analysis, factors are extracted that are relatively independent of one another (Mayer, 2006) [60]. As well, SEM is more often considered to be confirmatory factor analysis rather than exploratory approach (Wang and Wang, 2012, Swanson and Holton III, 2005) [89].

Path analysis is the process of constructing and solving the path diagram it represents causal relationship among a set of measured variables (Swanson and Holton III, 2005) [81]; it mostly uses multiple regressions (Schumacker and Lomax, 2012) [75]. The path diagram indicates to the relationship of one latent variable with another (Hoyle, 1995, Hox, 2002) [44, 45], When the factor analysis and path analysis are combined, the result is structural equation modeling (Hoyle, 1995) [45].

The major tasks of Structural equation modeling (SEM) follows a logical sequence of steps Bollen and long explain the five important stages of most applications of structural equation modeling: Model specification, Model Identification, Model estimation, Model Testing fit, and Model Re-specification (Kelloway,1998) [51].

SEM Consists of observed and latent variable (Schumacker and Lomax, 2012) [75]. One of the most essential issues to use SEM is to differentiate between observed and latent variables (Raykov, Marcoulides, 2006) [72]. Latent variable are a central concept but abstract phenomena in SEM (Byrne, 2013) [16], which are of hidden or unobserved and theoretical (Bowen and Guo, 2012) [14], and typically hypothetically existing constructs of interests in a study (Raykov and Marcoulides, 2006) [72]. Latent variables are measured indirectly by their respective indicators (observed variables) (Hoyle, 1995; Kelloway, 1998) [45, 51]. Endogenous latent variables are synonymous with dependant variable influenced by exogenous variable. Exogenous latent variables are synonymous with independent variables (Byrne, 2013) [16]. In this study, marketing ethical practices and Customer attraction and loyalty are exogenous latent variables, but financial performance is endogenous latent variable. While, observed variables can be directly measured and are indicators of a latent variable (Wang and Wang, 2012) [89]. An observed variable used as an indirect measure of a construct is referred to as indicator (Kline, 2011) [53]. Structural equation models are often applied to survey data (Hoyle, 1995) [45]. Thus, the observed variables can be categorical, ordinary, and continuous, but all latent variables in SEM are continuous (Kline, 2011) [53]. The observed items that measure latent variables may collectively be called a scale, subscale, instrument, measure, questionnaire, etc. (Bowen and Guo, 2012) [14]. Moreover, in this study, the companies' size, business sectors and the countries of origin are assumed to be control variables.

6. Data analysis: principal component analysis (PCA) and confirmatory factor analysis (CFA)

6.1 Introduction

6.1.1 Eigenvalue: A value in a factor analysis/correlation matrix which indicates how many factors can be extracted in the total factor analysis (Gorsuch, 2014) [34]. This is obtained by summing the squares of the factor loadings. It is important to extract the numbers of components or relevant factors. Eigenvalue greater than 1.00 is mostly considered as significantly relevant; High value indicates that the given observed variables found to be strong indicators to the factor (Wherry, 2014) [91].

6.1.2 Factor loadings: Factor loadings represent how much a factor can be expressed by a variable or how much a factor explains a variable in factor analysis (Gorsuch, 2014) [34], but also indicates the correlation between the variables and the factor (UCLA Institute for Digital Research and Education, 2016) [88]. The loadings closer to -1 or 1 indicate that an observed variable strongly can express a given factor, Loadings close to zero indicate that the factor weakly affect the variable (Gorsuch, 2014) [34] Thus, the variable with largest factor loading found to be considered as a determinant item of a given factor (Yong and Pearce, 2013) [92].

6.1.3 Uniqueness and error variance: The proportion of an observed variable's variance that is not described by the latent variable. It is calculated as equal to 1 – communality (Wherry, 2014) [91]. It is the proportion of the common variance of an observed variable not correlated with the factors. (Gorsuch, 2014) [34]. Error variance- a type of unique variance which refers to as the unreliability of the variance (Yong and Pearce, 2013) [92].

6.1.4 R-squared ($R^{2)}$): In SEM, it is a calculated value that indicates the fraction of variance explained by each observed variable. It is the product of loading square between an indicator and its prediction. The overall R-square is called the coefficient of determination (UCLA Institute for Digital Research and Education, 2016) [88].

6.2 Marketing ethics practices

The following table details the items used to measure the Marketing ethics practices of each dimension of CBE

Table 1.1: Marketing ethics practices Scale items

Marketing ethics practices Author	
Items	**Items are supported by:**
1 To what extent has the issue of health and safety product supply been practiced in the company?	Bench Marks Foundation, 2013; UNGCP act,1999; OECD, 2011; CRT, 2009; Consumers International, 1997; HDC, 2009; and SVN, 1999
2 To what extent does the company access adequate and truthful Information to the customers?	
3 To what extent does the company provide equal opportunity and treatment to the customers?	
4 To what extent does the company respect the customers' value, interest, dignity, and privacy?	
5 To what extent has the issue of fair and reasonable market price been considering to the customers?	
6 To what extent is the company committed to providing adequate and accessible product s' supplies and mixes?	
7 To what extent does the company resolve the customers' complaints in a timely manner?	

Source: *Authors' construct*

Table 1.2: Indicators of marketing ethics practices and *PCA*-Rotated factor loadings (pattern matrix) and unique variances –

	Observed Variable	Factor1	Factor2	Uniqueness
1	Set Fair and Reasonable Market Price	0.8500		0.2763
2	Provide Adequate and Truthful Information		0.9518	0.0779
3	Respect the Customers' Dignity, Values, Privacy, &Interest	0.7410		0.4448
4	Address the Customers' Complaints and Dispute Resolution		0.9254	0.1193
5	Adequate and Accessible Products' Supplies and Mixes	0.9436		0.1082
6	Provide Quality, Healthy and Safety Products		0.3833	0.8467
7	Provide Equal Opportunity and Treatment	0.8452		0.2852

Source: *Authors' construct*

Table: 1.2. Shows the report of PCA rotated factor loadings from STATA 12 software analysis. The blanks space represent a factor loading <.3. Accordingly, the four indicators in the table have factor loadings greater than 0.5. The factor loading magnitudes exceed 0.5 was the focal point of this study. Besides to the rotated factor loading magnitudes, the significance level of their correlation was tested; as a result, all loadings were statistically significance.

Thus, it seems appropriate to note that statement "Adequate and Accessible Products' Supplies and Mixes" and "Provide Equal Opportunity and Treatment" correlate strongly (r=0.8433); accordingly, it would be considered that the two items measure the same thing (Weinberg and Abramowitz, 2002) [90]. Likewise, accordance with Field's (2000), one of the two should be eliminated.

Table 1.3: Adjusted indicators to marketing ethics practices

	Observed Variable	Standard Loadings	Error Varianc	Z-Value	R²
1	Practice Fair and Reasonable Market Price	0.88	0.23	33.86	0.774
2	Respect the Customers' Dignity, Values, Privacy, &Interest	0.67	0.55	19.63	0.449
3	Adequate and Accessible Products' Supplies and Mixes	0.85	0.27	32.17	0.723

Source: *Authors' construct*

Table: 1.3. Is built from the result of Confirmatory factor analysis (CFA). CFA tests the uni-dimensionality of a scale previously constructed by exploratory factor analysis (Baxter and Woodside, 2011). The initial result of CFA for the three items measuring marketing ethics practices indicated that the model fit indices were acceptable (RMSEA=0.00, SRMR=0.00, CFI=1.00, TLI=1.00). In case of three or less indicators, there is no degree of freedom; thus, the value of chi-square is zero. Moreover, all items' standard factor loading is greater than 0.5. As a final point, the Cronbach's alpha reliability test was undertaken; its

value was 0.8367. This is relatively high scale reliability coefficient, which implies that the three indicator items are highly reliable; because, in most social science research situations, a reliability coefficient equal or exceed 0.70 is considered as acceptable (UCLA Institute for Digital Research and Education, 2016) [88].

6.3 Customer Attraction and Loyalty

The following table details the items used to measure the customer attraction and loyalty

Table 1.4: Customer attraction and loyalty Scale Items

customer attraction and loyalty Author		
Items		**Items have been adapted from:**
1	To what extent does the company finds it easy to attract new potential customers?	Chen *et al.,* 2009; Frost, 2010; Steve Strauss, 2011; Hayes, 2013
2	To what extent do the customers want to retain buying relationship with this company?	
3	*To what extent do the customers advocate/promote this company?*	
4	To what extent are the customers repeatedly purchasing goods or services of this company?	
5	To what extent are the customers relatively purchasing more bulk amount of products in this company	

Source: *Authors' construct*

Table 1.5: Indicators to Customer attraction and loyalty and PCA-Rotated factor loadings (pattern matrix) and unique variances

	Observed Variable	Factor1	Uniqueness
1	Customer Attraction	0.8647	0.2523
2	Customer Retention	0.4193	0.8242
3	Customer Advocacy	0.9167	0.1597
4	Repeat Purchase	0.8072	0.3485
5	Bulk purchase	0.8758	0.2331

Source: *Authors' construct*

The EFA yielded one distinct factor from the sample data; it is clear that all items are meeting criteria to be considered as indicators of the factor. However, the indicator variable "Customer Retention" is not more relevant to measure a given factor since its loading factor value is below 0.5. But the other four indicators had to be taken as measuring variables due to high factor loadings in the exploratory factor analysis; however, the indicators "Customer Advocacy" and " bulk purchase" would seems highly correlated(r=0.840). According to Field's (2005), one was purposively deleted (bulk purchase being deleted)
In all instances, the values of these three factors loading were significant and correlated moderately. The value of Cronbach's alpha reliability test is 0.8567. Therefore, it can be concluded that the customer attraction and loyalty can be

properly measured through the three indicators such as Customer Attraction, Customer Advocacy, and Repeat Purchase

Table 1.6: Adjusted indicators to the customer attraction &loyalty

	Observed Variable	Standardized Loadings	Error Variance	Z-value	R^2
1	Customer Attraction	0.88	0.23	37.43	0.744
2	Customer Advocacy	0.81	0.34	31.44	0.656
3	Repeat Purchase	0.76	0.42	26.72	0.578

Source: *Authors' construct*

In addition, as shown in the table 1.6, all factor loadings from CFA were above the cutoff value and values from the model fit indices analysis were acceptable (RMSEA=0.00, SRMR=0.00, CFI=1.00, TLI=1.00). The value of chi-square is zero since there is no degree of freedom

6.4 Financial performance

The following table details the items used to measure the financial performance of FDI companies

Table 1.7: Financial performance Scale Items

Managers/ experts/ for Financial performance Author		
Items		**Items have been adapted from:**
1	How did the revenue of the company in 2014 relate to the previous year?	Shah, 2009; Douglas and Judge (1998),) and Stanwick and Stanwick (1998)
2	How did the revenue of the company in 2014 relate to its expectations?	
3	How did the net profit of the company in 2014 relate to the previous year?	
4	How did the net profit of the company in 2014 relate to its expectations?	
5	How did the business cost of the company in 2014 relate to the previous year?	
6	How did the business cost of the company in 2014 relate to its expectations?	

Source: *Authors' construct*

Table 1.8: Indicators to the companies' financial performance and PCA- Rotated factor loadings (pattern matrix) and uniqueness

	Observed Variable	Factor1	Uniqueness
1	Revenue as financial performance	0.9296	0.1359
2	Profit as financial performance	0.9456	0.1058
3	Cost as a financial performance	0.9273	0.1401

Source: *Authors' construct*

In determining the construct, the six questions for the three indicator variables (revenue, profits and costs) were asked with the intent to evaluate the financial performance of FDI companies; two questions were asked for each indicator and the data concerning to "costs as a financial performance" were rearranged to make resemblance with the others and ready for analysis. Then, the principal component analysis utilizing oblique -oblimin (Kaiser Normality) rotation extracted a single component factor with more than 0.87% proportion. As shown in table 1.8, all items loaded greater than 0.92. Additionally, the correlation coefficient was tested; as a result, the all indicators such as "Profit as financial performance", "Cost minimization as a financial performance" and "Revenue as financial performance" were very strongly correlated ($r \geq 0.85$);thus, the items can be viewed as measuring the same thing (Weinberg and Abramowitz, 2002) [90]. There was sufficient evidence to apply the recommendation of Field's (2000) that one of them should be selected. Thus, after EFA, as a final point, the study determined the items "Profit as financial performance" as measuring variables of a financial performance of FDI companies and dropped the rest two items.

7. Path analysis

One of the roots of Structural equation modeling is path analysis, which was invented by the geneticist Sewall Wright (Hox, 2002) [44]. Path analysis is a multivariate analysis which is to estimate the strengths of the direct effect from one variable to another, the indirect effect variables through intervening variables and including total structural effect (Mueller, 2012) [64]. Structural equation models are often pictured by a graphical path diagram (Blanche *et al.*, 2006) [13]. Path diagrams is a suitable way to graphically demonstrate the structural relationship of variables (Hox, 2002, Mueller, 2012) [44, 64]. A path diagram holds boxes and circles, which are linked by arrows (Hox, 2002) [44]. Observed (or measured) variables are indicated by square or rectangle, and latent factors by a circle or ovals (Girishwar, 2010) [32]. The relationships between variables are demonstrated by lines; if two variables are not interlinked with a line which implies that no relationship between these hypothesized variables. (Blanche *et al.*, 2006) [13]. A line with one arrow point out a causal relationship; the variable at the tail of the arrow causing the variable at the end and a line with an arrow at both ends indicates reciprocal relationship (Hox, 2002) [44]. A Curved line between observed variables indicates correlation between the observed variables (Kamaruddin and Abeysekera, 2013) [48].

8. SEM-Model building and estimation

The purpose of this study was to analysis the interference of Marketing ethics practices in the company performances through SEM. Thus, a SEM model has been built and tested for fit. When the model fitted and statistical support for the model has been obtained, the study interpreted the result of the estimation. In SEM, the focus of interpretation was the parameter estimates (Robins *et al.*, 2007) [73]. In this study, the magnitude and the sign of estimates were from the standardized estimation of SEM; a structural model was evaluated on the basis of goodness of fit measure. The

measurement results of a model fir are stated under each table; the model fit indices were chi-square to degree of freedom ration, RMSEA, SRMR, TLI and CFI. A Model has been built and the output results are presented and interpreted in the next section.
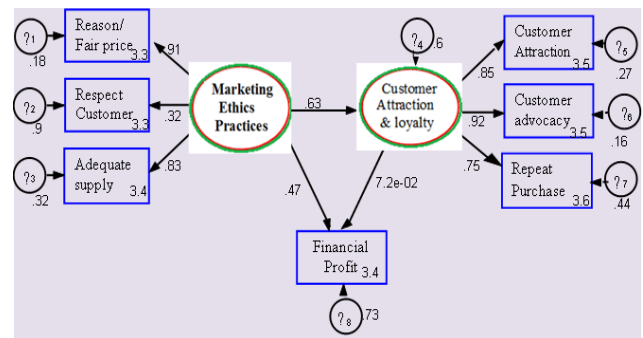
Source: *Author's construct from SEM by using STATA12 software*

Fig 1.2: SEM- Marketing ethics practice, Customer attraction and loyalty, and financial performance

Figure: 1.2. Shows a model developed for marketing activities and used to estimate and illustrate the relationship between marketing ethics practices, customer attraction and loyalty and financial performance. The result of this model revealed three key variables (one endogenous latent variable and one endogenous observed variable and one exogenous latent variable). Those have been influenced by six exogenous observed variables. The standardized factor loading from path analysis result indicates that the path coefficient between the marketing ethics practices and customer attraction and loyalty, and between marketing ethics practices and financial performance was positive and significant, it is 0.63 and 0.47 respectively. However, the path coefficient between customer attraction and loyalty and financial performance was positive but not significant; which is 0.071. The results show that the Marketing ethics practices significantly predicts the customer attraction and loyalty and financial performance of the companies..

In line with literature, good ethical practices encourage better customer loyalty and strengthen the financial performance (Mitchell, 2009) [63]. And also Ferrell and colleagues (2012) [26] argues that ethical practices contributes to customer satisfaction and loyalty and which in turn for profit. They also argue that ethical conduct toward customers builds a strong competitive position that has been shown to affect business performance. It is essential to develop and maintain trust with customers since this leads to repeat business and increased profits (Crush, 2014) [21]. Regarding to the relationship between customer loyalty and profit, McMurrian & Matulich (2006) [62] also argues that there is a direct positive relationship between customer loyalty and a company's growth and profitability.

The next tables discusses about the model estimations. The tables were prepared mainly with the intent of presenting and discussing the value of factor loading, R-square, and Z-value. Z- Value is used to provide information to know the significance of the path coefficient and decide whether to accept or reject the hypothesis of relationship, and R^2 to indicate the fraction of variance explained by each variable.

Table 1.9: Structural Equation Results: Direct relationship

	Standardize Loadings	*Error Variance*	*R²*	**Z-value**
Marketing ethics ⟶ Customer attraction &loyalty	0.63	0.6	0.397	11.73
Customer attraction and loyalty ⟶ financial profit	0.071		0.005	0.80
marketing ethics practices ⟶ financial profit	0.47	0.73	0.221	5.40
Model Fit: Chi Square = 26.19(df =12), RMSEA =0.076, TLI =0.96, SRMR = 0.037, and CFI =0.98.				

Source: *Authors' construct*

Table: 1.9 indicates the measurement of fit indices; the model has a chi-square fit estimate of 26.19 (df=12), RMSEA=0.076SRMR=0.037, CFI=0.98 AND TLI=0.96. And also the table shows the causality path coefficient between variables. As already has been briefly described in the previous, the fraction of variances of customer attraction and loyalty by exogenous latent variable (marketing ethics practices) is 0.397 and the fraction of variances of profit by exogenous variable (marketing ethics practices) is 0.221. While, the amount of variance in the financial profit accounted for by the customer attraction and loyalty was insignificant (R^2=0.005)

Z- values between -1.96 and +1.96 indicates acceptance, at 5% level of significance. Thus, the relation between the marketing ethics practices and customer attraction and loyalty; and between marketing ethics practices and financial performance was positive and greater than 1.96; meaning in rejection region. Moreover, while the relation between customer attraction and loyalty and financial performance was insignificant, this is within the range of -1.96 and 1.96, so it is acceptable

The investigation was also undertaken to identify the relation between marketing ethics and company financial performance (FP); it was analyzed with and without controlling the customers' attraction and loyalty as a mediating variable. With mediating variable, this study shows that a greater marketing ethics practices was positively related to high level of customer attraction and loyalty (ß=0.63). But in turn, customer attraction and loyalty had no a significant positive influence to the companies' financial performance (ß=0.071). As a result, the mediating between marketing ethics and financial performance was weak and insignificant (0.63*0.07=0.045). While controlling the mediated variable, the direct path coefficient between marketing ethics practices and financial performance was positive and significant (ß=0.47). Therefore, the study concludes that the relationship between marketing ethics and financial performance is not mediated by customer attraction and loyalty.

Table 1.10: Structural Equation Results: Direct, indirect and total effects

Direction	**Effects**			**Z-value**
	Direct	**Indirect**	**total**	
Marketing ethics ⟶ Customer attraction &loyalty	0.0495		0.0495	0.80
Customer attraction and loyalty ⟶ financial profit	1		1	
Marketing ethics practices ⟶ financial profit	0.5154	0.0495	0.5650	7.10
Model Fit: Chi Square = 26.19(df =12), RMSEA =0.076, TLI =0.96, SRMR = 0.037, and CFI =0.98.				

Source: *Authors' construct*

Table: 1.10.shows the Direct, indirect and total effects. The total effect of marketing ethics practices on customer attraction and loyalty is 0.0495; the Z- value is 0.08; which implies that there is no significant effect. While, the total effect of marketing ethics practices on financial performance was positive and significant (z= 7.1).

8.1 Direct, indirect and total effects
In SEM, decompositions typically provide direct, indirect and the total affects which considered paths from independent to dependant mediated by one or more additional variables.

-Direct effect- is called path which has arrowhead from a cause variable to an effect variable
Which is that influence unmediated by any other variable in the model (Lee, 2008) [59].

-Indirect effect- is when one or more mediating variables transmit some of the causal effects in to the dependant variables; their relationship is mediated by at least one intervening variable. Its value can be computed through subtracting the direct effects from the total effects. (Gorsuch, 2014) [34].

-Total effect is the summation of direct and indirect effects of an independent variable on dependant variable (Wherry, 2014) [91]. The study presents the result from the effects

documentation tables in which the total, direct and indirect effects within the models are summarized

Accordance with Baron and Kenny (1986) [9], in order to perform a mediating effect, four conditions should be fulfilled. First, the independent variable (marketing ethics practices) must predict the dependent variable (profit). Second, independent variable must affect the mediator variable (Customer attraction and loyalty). Third, the mediator variable must affect the dependent variable. Fourth, when the mediator is being controlled, the impact of independent variable on the dependent variable should be less

9. Hypothesis test result and summary of the finding
At the previous, the study hypothesized causal relationship among latent variables and assumed that these latent variables and their indicator variables are perfect representative of the constructs. This construct represented customer stakeholder. And the focus was on the causal relationship between measured variables and latent variables and then analysis causal linkage between one latent with another latent variable

H1: There is no a significant positive relation between marketing ethics practices perceived by customers and Customer attraction and loyalty.

This study found some evidences to this hypothesis. The direct path coefficient was 0.63; in other context, the fractional variation of Customer attraction and loyalty by marketing ethics practices contributes 39.7% with Z- value 11.73. In addition, in line with evidences and findings from the previous studies, they have concluded the same things. Accordance with Ahmed and colleagues (2015) [2], the greater salesperson's ethical behavior as perceived by the customer creates the greater the customer loyalty to the company. Kurt (2008) [57] also argues that there is a positive relation between the perception of customers on ethics of e-retailers and customer loyalty. However, contradict to this, for instance Tuan (2015) [86] concluded that ethics from salespersons does not have direct impact on customer loyalty.

H2: There is no a significant positive relationship between the Customer attraction and loyalty and financial performance.

A positive association between the consumer attraction and loyalty and profit was outlined in this study. The data analysis result indicates that the value of the direct path coefficient was weak (ß=0.071); so, the relation assumed to be insignificant. The fractional change of profit by Customer attraction and loyalty has been only 0.5%. However, a study conducted by Hallowell (1996) [36] and Sweeney (2009) [82], found a contradict result with this hypothesis that a customer attraction and loyalty has a positive relation to profitability. Moreover, Reichheld and

Sasser estimated that when customer loyalty increased just by 5%, profit increased from 25% to 85% (Heskett *et al.* 2008) [42].

H3: marketing ethics practices perceived by customers has no a significant positive effect on FDI companies' financial performance

This was noted in the study that the relation between marketing ethics practices and financial performance, with mediating the customers' attraction and loyalty as a variable, was weak and insignificant (0.63*0.07=0.045);while the direct path coefficient was0.47. Therefore, it implies that the relationship between marketing ethics and financial performance is not mediated by customer attraction and loyalty. However, the coefficient of direct effect of marketing ethics on the company financial performance was 0.5154, and its total effect was 0.565 with the Z-value 7.10. As a result, marketing ethics practices perceived by the customer has a significant positive effect on the FDI companies' financial performance. In line with previous studies, a study conducted by Otuya and colleagues (2013) [69] found the same result that ethical treatment towards customers has a significant positive effect on company financial Performance. Berrone and colleagues (2005) [12] found that corporate ethics significantly affect the financial performance. And accordance with ETI (2006) [24] explanation, practically, the Co-operative Bank's shopping with Attitude survey in 2004 revealed that consumer boycotts were costing brands around £3.6 billion a year.

Table 1.11: Summary of Hypothesis Testing

S.N	Hypothesis	Test result
1	H1: There is no a significant positive relation between marketing ethics practices perceived by customers and Customer attraction and loyalty.	Rejected
2	H2: There is no a significant positive relationship between the Customer attraction and loyalty and financial performance.	Accepted
3	H3: Marketing ethics practices perceived by customers has no a significant positive effect on FDI companies' financial performance	Rejected

Source: *Authors' construct*

10. Conclusion

This paper has analyzed the causal relationship of marketing ethics practices and companies' performance in FDI companies operating in Addis Ababa Ethiopia. In order to analysis these relations, the paper has reviewed and used the theory of Structural Equation Modeling (SEM), which mainly organized from factor analysis (Wang and Wang, 2012) [89] and path analysis (Hox, 2002) [44]. It has been used a multiple regression technique (Schumacker and Lomax, 2012) [75]. Before going to SEM, the study performed PCA to extract factors and to identify the indicator variables. STATA12 representing one of alternatively used computer package for SEM was used in this study to test the causal relationship between marketing ethics practices and financial Performance and also to test the relationship between these two variables via moderator variable (customer attraction and loyalty).

Accordingly, this study has built a model and estimated values to examine the causal relationship of different variables. As a result, marketing ethics practices was perceived as an important direct predictor of customer attraction and loyalty as well as to profitability. In apparent form, there is a significant positive relation between marketing ethics practices perceived by customers and Customer attraction and loyalty and also marketing ethics practices in turn has a significant positive total effect on FDI

companies' financial performance. However, as it is widely documented in the analysis as well as in literature, customer attraction and loyalty was not an important direct and immediate determinant factor affecting the profitability of the companies.

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Appendixes

Appendix 1: Correlation matrix

	Conpric	conresp	consup	conopp	conatr	conadv	conrep	conbul	finrev	finpro	fincos
conspric	1.0000										
consresp	0.675	1.0000									
consupp	0.7466	0.5059	1.0000								
consoppo	0.5370	0.6316	0.8433	1.0000							
consatra	0.5172	0.0936	0.3519	0.2752	1.0000						
consadvo	0.8980	0.3687	0.8513	0.6593	0.5518	1.0000					
consrepur	0.0614	0.0136	0.1424	0.2063	0.6634	0.6182	1.0000				
consbupur	0.4411	0.0866	0.5522	0.4749	0.7623	0.8402	0.5527	1.0000			
fincreven	0.4547	0.0828	0.3632	0.2723	0.5125	0.3906	0.0066	0.1745	1.0000		
fincprof	0.4731	0.0498	0.4345	0.3307	0.2326	0.4420	0.0105	0.2545	0.8570	1.0000	
fincost	0.3472	0.1765	0.3275	0.2190	0.1984	0.3462	-0.0471	0.0888	0.8789	0.8612	1.0000

Appendixes