

## ACADEMIC PAPER

# “A few bad apples” or “rotten to the core”: Perceptions of corporate culture drive brand engagement after corporate scandal

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## Abstract

Following unethical corporate behavior, consumers face decisions on how to engage with brands in the future. Consumers' beliefs about the underlying causes of a corporate scandal may influence future patronage intentions, for example, by influencing perceived likelihood of future wrongdoing. We investigated how beliefs about corporate culture and consumer proximity to the recent Volkswagen diesel emissions scandal influence expectations of future ethical action by Volkswagen Group (VW), feelings of anger, and future brand engagement. Results indicate that beliefs about corporate culture and proximity each independently influence future brand engagement. Specifically, owners who believed “a few bad apples” (rather than a “rotten” corporate culture) caused the scandal reported higher expectations of future ethical action by VW, less anger, and more positive intentions to engage with VW in the future. Those more proximately affected by the scandal, that is, turbocharged direct injection owners, were more likely to be angry and less likely to engage with VW. Expectation of future ethical action and anger mediated the effects of corporate culture on engagement, whereas only anger mediated the effects of proximity. This small set of factors accounted for over half of the observed variance in future brand engagement intentions, highlighting the importance of understanding consumer responses to corporate scandal.

## 1 | INTRODUCTION

With consumers expressing a growing interest in patronizing corporations on account of their ethical conduct, corporate social responsibility initiatives are occupying an increasingly important role in corporate agendas (Brown & Dacin, 1997; Creyer, 1997; Luo & Bhattacharya, 2006; Mohr & Webb, 2005; Mohr, Webb, & Harris, 2001; Sen & Bhattacharya, 2001). When confronted with egregious corporate scandals, brand patrons are faced with difficult decisions about how and whether to engage with the offending company in the future. To date, limited research has examined the specific factors that influence how and to what extent consumers are differentially motivated to engage with a brand following actual instances of intentional corporate malfeasance that affect both brand patrons and the general public.

In 2008, the Volkswagen Group (VW) launched the “Clean Diesel” engine ad campaign designed to debunk the “diesel is dirty” (mis)conception and announced their new line of environmentally friendly, high-performance diesel engine vehicles (Pemberton, 2015).

However, less than a decade later, VW admitted to intentionally installing “defeat device” software on their turbocharged direct injection (TDI) diesel engine vehicles to evade U.S. emissions regulations. Volkswagen's fraudulent engineering has resulted in excess nitrogen oxide (NO<sub>x</sub>) emissions from over 500,000 vehicles (TDI models 2009–2015) registered in the United States and an additional 11 million vehicles worldwide (Gates, Ewing, Russel, & Watkins, 2016). Volkswagen's unethical conduct could have potentially drastic negative effects on existing owners' intentions to remain loyal to the brand in the future.

Here, we report findings from a matched samples survey of TDI and non-TDI VW consumers in which we investigated how reactions to the scandal predict future brand engagement intentions. Specifically, we explored how two important factors—consumers' proximity to the scandal and perceptions of VW's corporate culture—predict expectations of future wrongdoing, feelings of anger, and consumers' intentions to engage with the brand in the future. Further, to more comprehensively explore the effects of proximity and perceptions of corporate culture on consumers' future brand engagement, we also

examined how and to what extent both expectations of future ethical action and anger mediate these effects.

### 1.1 | Predicting future brand engagement

In the wake of corporate scandals, consumers can play an instrumental role in determining the financial success of corporations by choosing to either engage or disengage from the company (Reichheld & Sasser, 1990). Underscoring consumers' future brand engagement is the basic choice of whether or not to continue purchasing from a corporation. Additionally, consumers can also affect company outcomes by talking with other potential consumers about the company, its behavior, and its products. The examination of such word-of-mouth behaviors (Westbrook, 1987) is not a trivial endeavor, as research demonstrates that interpersonal communication influences individuals' decision making, including in the context of consumption (Christiansen & Tax, 2000; Engel, Blackwell, & Miniard, 1995; Katz & Lazarsfeld, 1955; Walker, 1995). Thus, in the present study, we measured brand engagement not only in terms of future purchasing intentions but also in terms of interpersonal communication about the brand.

Extant research examining the antecedents of consumers' purchase and word-of-mouth intentions following corporate product and service failures highlights a variety of factors, including customer satisfaction (Andreassen, 1999; Bolkan, Goodboy, & Bachman, 2012; Susskind, 2005), corporate social responsibility evaluations (Klein & Dawar, 2004; Russell, Russell, & Honea, 2016), prior consumer-brand relationships and expectations (Dawar & Pillutla, 2000; Grégoire & Fisher, 2008; Grégoire, Tripp, & Legoux, 2009; Lei, Dawar, & Gürhan-Canli, 2012; Trump, 2014), and moral or self-conscious emotions (Antonetti & Maklan, 2014; Grappi, Romani, & Bagozzi, 2013; Johnson, Matear, & Thomson, 2010; Romani, Grappi, & Bagozzi, 2013). However, as far as we have been able to determine, no past research has explicitly examined whether individuals' beliefs about the nature of an organization's "corporate culture" influence future brand engagement. Given that media coverage of corporate scandals often seems to highlight the role of corporate culture in driving unethical decisions, for example, indicating either that the entire company is morally bankrupt or else that just a few "bad apples" are responsible for the wrongdoing, we hypothesized that variation between individuals with respect to such beliefs may help explain differential responses of consumers to the VW emissions scandal.

Predicting consumers' future brand engagement, as a function of both how consumers attribute blame as well as how proximately or distally affected they are by a corporation's actions, has the potential to inform how organizations design and direct effective communication, marketing, and organizational responses. If consumers perceive an instance of wrongdoing to be a symptom of a pervasive corrupt corporate culture, which may have negative downstream effects on future brand engagement, this may provide a powerful motive for the organization to make changes to respond to consumers' ethical expectations of organizational culture moving forward. Thus, the recent VW diesel emissions scandal provides a unique real-world context within which to study these consumer decision-making dynamics and build on preexisting themes in consumer behavior research.

### 1.2 | Ascribing culpability: Immoral characters or corrupt culture

Addressing the question of consumers' beliefs about corporate culture is an important consideration in the present context as VW has accepted internal responsibility for intentionally installing the "defeat device" software. Although the chairman of VW has claimed that the scandal was caused by the "misconduct and shortcomings of individual employees" (Boston, Varnholt, & Sloat, 2015), others have suggested the scandal was the result of VW's corporate culture, once described as "cutthroat, confident, and insular" (Ewing & Bowley, 2015). Examining whether VW owners' divergent beliefs about corporate culture for causing the scandal predict future brand engagement extends existing literature on attributions of responsibility with respect to corporate wrongdoing and product failures (Antonetti & Maklan, 2014; Coombs, 2007; Folkes, 1984; Folkes, 1988; Lei et al., 2012).

Extensive theory and research suggest that individuals seek out and develop causal stories that allow ascriptions of blame and responsibility after witnessing unethical behavior (Heider, 1958; Malle, Guglielmo, & Monroe, 2014; Weiner, 1985). Thus, in the wake of a corporate scandal, it is reasonable to assume that consumers will first seek to address the question of culpability. Indeed, attributions of responsibility influence consumers' reactions to corporate failures (Coombs & Holladay, 2002; Folkes, 1988; Klein & Dawar, 2004; Laufer & Coombs, 2006; Lei et al., 2012). However, most of this research has examined consumers' attributions either as the function of three causal dimensions of locus, stability, and controllability (Folkes, 1984), the influence of contextual base-rate information (Lei et al., 2012), or else the degree to which consumers hold corporations responsible (Antonetti & Maklan, 2014). When consumers attribute blame to external corporate factors, view the brand's actions consistent with similar organizations, or ascribe lower levels of responsibility to the corporation, they are more likely to positively engage with the brand in the future (Antonetti & Maklan, 2014; Folkes, 1988; Folkes, Koletsky, & Graham, 1987; Klein & Dawar, 2004; Lei et al., 2012). Yet, when corporations are admittedly responsible for the wrongdoing, attempts to answer the question of culpability often implicate the extent to which the corporation's organizational culture, characterized by widespread corruption, enabled or even supported the malfeasance (e.g., "Enron": Sims & Brinkmann, 2003).

Building on this idea and the work cited above, we hypothesized that consumers' ascriptions of responsibility, either to an entire organization (i.e., as a result of a perceived corporate culture that is "rotten to the core") or else to a small handful of employees (i.e., "a few bad apples"), may strongly influence intentions to engage with the organization in the future (e.g., purchase its products and speak positively with others about it). Consumers should be more willing to engage with a corporation if the incident is perceived as an uncharacteristic, isolated event attributable to the actions of a handful of rogue employees rather than to an organizational culture characterized by deep-seated, persistent corruption. Therefore, the following prediction was made:

**H1** *Perceiving the scandal to be a symptom of a rotten corporate culture rather than a small number of individual employees will negatively influence future brand engagement intentions.*

In addition, we also sought to examine mechanisms that might shed light on reasons why corporate culture beliefs would influence future brand engagement. Based on past literature, we focused on expectations of future ethical action and anger about corporate wrongdoing as two important factors to explore.

### 1.3 | Trust and the expectation of future ethical action

Intentional corporate deception and unethical behavior, such as that perpetrated by VW in the emissions case, likely undermines consumers' trust in the corporation, which is to say, consumers will have low confidence in the reliability, honesty, and responsibility of the organization (Morgan & Hunt, 1994) as well as a missing "expectation of ethically justifiable behavior" (Hosmer, 1995, p. 399). This is important, as research in relational marketing indicates that trust plays a central role in helping to build and maintain positive consumer–company relationships (Bhattacharya & Sen, 2003; Morgan & Hunt, 1994; Sirdeshmukh, Singh, & Sabol, 2002). Stronger levels of brand trust are associated with greater brand loyalty (Delgado-Ballester & Luis, 2001; Lau & Lee, 1999), positive word of mouth (Gremler, Gwinner, & Brown, 2001; Ranaweera & Prabhu, 2003), and purchase intentions (Kang & Hustvedt, 2014). Hence, the following hypothesis was made:

**H2** *Expectations of future ethical action will have a positive effect on future brand engagement.*

We also expected that consumers' expectations of future ethical behavior should depend at least in part on their beliefs about the root causes of the wrongdoing. Thus, confidence in a corporation's propensity for future ethical action should increase if consumers perceive that the culpable party (i.e., "a few bad apples") represents only a small subset of the entire corporation (and thus, presumably, can be easily removed). Conversely, if consumers perceive the root of the wrongdoing as endemic (i.e., a "rotten" corporate culture), then we should expect lower expectations of future ethical action and, in turn, a reduced willingness to engage with the brand in the future. Indeed, trust is shown to be an important factor in regulating consumer–company relationships (Esch, Langner, Schmitt, & Geus, 2006; Morgan & Hunt, 1994), explaining the effect of attributions of corporate social responsibility initiatives on purchase intentions (Kang & Hustvedt, 2014; Vlachos, Tsamakos, Vrechopoulos, & Avramidis, 2009). We anticipate that owners who believe that the emissions scandal reflects the decisions of a "few bad apples" will report stronger expectations of future ethical action and that these expectations should result in an increased likelihood to engage with the brand. Therefore, we also hypothesized:

**H3** *Expectations of future ethical action will partially mediate the effect of corporate culture beliefs on future brand engagement.*

### 1.4 | Affective reactions to corporate wrongdoing

Corporations' ethical misconduct is likely to arouse an emotive response, providing consumers with an additional source of motivation to act. An emerging body of literature highlights the role negatively valenced emotions, such as anger, play in shaping consumers' future

brand engagement following instances of corporate social irresponsibility (Antonetti & Maklan, 2014; Grappi et al., 2013; Johnson et al., 2010; Romani et al., 2013). Heightened feelings of anger can motivate retaliatory consumer actions, including boycott behavior (Cronin, Reysen, & Branscombe, 2012; Klein, Smith, & John, 2004) and negative word of mouth (Antonetti & Maklan, 2014; Grappi et al., 2013). Given the extent of VW's corporate social responsibility failure, we hypothesized:

**H4** *Anger will negatively influence future brand engagement intentions.*

We also anticipated that the extent to which individuals are angry may be contingent on whether they believed the scandal was the product of "a few bad apples" or a "rotten corporate culture." As with trust, prior research indicates that anger influences consumer–company relationships following instances of corporate wrongdoing. For example, anger regulates the effect of evaluations of perceived corporate social irresponsibility (Antonetti & Maklan, 2014) and moral/social transgressions on negative word of mouth (Grappi et al., 2013). Perceiving that a scandal reflects a corporate culture that is "rotten to the core" should elicit elevated feelings of anger about the scandal and, in turn, a decreased willingness to engage with the brand. If consumers ascribe a "few bad apples" responsible, then we should expect lower expressions of anger, and increased future brand engagement. Thus, we hypothesized:

**H5** *Anger will partially mediate the effect of corporate culture beliefs on future brand engagement.*

### 1.5 | Proximity effects on future brand engagement

In addition to the anticipated effects of corporate culture beliefs, we also anticipated a second potentially critical factor affecting future brand engagement in the context of the VW emissions scandal, namely, whether current brand patrons were directly affected by the scandal (i.e., TDI owners) or only indirectly affected (i.e., other VW owners that may suffer from reputational and lesser financial damage from being associated with the brand).

Many of the consequences of the VW scandal are diffuse and have impacts on the general public in the form of respiratory illness, air pollution, and even premature death (Barrett et al., 2015; Holland, Mansur, Muller, & Yates, 2016; US EPA, 1999). In addition to these diffuse consequences, current patrons of VW suffer additional proximal forms of harm. In the United States, those facing the most direct impacts are the roughly 500,000 TDI owners that have been unwittingly put in a position of both owning and operating vehicles harmful to environmental and public health, and being forced to make a decision of whether to sell back or repair their vehicle under the partial settlement with U.S. regulators (US EPA, 2016). There are likely also negative psychological and social costs of the scandal (e.g., loss in reputation, feelings of guilt, or shame) felt both by directly affected owners as well as others affiliated with the VW brand through their vehicle ownership. Therefore, we examined whether owners' proximity to the scandal (TDI owner vs. non-TDI VW owner) influenced future brand engagement intentions. In addition to testing the direct effects of proximity on brand engagement, we also explored (a) whether proximity moderates the influence of corporate culture

beliefs on future brand engagement, and (b) whether expectations of future ethical action and anger at VW also function as mediators of the hypothesized proximity effect.

The role of personal proximity relates to Jones' (1991) concept of moral intensity, which argues that individuals make ethical decisions contingent on the characteristics of the issue, including the dimension of proximity or a feeling of nearness (e.g., social, cultural, physical, and psychological; McMahon & Harvey, 2006). In effect, heightened proximity leads to increased moral intensity and, ultimately, a moral obligation to take action, such as disengaging from a brand after an instance of unethical corporate wrongdoing. Whereas prior research has largely assessed proximity based on participants perceived degree of similarity and/or closeness to hypothetical victims (e.g., McMahon & Harvey, 2006), here, proximity is operationalized by individuals' actual vehicle ownership status, as TDI owners are more directly affected than non-TDI owners. In a related vein, past research on corporate wrongdoing indicates that although brands do sometimes benefit from a "halo effect" among patrons, such that greater brand connectedness or loyalty can buffer the negative effects of a scandal on company engagement (Ahluwalia, Burnkrant, & Unnava, 2000; Ahluwalia, Unnava, & Burnkrant, 2001; Cheng, White, & Chaplin, 2012), these benefits are often reduced or disappear altogether when a brand's actions are personally relevant or directly harm consumers (Grégoire & Fisher, 2008; Grégoire et al., 2009; Johnson et al., 2010; Trump, 2014). Thus, the following hypothesis was made:

**H6** *Proximity to the scandal will negatively affect future brand engagement.*

TDI owners directly affected by VW's actions should be less likely to engage with the VW brand in the future than VW owners only indirectly affected by the scandal. When considering potential mediators of these effects, anger at VW for the scandal seems likely to be a particularly potent factor. That is, those most directly affected by a company's actions are likely to be those most angry at the company. Although we expected anger to be the primary mediator of effects of proximity, it is also theoretically plausible that individuals' expectations of future ethical action would be negatively impacted by being more proximally harmed by the company. This direct experience of harm may extend the salience of the company's wrongdoing, making it more difficult for the company to restore the trust of these consumers. We therefore tested both anger and future expectations of ethical action also as mediators of the effects of proximity on brand engagement but expected anger to be the stronger mediator:

**H7** *Anger and expectations of future ethical action will mediate the effects of proximity on future brand engagement; the mediation effect will be stronger for anger than expectations of future ethical action.*

## 1.6 | Interactive or independent effects?

The generation of parallel hypotheses for proximity and corporate culture beliefs raises questions with regard to whether and how these two potent factors interact to influence consumer responses. On the one hand, corporate culture beliefs and proximity may both play important but independent roles in influencing expectations of future

ethical action, anger at VW, and ultimately future brand engagement. On the other hand, proximity may in fact moderate the influence of corporate culture beliefs on these outcomes. For example, being a VW TDI owner directly affected by VW's actions may amplify the effects of perceiving VW's corporate culture as "rotten to the core" such that individuals in this category may be the least likely to expect future ethical action from VW, the most angry at VW for the scandal, and the least motivated to exhibit positive brand engagement in the future. We examined of these possible patterns of results. Figure 1 depicts a full conceptual model of the study predictions.

**H8** *Proximity and beliefs about corporate culture will interact, such that TDI owners ascribing responsibility to a "rotten corporate culture" will amplify (i.e., multiplicative interaction) feelings of anger and expectations of future ethical action.*

## 2 | MATERIALS AND METHODS

### 2.1 | Participants

Owners of Volkswagen vehicles residing in the United States were recruited to participate in a survey by the marketing research firm, YouGov. Initial ownership criteria included owning or leasing a Volkswagen 2.0-L TDI vehicle manufactured between 2009 and 2016. Volkswagen owners of non-TDI vehicles (e.g., unrestricted model years of non-diesel engines) were recruited as a matched sample to participate in the study based on age, gender, education, income, and geographical region.<sup>1</sup> The survey was administered after the tentative announcement of the settlement agreement with U.S. regulators in June, 2016, and prior to release of information about the final agreement. Aside from ownership and the matching criteria, no other exclusion criteria were applied. The study was approved by the University of Massachusetts Institutional Review Board (Protocol ID: 2015:2808). A total of 592<sup>1</sup> surveys were completed, and participants were compensated for completing the survey. Table 1 displays sociodemographic characteristics.

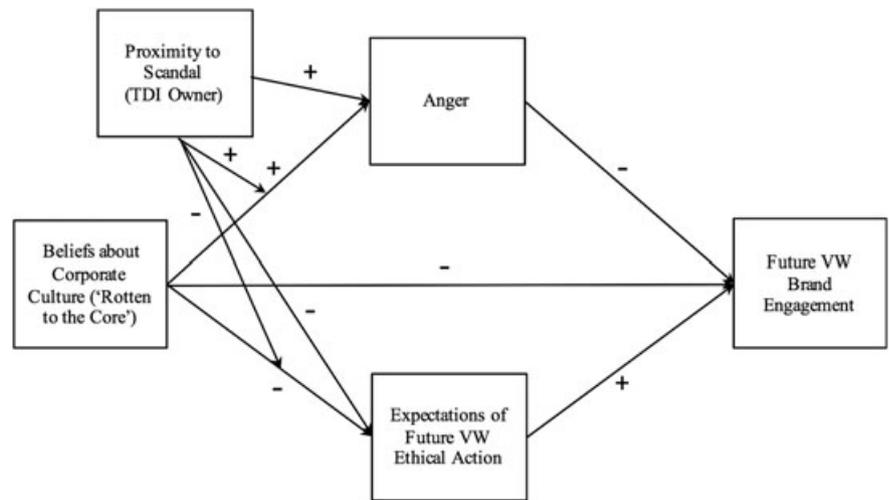
### 2.2 | Measures

Participants responded to a large survey, which included questions to investigate the predicted relationships. One dichotomous item gauged *beliefs about Volkswagen's corporate culture* by asking the following: "Do you think the Volkswagen emissions situation reflects the decisions of a 'few bad apples' within the company or instead reflects that the company's corporate culture is 'rotten to the core'?". A single item measured participants' *expectation of future ethical action* by VW: "Do you trust Volkswagen to act ethically in the future?" (1 = *not at all*, 7 = *completely*). *Feelings of anger* about the VW emissions situation was assessed by one item: "How angry do you feel about the Volkswagen emissions situation?" (1 = *not at all angry*, 7 = *extremely angry*).

Three items measured participants' intentions to engage with Volkswagen in the aftermath of the emissions situation. Participants indicated how unlikely or likely they would be to purchase a

<sup>1</sup>When indicated, further detail on study and analysis procedures is located in the supplementary information.

**FIGURE 1** The conceptual model representing the anticipated direct and indirect effects among the study measures using TDI owners and “Rotten” corporate culture as the reference levels for proximity and beliefs about corporate culture, respectively. The lines extending from proximity to scandal to the lines indicating the effects of culture on anger and expectations of future ethical action represent the potential interactive relationship between corporate culture and proximity, such that TDI owners’ ascribing responsibility to VW’s corporate culture will amplify (i.e., multiplicative interaction) feelings of anger and expectations of future VW ethical action in the indicated directions



**TABLE 1** Sociodemographics characteristics by VW ownership group

Gender (n = 592)	TDI	%	Non-TDI	%	Income (n = 592)	TDI	%	Non-TDI	%
Female	124	48.2	178	53.1	0–29,999	24	9.3	45	13.4
Male	133	51.8	157	46.9	30,000–49,999	29	11.3	45	13.4
Race (n = 592)	TDI	%	Non-TDI	%	50,000–69,999 <th>TDI</th> <th>%</th> <th>Non-TDI</th> <th>%</th>	TDI	%	Non-TDI	%
White	210	81.7	281	83.9	70,000–99,999	50	19.5	58	17.3
African American	5	1.9	12	3.6	>100,000	78	30.4	72	21.5
Hispanic	11	4.3	18	5.4	Nondisclosure	26	10.1	42	12.5
Asian	13	5.1	6	1.8	Region (n = 592)	TDI	%	Non-TDI	%
Native Am.	4	1.6	0	0.0	Northeast	49	19.1	65	19.4
Mixed	5	1.9	11	3.3	Midwest	37	14.4	62	18.5
Other	9	3.5	7	2.1	South	96	37.4	112	33.4
Educ. (n = 592)	TDI	%	Non-TDI	%	West	75	29.2	96	28.7
No high school	1	0.4	3	0.9	Party identity (n = 592)	TDI	%	Non-TDI	%
High school grad.	24	9.3	26	7.8	Democrat	81	31.5	142	42.4
Some college	38	14.8	71	21.2	Republican	66	25.7	59	17.6
2-year college	32	12.5	19	5.7	Independent	82	31.9	104	31.0
4-year college	78	30.4	124	37.0	Other	14	5.4	21	6.3
Post graduate	84	32.7	92	27.5	Not sure	14	5.4	9	2.7

Volkswagen vehicle in the future (1 = *extremely unlikely*, 7 = *extremely likely*). Two additional items assessed participants’ positive and negative word-of-mouth intentions. Participants indicated the extent to which they were motivated to “Recommend Volkswagen vehicles to other people” (1 = *not at all motivated*, 7 = *extremely motivated*) and “Encourage other people not to buy a Volkswagen because of the scandal” (1 = *not at all motivated*, 7 = *extremely motivated*, reverse coded). The three items were averaged to create a composite measure of future brand engagement that was used throughout the analyses ( $\alpha = .71$ ). See Table 2 for an overview of descriptive statistics and correlations between study measures.

### 3 | RESULTS

#### 3.1 | Analytic strategy

The analyses below were performed in several stages to test the hypotheses. First, the relationship between corporate culture beliefs

**TABLE 2** Descriptive statistics and correlations for study independent and dependent measures

	Count	%			
Beliefs about corporate culture					
“A few bad apples”	419	70.8			
“Rotten to the core”	172	29.1			
No response	1	.17			
	M	SD	(1)	(2)	(3)
Expectations of future ethical action (1)	4.46	1.75	1		
Feelings of anger (2)	3.75	1.99	-.510	1	
Future brand engagement (3)	4.85	1.46	.682	-.507	1

Note. For all correlations  $p$ 's < .001.

and proximity to the scandal was examined, as well as potential interactive effects of these variables on the other study measures. As described in the results that follow, there was insufficient statistical evidence in support of analyzing the full interaction model depicted in

Figure 1. Therefore, for both beliefs about corporate culture and proximity to the scandal, separate sets of independent *t* tests, regressions, and mediation analyses were performed to test for the hypothesized effects. In addition to hypothesis testing using traditional frequentist methods, where possible, the hypotheses were also tested using Bayes factors (BF) under a Bayesian model comparison framework (Jeffreys, 1961; Morey, Romeijn, & Rouder, 2016). BF are a Bayesian alternative to null hypothesis significance testing and reflect the relative support for a specified alternative model ( $BF_{10}$ ; e.g., a model predicting that the true effect size is greater than 0) or a null model ( $BF_{01}$ ; e.g., a model predicting that the true effect size is equal to 0).  $BF_{10} > 1$  provides evidence in favor of the alternative (with larger values providing greater evidence), whereas  $BF_{10} < 1$  indicates evidence in favor of the null. An expanded discussion of this approach, related references, and a description of the specific model priors utilized for our hypothesis testing can be found in the supplementary materials.<sup>1</sup> A full analysis of the individual items from the future engagement composite measure is also located in the supplementary materials. Unless otherwise stated, all analyses were performed in R version 3.3.1. (R Core Team, 2016). The relevant data, analysis code, and survey materials can be accessed at [https://osf.io/ghc5y/].

### 3.2 | Relationship between corporate culture beliefs and proximity to the scandal

A  $\chi^2$  test was first calculated to examine whether proximity to the scandal (VW TDI owner vs. VW non-TDI owner) influenced perceptions of corporate culture leading to the scandal as the product of a rotten corporate culture, relative to a few bad apples. Results suggest a small statistical effect,  $\chi^2(1, N = 591) = 4.038, p = .044$ , Fisher's  $Z_r = .083$ , 95% confidence intervals (CIs) of  $Z_r$  [.002, .164],<sup>2</sup>  $BF_{10} = .847$ . The probability of selecting "rotten corporate culture" was slightly greater given the respondent was a TDI owner (.3359), than a non-TDI owner (.2567). However, the effect size of this analysis is small with a lower-bound CI just above zero, suggesting a weak effect. Furthermore, the Bayes factor of .847 indicates weak, anecdotal evidence in favor of the null hypothesis (i.e., that the two factors are independent) over the alternative. Conditional probabilities calculated using Markov chain Monte Carlo sampling for the posterior distribution (10,000 iterations) revealed similar estimates to the  $\chi^2$  analysis. The conditional probability of selecting rotten corporate culture given the participant was a TDI owner was higher (.3372, 95% credibility interval [.2816, .3964]) than for a non-TDI owner (.2581, 95% credibility interval [.2122, .3064]).<sup>1</sup>

We also examined whether beliefs about corporate culture and proximity to the scandal interacted to influence expectations of future ethical action by VW, anger, and future brand engagement intentions. There was not a significant interaction for expectations of future ethical action,  $F(1, 587) = 2.061, p = .152$ , anger at VW,  $F(1, 587) = .307, p = .580$ , or on future engagement intentions,  $F(1, 587) = 2.031, p = .155$ . For each of these analyses, Bayesian model comparison indicated that models containing no interaction term were between two and seven times better than models containing the interaction terms.

<sup>2</sup>Unless otherwise stated, values in brackets displayed immediately after a reported statistic represent 95% confidence intervals for that statistic.

Therefore, a full moderated mediation model was not tested, and we instead performed separate *t* tests, regressions, and mediations for the corporate culture measure and proximity to the scandal.

### 3.3 | Effects of corporate culture beliefs on expectations of future ethical action, anger, and future brand engagement

Independent sample *t* tests were performed to examine the effects of beliefs about corporate culture on expectations of VW to act ethically in the future, anger, and future brand engagement intentions. Due to disparate sample sizes between groups on the corporate culture beliefs measure, Welch's two sample *t* tests were performed for all analyses. Table 3 displays the results of these analyses. Beliefs about corporate culture had strong effects on expectations of future ethical action, anger, and future brand engagement, such that those who blamed VW's rotten corporate culture reported lower expectations of future ethical action by VW, more anger, and lower intentions to engage with VW in the future. Figure 2 graphically displays the effects of corporate culture beliefs on expectations of future ethical action and anger. Figure 3a depicts the effects of corporate culture beliefs on future brand engagement intentions.

#### 3.3.1 | Multiple regression and mediation analyses predicting future brand engagement

Prior to testing the mediation model, a regression analysis was performed entering beliefs about corporate culture, future expectations of ethical action by VW, and anger as simultaneous predictors. Table 4 displays the results of this analysis. This model accounted for 50% of the variance in future patronage intentions (adj.  $R^2 = .5037$ ). Believing the scandal to be a product of a few bad apples was associated with greater future engagement intentions, as was expectations of future ethical action by VW. In contrast, anger about the emissions situation was a significant predictor of lower intentions to engage with VW in the future.

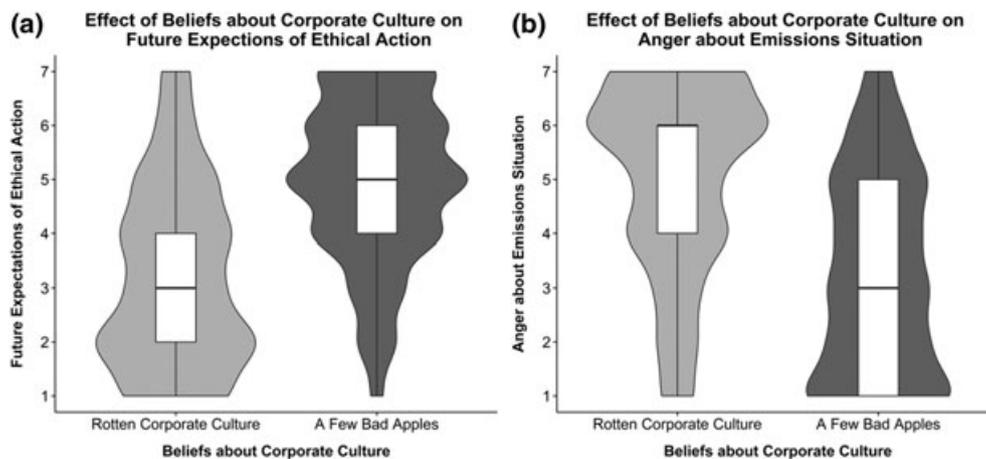
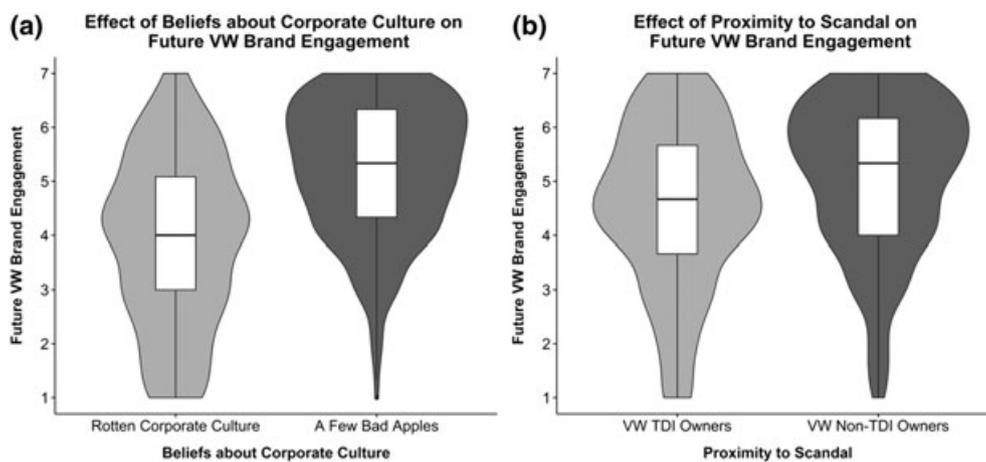
Additionally, model comparison was performed using BF to evaluate how well the model performed compared to a null model (i.e., intercept only model; Rouder & Morey, 2012). Of all possible model combinations involving corporate culture beliefs, expectations of future ethical action, and anger, the model containing all three had the largest Bayes factor,  $BF_{10} = 7.625e + 85$ . When compared against the next best model—one only containing future expectations and anger ( $BF_{10} = 3.613e + 85$ )—the full model performed roughly two times better ( $BF_{10} = 2.110$ ).

To examine whether expectations of future ethical behavior and anger mediate the relationship between corporate culture beliefs and future engagement, a multiple mediation model was tested and the significance of the indirect effects was quantified using bias-corrected bootstrapped CIs (10,000 samples, calculated using lavaan version 0.5-22 for R, Rosseel, 2012). Figure 4 displays the mediation model and the regression coefficients for each path. Results of the analysis indicate that expectations of future ethical action by VW partially mediated the effects of corporate culture beliefs on engagement,  $b = .801, SE_{boot} = .092$ , bootstrapped 95% CIs [.629, .990]. Anger about the emissions situation also partially mediated the effects of corporate

**TABLE 3** Effects of beliefs about corporate culture on expectations of future ethical action by VW, anger, and future brand engagement

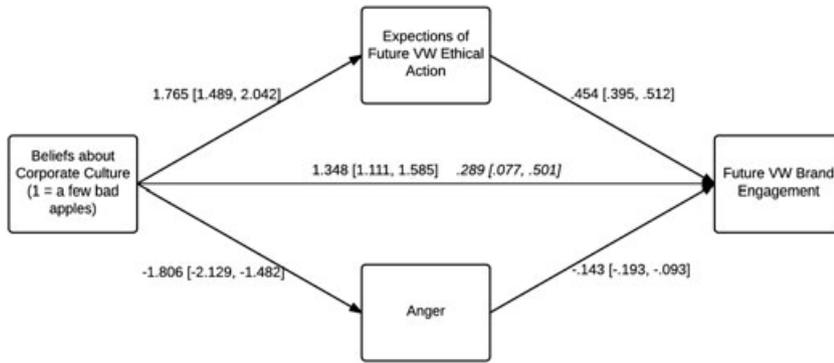
	"Rotten" corporate culture (n = 172)		"A few bad apples" (n = 419)		t (df)	Cohen's d [95% CIs]	BF <sub>10</sub>
	M	SD	M	SD			
Expectations of future ethical action	3.203	1.703	4.969	1.489	-11.862*** (283.728)	-1.136 [-1.326, -.947]	6.292e + 28
Anger	5.035	1.750	3.229	1.846	11.212*** (334.279)	.993 [.806, 1.180]	2.190e + 22
Future brand engagement	3.895	1.568	5.243	1.220	-10.092***(260.02)	-1.013 [-1.200, -.826]	1.661e + 23

\*\*\*p &lt; .001.

**FIGURE 2** Violin plots of the effects of corporate culture beliefs on expectations of future ethical action by VW (a) and anger as a result of the scandal (b). Violin plots depict a boxplot within a rotated kernel density plot (Hintze & Nelson, 1998)**FIGURE 3** Violin plots of the effects of corporate culture beliefs (a) and proximity to the scandal (b) on future engagement intentions**TABLE 4** Regression model predicting future brand engagement from corporate culture beliefs, expectations of future ethical action by VW, and anger

Predictor	b	SE	p	lmg	95% Confidence intervals of b	
					LCI	UCI
Corporate culture beliefs (0 = rotten culture)	.289	.108	.008	.141	.077	.501
Expectations of future ethical action	.454	.030	<.001	.615	.395	.512
Anger	-.143	.025	<.001	.244	-.193	-.093

Note. The *lmg* metric is a calculation of the relative importance of each indicator in a regression model and reflects the partitioning of the  $R^2$  averaged over all possible orders of entering the variables into the model (Groemping, 2006; Lindeman, Merenda, & Gold, 1980). Thus, higher *lmg* metrics indicate a greater contribution to the  $R^2$ . *lmg* was calculated using the "relaimpo" package for R (Groemping, 2006, version 2.2-2).



**FIGURE 4** Multiple mediation model for the effects of corporate culture beliefs on future VW engagement intentions. Unstandardized regression coefficients are displayed with 95% confidence intervals in brackets and the direct effect of corporate culture beliefs on future engagement intentions is displayed in italics

culture beliefs on future engagement intentions, although to a lesser degree,  $b = .258$ ,  $SE_{boot} = .052$ , 95% bootstrapped CIs [.163, .368]. We also performed the multiple mediation analysis controlling for proximity to the scandal. The covariate analyses were performed using Hayes' (2013) macro for SPSS 22, which provides easily implementable templates to perform more complex regression-based analyses. The results did not substantively change, and the indirect effects of expectations of future ethical action,  $b = .077$ ,  $SE_{boot} = .052$ , bootstrapped 95% CIs [.163, .368], and anger,  $b = .207$ ,  $SE_{boot} = .050$ , bootstrapped 95% CIs [.117, .312], were nearly identical to the prior analysis.

### 3.4 | Influence of proximity to scandal on expectations of future ethical behavior and future brand engagement

Welch's independent sample  $t$  tests were also calculated to examine whether, collapsed across corporate culture beliefs, proximity to the

scandal (i.e., being a directly affected VW TDI owner or a tangentially affected non-TDI VW owner) influenced expectations of future ethical action by VW, anger, and/or future brand engagement. Table 5 displays the results of these analyses. Proximity only had a weak effect on future expectations of ethical action by VW but had strong effects on anger and future brand engagement such that TDI owners directly affected by the scandal reported greater anger and lower intentions to engage with VW in the future. Figure 3b depicts the effects of proximity on engagement intentions. Figure 5 displays the effects of proximity on expectations of future ethical behavior and on anger.

#### 3.4.1 | Multiple regression and mediation analyses with proximity to the scandal as the predictor

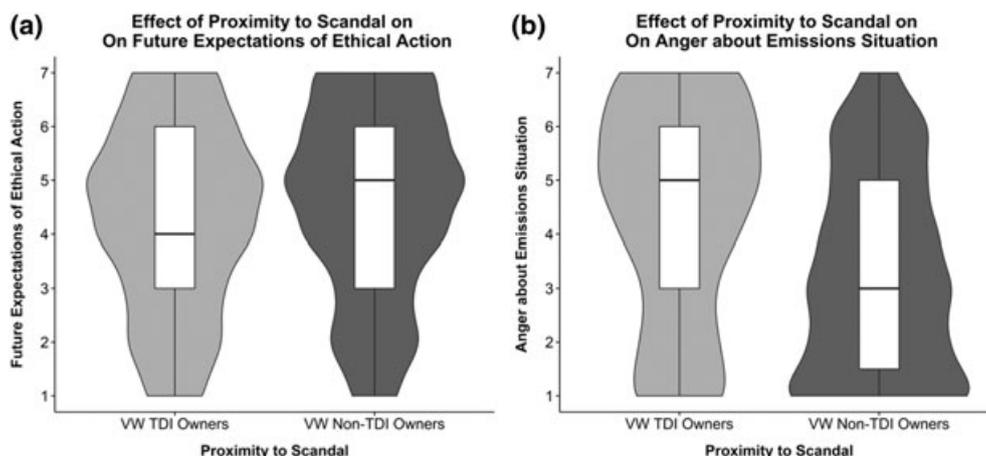
Identical to the regression model involving corporate culture beliefs, the model predicting patronage intentions from proximity to the scandal, beliefs about future ethical action by VW, and anger at VW also predicted 50% of the variance ( $adj. R^2 = .5037$ ). Table 6 displays the

**TABLE 5** Effects of proximity to the scandal on expectations of future ethical action by VW, anger, and future brand engagement

	TDI owners (n = 257)		Non-TDI owners (n = 335)		t (df)	Cohen's d [95% CIs]	BF <sub>10</sub>
	M	SD	M	SD			
Expectations of future ethical action	4.304	1.732	4.573	1.751	-1.868 <sup>†</sup> (553.779)	-.154 [-.317, .009]	.502
Anger	4.424	1.969	3.236	1.856	7.460*** (533.769)	.623 [.457, .790]	2.929e + 10
Future brand engagement	4.545	1.508	5.085	1.384	-4.473*** (525.698)	-.375 [-.539, -.211]	1728.41

\*\*\* $p < .001$ ,

<sup>†</sup> $p = .062$



**FIGURE 5** Violin plots of the effects of proximity on future expectations of ethical action (a) and anger at VW (b)

**TABLE 6** Regression model predicting patronage intentions from proximity to the scandal, expectations of future ethical action by VW, and anger

Predictor	<i>b</i>	SE	<i>p</i>	<i>lmg</i>	95% Confidence intervals of <i>b</i>	
					LCI	UCI
Proximity to the scandal (0 = TDI owner)	.242	.090	.007	.032	.065	.418
Expectations of future ethical action	.486	.028	<.001	.697	.430	.542
Anger	-.138	.026	<.001	.271	-.189	-.087

effects of each predictor on patronage in this model. Bayesian model comparison using BF indicates that the best fitting model (relative to the null) was the model including all three predictors,  $BF_{10} = 7.849e + 85$ . The next best fitting model was one omitting the proximity measure,  $BF_{10} = 3.613e + 10$ . The Bayes factor comparing the full model to the reduced model indicates that the full model fit was approximately two times better than the reduced model ( $BF_{10} = 2.171$ ), providing anecdotal evidence for improved model fit. Consistent with the results for corporate culture beliefs, these results indicate that once expectations of future ethical action by VW and anger at VW are included in the model, being directly affected by the scandal or not has a reduced effect on future patronage.

Mediation analyses were again performed using bootstrapped CIs (10,000 samples, 95%, bias-corrected) to quantify the significance of the indirect effects. Consistent with our hypotheses, anger at VW significantly mediated the effects of proximity on future patronage intentions,  $b = .165$ ,  $SE_{boot} = .036$ , 95% bootstrapped CIs [.102, .245], whereas future expectations of ethical action by VW were not a significant mediator,  $b = .132$ ,  $SE_{boot} = .071$ , 95% bootstrapped CIs [-.007, .271]. Figure 6 provides a graphical display of the mediation model and estimates for each path. As with the results for beliefs about corporate culture, we also performed this mediation analysis while entering corporate culture beliefs as a covariate. These results were highly consistent, with anger,  $b = .129$ ,  $SE_{boot} = .032$ , bootstrapped 95% CIs [.073, .201], but not expectations of future ethical action,  $b = .062$ ,  $SE_{boot} = .059$ , bootstrapped 95% CIs [-.054, .177], mediating the effects of proximity on patronage intentions.

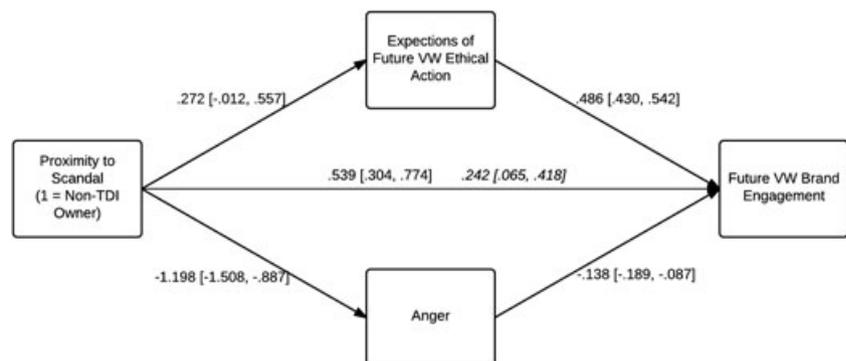
### 4 | DISCUSSION

When confronted with acts of corporate malfeasance, consumers are faced with a stark yet oftentimes surprisingly complex and challenging decision: whether or not to continue patronizing the offending brand. Simultaneously, transgressing brands are faced with decisions of how

to alleviate the potential negative downstream effects from such events. Here, we examined how two previously underappreciated factors—consumers' proximity to a corporate scandal and their attributions regarding the “cultural” underpinnings of a recent case of corporate wrongdoing—relate to intentions to engage with the transgressing brand in the future. Results of our survey of TDI and non-TDI VW owners reveal that participants' beliefs about the role that corporate culture played in causing the diesel emissions scandal both directly and indirectly influence intentions to engage with VW in the future. As predicted, participants who attributed the scandal to a “rotten” corporate culture reported weaker expectations of future ethical action by VW, were more likely to be angry, and were less willing to engage with VW than were those who believed the scandal was caused by the actions of a “few bad apples” within the organization.

These findings support the assertion that consumers may largely exonerate corporations if they believe the wrongdoing was caused by the actions of a relatively small number of errant employees. One plausible explanation for this effect is that these consumers believe the problem can easily be fixed by removing the individuals responsible, whereas a rotten corporate culture may be viewed as an unmovable barrier to positive change in corporate behavior. Although corporate scandals materialize under varying circumstances, past research on attributions of responsibility has focused on whether culpability is internal or external to the corporation (Folkes, 1984; Folkes et al., 1987). But, when corporations are admittedly at fault, we suggested and our results reveal how attributions of internal corporate culpability, either to a handful of “bad apples” within the company or else to a corporate culture that is “rotten to the core,” differentially affect consumers' reactions to wrongdoing.

Our research also revealed some unexpected yet important findings. Contrary to our prediction, participants' proximity to the scandal did not amplify the effect of beliefs about corporate culture when ascribing blame to VW's rotten corporate culture. This follows prior research that finds moral intensity to be a weak predictor of behavior in general (McMahon & Harvey, 2007), although it is also plausible that



**FIGURE 6** Multiple mediation model for the effects of proximity on future VW engagement intentions. Unstandardized regression coefficients are displayed with 95% confidence intervals in brackets and the direct effect of proximity on future engagement intentions is displayed in italics

variability in owners' proximity to the scandal failed to reach a threshold necessary to result in significant changes of beliefs about corporate culture (Jones, 1991). However, results indicated partial support for our expected independent effects of proximity, such that participants who were directly affected by the scandal (i.e., TDI owners) were more likely to be angry about it and less likely to engage with VW in the future.

Our results also amplify and extend previous research in relational marketing that identifies trust as a vital component in consumer–company relationships (Chaudhuri & Holbrook, 2001; Morgan & Hunt, 1994) as well as the emerging body of literature that situates anger as a key factor in shaping consumers' retaliatory actions to corporate social irresponsibility (Antonetti & Maklan, 2014; Grappi et al., 2013; Romani et al., 2013). In fact, our results reveal that expectation of future ethical action and anger accounted for half of the variability in future brand engagement. Also consistent with our predictions, expectation of future ethical action emerged as the prominent mediator between beliefs about corporate culture and future engagement whereas anger mediated the relationship of proximity on future brand engagement.

Understanding consumers' reactions to unethical corporate scandals has important implications for corporations seeking to respond to potential negative downstream consumer outcomes (Coombs, 2007), for those seeking to further punish the offending company in the marketplace (Johnson et al., 2010) and even for nontransgressing, competing brands (Trump & Newman, 2017). In the wake of wrongdoing, it is necessary for corporations to evaluate and acknowledge the nature of the scandal, partially as a function of consumers' reactions to it. Here, we highlighted three considerations, in addition to consumers' proximity to the scandal, that corporations can focus on when determining their response and communication strategies. Our findings suggest that mollifying suspicions about the corporate culture at VW, placating feelings of anger, and rebuilding a repository of trust that underscores the corporation's commitment to future ethical action may all be necessary steps for VW in the coming years.

As scandals unfold, corporations, such as VW, should be responsive in the way they manage consumers' expectations about the corporation's culture and their commitment to engage in ethical business practices in the future. For transgressing corporations seeking to mitigate the residual effects of a perceived corrupt corporate culture (e.g., VW and the recent Wells Fargo banking scandal), our results suggest the importance of demonstrating a commitment to fostering an ethical corporate culture in the future. Although these efforts are intrinsically important for helping to prevent future wrongdoing by the organization, it may also help to rebuild consumers' trust in the corporation. Additionally, research in crisis communication provides useful frameworks to analyze the characteristics of corporate mishaps and parallel response strategies—including the use of apology and proactive versus reactive responses—that corporations can employ to help protect themselves in the wake such events (Coombs, 2007).

Clearly, there are other factors also at work in shaping current VW owners' future behavioral intentions, including financial incentives, brand identification, and loyalty (Chapman, Guckian, Lickel, & Markowitz, Under review; Creyer, 1997). Given research on consumers' willingness to patronize unethical corporations at reduced costs with the understanding that corporations are incurring a financial

punishment (Creyer, 1997), we suspect that the estimated \$10 billion USD included in the settlement for owner compensation will play an important role in determining owners' engagement with VW in the future (US EPA, 2016). Although managing the reactions of directly affected brand patrons may be more attainable through direct compensation, corporations might also consider monitoring the reactions of indirectly affected brand patrons, as well as the general public.

Because the present research is correlational and represents existing brand patrons' reactions to a single instance of corporate malfeasance, we are necessarily limited in our ability to make causal claims and generalizations to other instances of corporate wrongdoing. Study limitations also include the use of single-item measures to gauge primary study constructs, as well as the use of self-reported intentions to assess future brand engagement. However, we believe our findings provide practical and broad insight into how existing brand patrons respond to actual instances of unethical corporate behavior and the factors that may differentially shape consumers' reactions postscandal. Future research is needed to fully address these limitations (e.g., expanded scale measures and empirical design) and understand the nature of consumers' beliefs about corporate culture as well as identify factors that may influence consumers' attributions of internal culpability as we define here (e.g., exposure to media coverage of a scandal and preexisting corporate reputation). Extending the work conducted here to other instances of corporate wrongdoing (e.g., Wells Fargo banking scandal of 2016) would increase the generalizability of the observed effects.

## 5 | CONCLUSION

The findings presented here further our understanding of how and to what extent corporate wrongdoing affects consumers' willingness to engage with companies after a scandal. Our findings suggest that individuals' beliefs about the role corporate culture plays in permitting or causing a scandal as well as personal proximity to the fallout both have powerful direct and indirect implications for consumers' reactions. Additionally, our research supports existing literature that suggests trust (i.e., expectations of future ethical action) and anger are important mediators of consumer–company relationships, particularly in the context of corporate malfeasance. These findings produce a number of practical insights, particularly for advocates, regulators, and organizations seeking to better understand consumers' reactions to egregious, high profile unethical corporate actions that impact not only brand patrons but the general public as well.

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## AUTHOR CONTRIBUTION

All authors contributed to the study concept, development, and design. D. C. and M. G. analyzed the data. M. G. wrote the first draft of the manuscript, and D. C. contributed the results and figures. All authors provided critical revisions and approved the final version.

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## SUPPORTING INFORMATION

Additional Supporting Information may be found online in the supporting information tab for this article.

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