The Horns Effect of a Moral Brand Scandal on Perceived Product Quality

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Abstract:

Numerous examples of brands deceiving and disappointing their stakeholders can be found throughout marketing history. While these incidents have received great attention from both public media and academia, researchers have hardly considered their potential consequences on the scandalized brand's perceived product quality. Merging organizational theory and the concept of legitimacy with contemporary marketing approaches, this paper understands moral brand scandals as jolts which result in consumers reassessing previously formed perceptions regarding the respective brand. In an experimental design, the authors show a negative halo effect, a so-called horns effect, thus drawing attention to the negative consequences of unethical behaviour on perceived product quality and performance. Complementing the extensive literature addressing the positive effects of corporate social responsibility (CSR) activities, this paper bears important theoretical and managerial implications.

Keywords: Horns effect, perceived product quality, corporate social responsibility

Track: Consumer Behavior

1. Introduction

Volkswagen's emission scandal, the explosion of British Petroleum's oil well Deepwater Horizon in 2010 or only currently Facebook being accused of harvesting and using personal data do not only epitomize the observed frequency of brands misbehaving but also illustrate the detrimental effects such misconduct has. Brand boycotts, a damaged reputation, and decreasing stock prices are only a few consequences brand managers have to face. While brand transgressions and their effect on the consumer-brand relationships have already been investigated by prior research, to the knowledge of the authors hardly any attention has been paid to the potential impact of a company's ethical misconduct on its perceived product quality. While this potentially important impact has not been investigated, a few studies document positive effects of corporate social responsibility (CSR) actions on perceived product quality and performance (Chernev & Blair, 2015). This effect, which we refer to as a corporate social responsibility halo is, however, not limited to solely enhancing a company's reputation and goodwill (Klein & Dawar, 2004). As Chernev and Blair (2015) outline, "acts of social goodwill […] [were shown to] alter product perceptions, such that products of companies engaged in prosocial activities are perceived as performing better" (p. 1412). Brown and Dacin (1997), for example, observe that "CSR associations appear to exert an influence on product evaluations through their influence on the corporate evaluation" (p.80). Furthermore, consumers are found to require "a minimum acceptable level of marketing actions with a social dimension" from organizations, otherwise "the effectiveness of a firm's economic-oriented actions is hindered significantly" (Handelman & Arnold, 1999, p.33).

2. Conceptual Framework and Hypotheses

With consumers seemingly every day being confronted with scandals, misconduct or organizations deceiving and disappointing their stakeholders across different industries including multiple brands, the question arises whether brand managers need to be aware of the potential consequences of a negative halo effect, a so-called devil or horns effect (Forgas & Laham, 2016), on the brand's perceived product quality due to unethical behaviour. To the authors' knowledge only limited research has addressed the negative consequences of a horns effect in a marketing context so far. Horns effects are e.g. observed with regard to negative labels in the food industry (Sundar, Kardes, and Noseworthy, 2014) or are taken into consideration in measuring customer satisfaction regarding service attributes (Wirtz & Bateson, 1995).

Building upon Cherney and Blair's (2015) findings and taking anecdotal evidence into account, the authors see a moral brand scandal also negatively influencing the scandalized brand's perceived product quality. A survey among VW customers highlights, for example, that 73% of the respondents are concerned about a potential impact on the performance of their cars in the wake of the scandal (Ruddick, 2015). Merging organizational theory and the concept of legitimacy with contemporary marketing approaches, this study investigates how a moral transgression results in consumers questioning the brand's ability to further fulfil their self-calculated interests, e.g. regarding the product's performance. Thereby, the authors revert to the concept of brand legitimacy, introduced by Kock, Batra, Josiassen, and Chung (2018). Applying the definition of legitimacy put forward by Suchman (1995) to the concept of brands, brand legitimacy is understood as "a consumer‘s perception that a brand and its actions are acceptable, proper, or appropriate within the consumer's socially constructed system of norms, values, beliefs and definitions" (Kock et al., 2018).

As brand scandals per se negatively affect one or several types of the respective brand's stakeholders, i.e. consumers, employees or the environment, which leads to consumers attributing moral characteristics to the respective brand after the brand's behaviour has been evaluated, this paper sees the relational as well as moral dimension of legitimacy being of importance in investigating brand scandals. However, aspects concerning a brand's instrumental legitimacy seem, also to come into play. Thus, a so-called spillover effect, i.e. "the extent to which information provided in messages changes beliefs about the attributes that are not mentioned in the messages" (Ahluwalia, Unnava, and Burnkrant, 2001, p. 458) is studied for the first time in relation to different brand legitimacy dimensions. To measure whether a moral brand scandal functions as a jolt which results in consumers reassessing previously formed legitimacy judgments regarding the respective brand, the authors design and incorporate a fictitious brand scandal, involving H&M, thereby taking inspiration from reported misbehavior in the garment industry. With the authors being of different nationalities, a quantitative, cross-cultural study between Germany and China is considered to result in exciting observations.

Besides its importance for theory, this paper also aims at providing new insights for brand managers. Endless examples of brand scandals, disappointing consumers' brand expectations can be found in marketing history (Huber, Vogel, and Meyer, 2009; Kock et al., 2018). With different industries, products and types of misbehavior being involved, it can be assumed that every brand potentially can become the focus of such a scandal. While the consequences of such misbehavior are well investigated, this paper provides another perspective on how to conceptualize these effects. Bearing the incidents presented in the beginning in mind, consumers apparently do not always see a reason to stop consuming a brand due to a moral scandal, despite the outrage voiced via public or social media as well as by politicians. It is, therefore, suggested that understanding under what conditions consumers see a moral scandal also negatively affecting their self-calculated interests allows managers to develop better strategies to thereby mitigate potential negative consequences.

3. Empirical Study

Based on the brand legitimacy model proposed by Kock et al. (2018), this study focuses on three of the brand legitimacy dimensions, namely, instrumental, moral as well as its antecedent relational legitimacy (Figure 1).

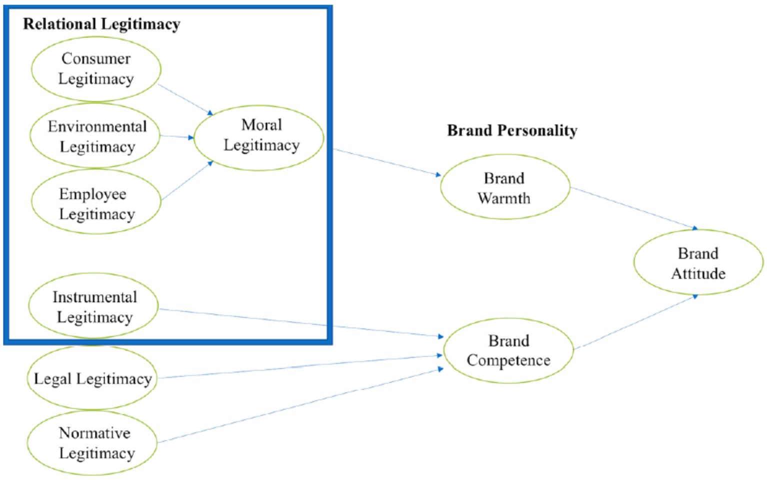

Figure 1. Brand Legitimacy Model Highlighting the Dimensions Investigated in the Paper; Authors' Own Work, Inspired by Kock et al. 2018.

While **relational legitimacy** forms due to consumers observing how brands treat three kind of stakeholders, namely consumers, employees and the environment, **moral legitimacy** is based on consumers attributing moral characteristics to brands after a brand's behavior has been evaluated. **Instrumental legitimacy**, on the other hand, is related to consumers' judgment of whether "a brand's consumption, or mere existence, entails a meaningful and an above-expected value than its absence" (ibid.). As these dimensions are conceptually distinctive no relations prevail between them by definition. According to Tost (2011), a brand's moral scandal will function as a jolt and cause consumers to reevaluate their judgment towards the brand's moral legitimacy. As instrumental legitimacy, however, is solely about consumers' self-calculated interests, a moral scandal, in theory, has no effect on this dimension. Consequently, the judgment of these two brand legitimacy dimensions is considered independent of each other.

As studies have shown, negative impressions regarding one attribute of the brand can, on the one hand, spill over to its other attributes but, on the other hand, negative associations with a scandalized brand can, moreover, spill over to competitors (Roehm & Tybout, 2006), cooperating brands (Herm, 2014) or different brands belonging to the same brand portfolio as the scandalized brand (Lei, Dawar, and Lemmink, 2008). Based on these findings, the authors assume that a spillover effect can also occur between different brand legitimacy dimensions due to consumers' inferences of attributes that are related but not mentioned (Ahluwalia et al., 2001). It is, therefore, suggested that a moral scandal does not only affect the consumer's judgment of a brand's moral legitimacy but also their evaluations towards the brand's instrumental legitimacy with the construct of moral legitimacy serving as a mediator. To not only find out whether but also under which conditions such a spillover effect might occur, four constructs, well-investigated in prior research were suggested as moderators, namely **egalitarianism, brand trust, brand commitment** and **prior brand attitude**. Based on the reviewed literature concerning corporate crises and brand misconduct, it was, moreover, deemed important to incorporate the nature of the scandal, i.e. how serious the respondents perceive the presented scandal, in the analysis. The authors, therefore, developed a construct, called **seriousness of the scandal**, and tested its moderating role on consumers' legitimacy evaluations (Figure 2).

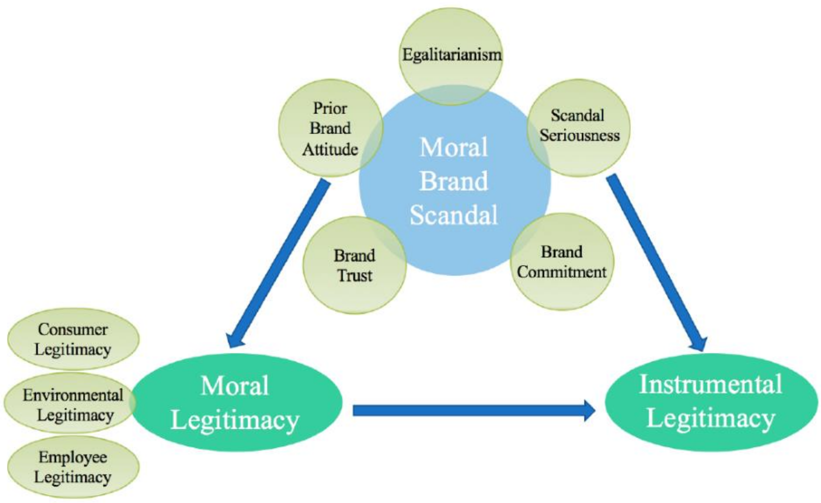

Figure 2. Conceptual Model, Authors' Own Work

4. Results

As the SEM analysis (Figure 3) has shown a moral brand scandal directly affects the respective brand's moral legitimacy as well as its antecedents environmental, consumer and employee legitimacy, but not the instrumental legitimacy dimension.

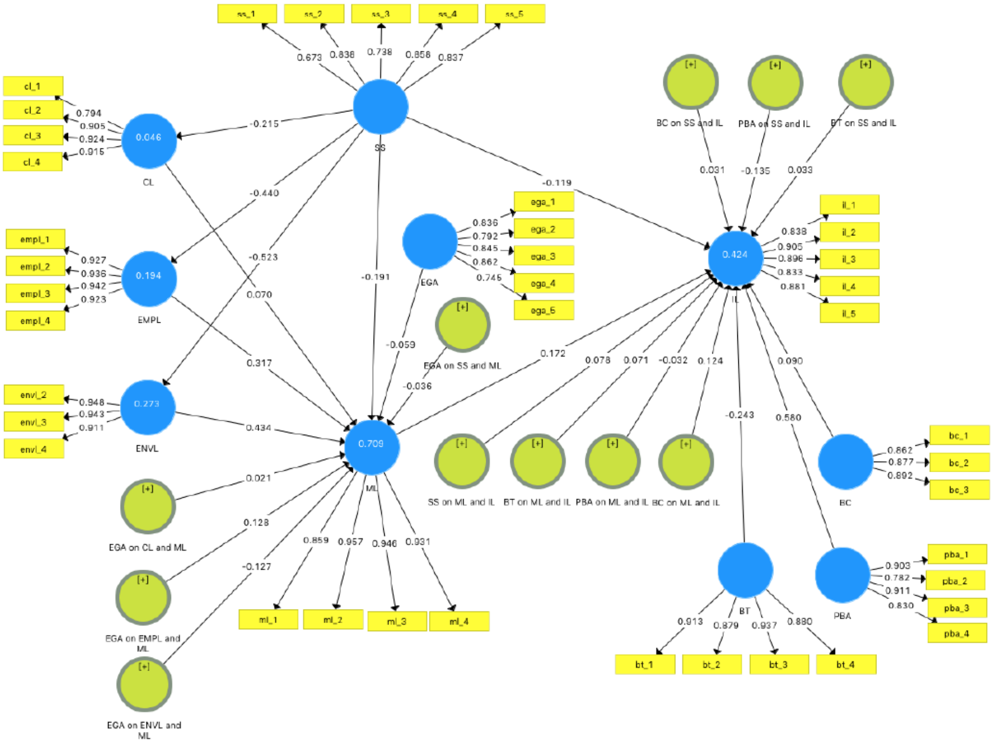

Figure 3. Final Measurement Model; Authors' Own Work, Created in SmartPLS.

While this supports the clear distinction between the different legitimacy dimension as proposed by theory, the analysis, nevertheless, reports an indirect negative effect on the respective brand's instrumental legitimacy with its moral dimension as a mediator. Thus, Tost's (2011) understanding of the different dimensions being "independent and interactive" is supported (p. 691). On the one hand, a significant, negative path relationship between moral brand scandal and moral legitimacy was found, particularly in the German subsample. On the other hand, a significant, positive path relationship between moral and instrumental legitimacy was reported. Testing moral legitimacy as a mediator, the findings suggest a spillover effect between moral legitimacy and instrumental legitimacy after a moral brand scandal. This assumption is, furthermore, supported by analyzing the control group, which was only presented factual information about H&M. As no significant relationship between the two constructs, i.e. moral and instrumental legitimacy, could be observed, it seems reasonable to assume that the moral brand scandal presented to respondents resulted in a spillover effect between the two legitimacy dimensions. Unexpectedly, none of the suggested moderators had a significant effect as e.g. the scandal seriousness showed a significant direct effect on all legitimacy dimensions besides instrumental legitimacy. Moreover, prior brand attitude and brand trust were reported to have a significant direct effect on instrumental legitimacy.

Conducting a cross-cultural study with two different datasets, it was, furthermore, possible to draw some comparisons between German and Chinese respondents. Germans, on the one hand, seem to take a moral scandal stronger into account when judging the respective brand's moral legitimacy, however, no significant effect could be observed regarding the evaluation of the instrumental legitimacy. Chinese respondents, on the other hand, were to a lesser degree affected by the moral scandal concerning their judgments of the respective brand's moral legitimacy, while taking it into consideration for their evaluations of the instrumental legitimacy.

5. Discussion

In conclusion, the study could show, that a moral brand scandal not only affects consumers' evaluations of the respective brand's moral legitimacy but that it also indirectly affects its instrumental legitimacy thus demonstrating an occurring spillover effect between two, conceptually distinct dimension. The question under what conditions such a spillover effect occurs, could, however, not be answered as the proposed hypotheses reported nonsignificant relationships.

Investigating for the first time a potential spillover effect between two dimensions of brand legitimacy, this study can be understood as a starting point warranting further research. In their paper the authors furthermore particularly draw attention to the need as well as potential of testing, on the one hand, other constructs as moderators and, on the other hand, the consequences of different evaluations concerning a brand's legitimacy with regard to consumer behavior. Even though the findings' generalizability for other brands, products or industries is yet to be proven, it has, nevertheless, been demonstrated that moral misbehavior also potentially affects consumers' perceptions of a brand's functionality, an important and interesting insight for theorists as well as managers. Brand managers, be it of sustainable, eco-friendly brands or of the major players in the market, are, therefore, well-advised to utilize the brand legitimacy framework as a strategic tool to manage their consumer-brand relationships and evaluate their behavior as well as the resulting consequences along the different dimensions.

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