

How corporate irresponsibility affects negative word of mouth: the moderated mediation approach

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How corporate irresponsibility affects negative word of mouth: the moderated mediation approach

Abstract:

The objective of this paper is to understand better how CSI affects negative word of mouth. Drawing on the consumer trust and moral norms literature, we develop a moderated mediation model explaining the role of corporate wrongdoing in creating negative word of mouth. Particularly, we regard consumer trust in the company as a mediator between CSI and negative word of mouth. To get a better insight into the mediation process, we conceptualize trust and distrust as separate concepts. In addition, we identify an important boundary condition, that is, consumer moral norms, that shape the relationships in the mediation model. Research hypotheses are tested in two studies. Study 1 reveals that consumer distrust in the company significantly mediates the effects of CSI on negative word of mouth, whereas the mediation effects of trust are not significant. Study 2 replicates the findings on mediation and provides evidence for the moderating function of moral norms

Keywords: corporate social irresponsibility, trust, word of mouth, moral norms

Track: Social Responsibility & Ethics

1. Introduction

Word of mouth (hereafter WOM) is one of the most influential factors that shape consumer decisions and corporate reputation. A large number of studies demonstrate that this type of communication is more trustworthy than salespersons' recommendations and other types of formal communication (e.g., Cheung & Thadani, 2012). The power of WOM has become even more critical because of the growing popularity of social media on the Internet these days. However, the valence of WOM not necessarily has to be positive. WOM communication can come from both positive and negative customer experiences. Past studies provided abundant evidence on how experiences with goods and services affect WOM. However, our knowledge about the effects of corporate wrongdoing on WOM communication is limited as only a few studies addressed this phenomenon (e.g., Grappi, Romani & Bagozzi 2013).

To extend our understanding of how corporate socially irresponsible behavior (hereafter CSI) affects WOM, we draw on the consumer trust and moral norms literature. Specifically, we develop a moderated mediation model explaining the role of corporate wrongdoing in creating negative word of mouth. In this model, we consider consumer trust in the company as a mediator of the relationship between CSI and negative WOM. To get a better insight into the mediation process, we conceptualize trust and distrust as separate concepts. In addition, we identify an important boundary condition that is consumer moral norms, that shape the mediation relationship (Figure 1).

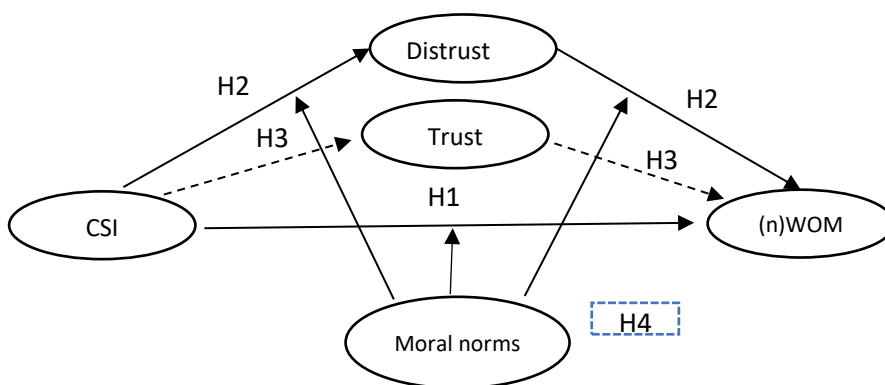


Figure 1. Conceptual model

2. Hypotheses

2.1 CSI and negative word of mouth

While explaining the effects of CSI on WOM communication, we follow existing literature in asserting that corporate transgressions make consumers engage in WOM

communication unfavorable to corporate culprits. This evidence shows that CSI events evoke negative moral emotions (contempt, anger, and disgust) and attitudes toward companies. These feelings and evaluations, in turn, lead to punitive responses of consumers, including negative WOM (Grappi et al., 2013, Xie et al., 2015). Thus, we predict that in our study, the CSI will also enhance consumer tendency to spread negative information about the irresponsible company.

H1. CSI increases negative WOM.

2.2 CSI, trust, distrust, and negative word of mouth

In the proposed model, we introduce trust and distrust as mediating variables between CSI and negative WOM. Thus, we conceptualize trust and distrust as separate constructs (Lewicki et al., 1998). Furthermore, following previous scholars, we assume that distrust is not understood as the absence of trust but the belief that the company will actively behave to harm its stakeholders (Cho, 2006). In line with this understanding, recent studies on brand hate show that some brands/companies are perceived as deliberately transgressing social norms (e.g. Kucuk, 2020). Therefore, since corporate wrongdoing may signal unethical organizational culture, we predict that CSI would generate distrust in the company. This belief about corporate immorality, in turn, may result in negative WOM as consumers might be more likely to warn their relatives and friends against the corporate culprit.

Nevertheless, we do not question the link between CSI and trust in the company. In the line with several studies (e.g. Leonidou et al. 2013), we claim that corporate transgressions decay the trust. In other words, people who encounter information about CSI incidents tend to think that the company is less reliable. However, the lower trust (or its absence) will not necessarily alert consumers about the risk of immoral corporate behavior. Thus, we expect that the mediating role of trust in the company will not be significant.

H2. Distrust in the company mediates the relationship between CSI and negative WOM.

H3. Trust in the company does not mediate the relationship between CSI and negative WOM.

2.3 The moderating role of moral norms

CSI incidents typically generate negative consumer responses to corporate culprits; however, these reactions are not necessarily the same for everyone. Existing research reveals that people differ in their assessments of corporate wrongdoing. For example, Trautwein and Lindenmeire (2019) show that consumer preference for ethical products increases the perceived unethicality of corporate actions. Similarly, consumers with higher ethical

expectations tend to consider CSI incidents more unethical than people with lower expectations (Ferrell et al., 2019).

Moreover, ethical norms do not only shape CSI appraisals, but they impact how a consumer responds to the corporate culprit. Specifically, existing literature reveals that consumer ethicality may enhance the effects of CSI on moral emotions as well as the emotion's effect on punitive reactions, including WOM, complain, or boycott intention (Grappi et al., 2013, Xie et al., 2015). In addition, recent studies have found that social and environmental consciousness are key variables explaining the intention to share and comment on negative CSR news (del Mar García-de los Salmones, Herrero & Martínez 2021). Given that moral norms influence CSI appraisals and responses to corporate misbehavior, we hypothesize as follows:

H4. Moral norms will strengthen the effects of CSI on negative WOM.

3. Study 1

Study 1 aims to test the mediating effects of consumer trust and distrust in the company on the relationship between CSI and negative WOM.

3.1 Method

To collect data for testing the mediation hypothesis, we performed a single factor experiment with three levels of responsibility (positive, neutral, negative). This study adapted scenarios from a heavily cited paper by Sen and Bhattacharya (2001). Specifically, the materials depicted a hypothetical producer of printers and calculators. The CSR conditions (positive and negative) addressed corporate policy on minorities and its outcomes. In the neutral condition remained only the business profile of the company. The manipulation was tested by asking how much do you agree with the statement that the company in the description is socially responsible, where "1" denoted totally disagree, '5' – totally agree. One-way analysis of variance (ANOVA) provided support for the significant differences in the perceived responsibility between the three scenarios ($M_{\text{CSR}} = 4.23$, $M_{\text{neutral}} = 3.63$, $M_{\text{CSI}} = 2.04$, $F(2, 177) = 99.473$, $p < 0.001$).

The participants were recruited from two universities. In total, the sample comprised 180 individuals (119 women) whose ages ranged from 18 to 29 years ($M = 22.3$, $SD = 2.06$).

Measures included negative WOM, consumer trust and distrust in the company and perceived CSI. The scale for negative WOM was adapted from research by S. Grappi, S. Romani, S., and R.P. Bagozzi (2013). The items used to operationalize this variable included the following items '*I intend to say negative things about this company to friends, relatives,*

and other people'; 'I intend to recommend to my friends, relatives, and other people that they not buy products of this company'; 'I intend to discredit the company with my friends, relatives, or other people' (Cronbach's alpha = 0.876).

To operationalize trust and distrust in the company, we used items from J. Cho (2006). All of them were measured on a 5-point Likert scale ranging from 1 (I have no such expectation) to 5 (I am extremely confident/certain/sure that this company will behave in this manner). The trust items included the following statements: *This company will operate its business in a highly dependable and reliable manner; This company will be responsible and reliable in conducting its business with customers; This company will promote customers' benefits as well as its own; This company will not engage in any kinds of exploitive and damaging behavior to customers.* On the other hand, distrust measure comprised statements such as *This company will exploit customers' vulnerability given the chance; This company will engage in damaging and harmful behavior to customers to pursue its own interest; The way this company operates its business will be irresponsible and unreliable; This company will perform its business with customers in a deceptive and fraudulent way.* The scales of consumer trust and consumer distrust in the firm had a high internal consistency measured by Cronbach's alpha, respectively 0.821 and 0.943.

Finally, we measured perceived CSI similarly to V. Swaen, N. Demoulin, N., and V. Pauwels-Delassus (2021). Specifically, we employed the two original items from the mentioned above scale that is this company (1) '*is only concerned about its own profit at the expense of society*', (2) '*... adopts controversial practices that go against ethical standards*' and the item (3) '*... takes actions that harm or disadvantage stakeholders or society*' (Cronbach's alpha = 0.842).

3.2 Results and discussion

This study examines the impact of CSI on negative WOM as mediated by consumer trust and distrust in the company. To test this parallel mediation model, we carried out a series of regression analyses using Hayes' Process macro for SPSS version 4 (Hayes 2018). More specifically, we used Model 4 that calculates direct, indirect, and total effects based on bootstrap samples.

According to our predictions, directly and indirectly, CSI influences negative word of mouth (Fig.1). In line with hypothesis H1 the direct effect is positive and statistically significant ($b = .41; p < 0.001$). Considering the indirect effects, our findings support hypothesis H2. The results reveal that consumer distrust in the company significantly

mediates the relationships between CSI and negative word of mouth ($b = .197$; 95 % CI: .075 to .331). CSI generates consumer distrust in the company ($b = .67$; $p < .001$) and the distrust, in turn, increases negative WOM ($b = .29$; $p < .001$). In line with hypothesis H3 the mediating effects of trust remain insignificant ($b = .06$; 95 % CI: -.014 to .136). Specifically, we find that CSI reduces consumer trust in the company ($b = -.45$; $p < .001$), but the trust does not impose any significant effects on negative WOM ($b = -.13$; $p < .001$). Taking together direct and indirect effects, CSI accounts for 48.3% of the total effect.

These findings suggest that a consumer who encounters the information about corporate misbehavior tends to distrust the company. Subsequently, the expectation that a company could transgress in the future makes a consumer more likely to spread negative information about a company to warn relatives and friends. Nevertheless, mere CSI information still contributes to consumers' tendency to say negative things about the corporate culprit, beyond what is accounted for by distrust in the company. Finally, our results replicate previous studies by showing that CSI damages consumer trust in the company. However, the lower trust seems unrelated to punitive consumer response to CSI, such as negative WOM.

4. Study 2

Study 2 has a twofold objective, first to validate Study 1, second, to examine how moral norms moderate relationships between CSI, consumer distrust in the company, and negative WOM.

4.1 Method

To validate Study 1 we again, used scenarios developed by Sen and Bhattacharya (2001). However this time we have changed the company's core business from calculators to the manufacture of clothing. In addition, we changed the domain of responsibilities to employees (caring vs. exploiting). To check whether the manipulation was successful, we asked participants: To what extent does the company's action benefit other people?, where "1" denoted totally unfavorable, '5' – totally beneficial. In line with the previously performed pilot study results, the scenarios differed significantly in terms of responsibility.

Respondents were randomly chosen from the BIOSSTAT panel, a large nationally representative online panel of Polish citizens. A sample comprised 250 individuals (120 women) whose age ranged from 18 to 65 years ($M = 39.48$ $SD = 12.4$). Considering educational attainment, .8% had completed primary education, 5.4% vocational education, 50.8% secondary education, 11.7% had an undergraduate degree, and 31.5% had a postgraduate degree.

To measure negative WOM, CSI, consumer trust, and consumer distrust in the company we used scales from Study 1. The moderator variable, moral norms, was measured by a subscale from the multidimensional consumer motivation scale (Barbopoulos & Johansson, 2017). Specifically, respondents were asked *When you decided how you would use your money, how important was it for you to: (1) act morally right; (2) use your money in a way that was consistent with your ideas and opinions; (3) take a stand for something that you believe in; act the way that you think one should; (4) take consideration of your surroundings.* The responses were coded on a 5-point Likert scale ranging from 1 (I totally disagree) to 5 (I entirely agree). The Cronbach alpha amounting to 0.831 suggests an acceptable internal consistency of this measure.

4.2 Results

4.2.1 Mediation analysis

In this study, we first attempted to validate the mediation findings of Study 1. Analogically, we estimated the parallel mediation model using Model 4 in Hayes' Process macro for SPSS (Hayes 2018). The results replicate most findings of Study 1. The one exemption is that trust in the company significantly reduces negative WOM (Figure 1). However, the mediation analysis results are the same as in Study 1. Specifically, consumer distrust in the company significantly mediates the relationships between CSI and negative WOM ($b = .238$; 95 % CI: .071 to .382), whereas the mediating effects of trust remain insignificant ($b = .132$; 95 % CI: -.026 to .263).

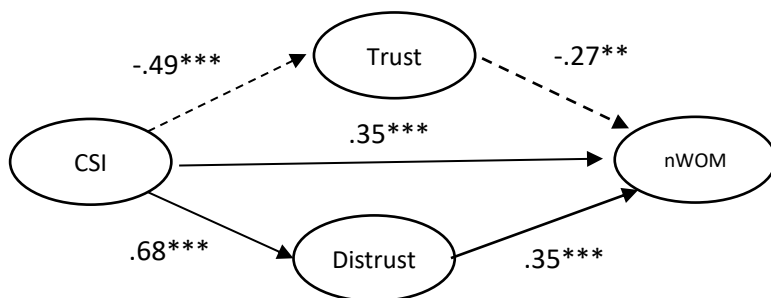


Figure 2. Mediation model (Study 2)

4.2.2 Moderated mediation analysis

Given that previous analyses revealed that the mediating effects of trust were insignificant, we performed moderated mediation analysis with consumer distrust in the company as an intermediate variable between CSI and negative WOM. To estimate this model, we used Hayes' PROCESS macro, Model 59 (Hayes 2018).

When discussing research findings, we focus on the effects of moral norms because mediation results have already been discussed. The results reveal that moral norms are neutral to the relationship between CSI and distrust in the company ($b = .014$; $p > .05$). However, they significantly strengthen the relationships between distrust and negative WOM ($b = .298$; $p < .01$). Due to this effect, moderated mediation has been obtained. More specifically, confidence intervals for moderated mediation index exclude zero ($MMI = .202$; 95 % CI: .063 to .312). In other words, results demonstrate that moral norms impose a significant effect on the indirect relationship between CSI and negative WOM.

Considering how moral norms moderate the direct relationships between CSI and negative WOM, the research findings show that the interaction between moral norms and CSI is significant, but contrary to our expectations, its effect is negative ($b = -.29$; $p < .01$).

Taking together the moderation findings, this study provides partial support for hypothesis H4, which predicted that moral norms would strengthen the effects of CSI on negative word of mouth. In line with the hypothesis attaching more importance to moral norms strengthens the effects of distrust in the company on negative WOM. In other words, ethical consumers are more likely to spread negative information when they expect that such a company might behave irresponsibly in the future. However, when distrust is absent, the more importance consumers attach to moral norms, the less likely they will engage in negative WOM.

Table 1 Summary of mediated moderation analysis

	Outcome variable: <i>Distrust in the company</i>			<i>Negative WOM</i>		
	<i>Coeff.</i>	<i>t</i>	<i>p</i>	<i>Coeff.</i>	<i>t</i>	<i>p</i>
CSI	.627	2.908	.004	1.586	4.385	.000
MN	-.158	-1.038	.300	.179	.954	.341
CSI x MN	.014	0.264	.792	-.290	-3.368	.001
Distrust				-.747	-1.743	.083
MN x Distrust				.298	2.942	.004
	$R^2 = .63, F(3, 236) = 135.9 p < .001$			$R^2 = .66, F(3, 236) = 91.7 p < .001$		

5. General discussion

5.1 Theoretical and practical implications

The present research offers a twofold contribution to the literature. First, we extend our understanding of trust in the company as an outcome of corporate wrongdoing. We replicate previous studies which demonstrate that CSI erodes people's trust in companies. By conceptualizing trust and distrust as separate concepts and providing evidence about their different roles in generating negative WOM, we take another step in explaining punitive responses to CSI incidents. In a broader perspective, we join other scholars who argue that

CSI is a different concept from CSR, and new conceptualizations and theories are needed to understand consumer outcomes of CSI (e.g., Jones et al. 2009).

Second, we identified an important boundary condition that shapes CSI and distrust effects on WOM communication. Our evidence suggests that the role played by moral norms in reactions to CSI may be more complex than previously expected. Although ethical consumers tend to have higher expectations to corporate responsibility, we find that these consumers seem to be less likely to spreading negative information about the irresponsible company than consumers who attach less importance to ethics. However, the distrust makes them to be more involved in negative WOM.

Our study provides managers with some implications. Since negative WOM can be highly harmful to companies, an organization should avoid any damaging for stakeholders acts. Therefore, the recommendation for managers could be to monitor corporate operations continuously, prevent violations of social norms, and develop good practices. Worth highlighting is that insignificant mediation through trust (and significant distrust mediation) suggests that trust-building strategies might not be effective without CSI prevention. Consequently, managers might be forced to deal with consumers' punitive reactions, including negative WOM. This study also suggests that marketers pay particular attention to ethical consumers because they might be more willing to punish corporate misbehavior. The highest risk of such a situation is when a company is distrustful. Therefore, companies facing CSI allegations should monitor not only consumer trust but also consumer distrust.

5.2 Limitations, and directions for future studies

Our study is not free from some limitations that might inspire future research. The first limitation is the use of scenario-based experiments. Although Study 2 replicated the findings of Study 1, we invite further research to validate the results in field studies on larger samples. Second, this study is limited to respondents from one country. The general level of trust in organizations differs among countries – it is worthy of continuing research in other countries. Third, we suggest that scholars address other values (e.g., hedonism) as potential boundary conditions. Finally, future studies might apply a processual approach and examine how trust and distrust coexist while shaping WOM communication in time.

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