Responding to Ethical and Competence Failures

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Two studies investigate the effect that a firm’s response (accepting responsibility for a failure or denying the allegations that a failure has occurred) has on consumer’s attitude towards the firm. It is argued that the effect on the attitude towards the firm depends on whether the failure is deemed to be an ethical failure or a competence failure. As expected the results indicate that denying ethical failures or accepting responsibility for competence failures results in more favorable attitudes compared to accepting ethical failures or denying competence failures.

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EXTENDED ABSTRACT

Extant research on failures has typically not considered the effect that the firm’s response has on consumer perceptions (Folkes and Kamins 1999). The present research reports the results of two studies that examine the effects of alleged failures by the firm and different responses of the firm on consumer’s attitudes towards the firm. Specifically, the first study establishes the interactive effect of failure (ethical or competence) and the firm’s response (denial, acceptance or no response) on consumer’s attitude and examines the mediating role of trust and affective responses. The second study extends this result by examining the effect of knowing the true outcome of the allegations (whether the allegations were found to be true or not) on consumer evaluations of the firm.

A review of the literature suggests three broad approaches to responding to allegations of failure—deny, accept responsibility, or not respond (Tybout, Calder, and Sternthal 1981). Accepting responsibility for a failure has been shown to help in reducing the negative emotions felt by the aggrieved person (Tomlinson, Dineen, and Lewicki 2004) but others have argued that accepting responsibility for a failure is likely to strongly link the negative event to the brand in the minds of the consumer (Johar 1996). Similarly, some researchers have argued that denying the allegations is more effective than accepting responsibility for a failure, while others have found that denying responsibility for a failure results in a decreased level of trust in the firm (Sirdeshmukh, Singh, and Sabol 2002).

Therefore, the effectiveness of accepting responsibility or denying allegations would appear to depend on some factor other than the type of firm response. Researchers have identified that consumers typically attribute two separate characteristics to firms—competence and ethics (Dacin and Brown 1997). While competence deals with decisions affecting the ability of the firm to produce goods or deliver services in a capable manner, ethics deals with the moral aspect of conducting business. Interestingly, failures can occur on both these dimensions. The research on dispositional inferences suggests why people might perceive competence and ethical failures differently. Reeder and Brewer (1979) argued that people infer different information from competence and ethical failures. People believe that ethical people always behave ethically, but unethical people can behave both ethically and unethically at times. On the contrary, the belief about competent people is that they can at times behave incompetently, but incompetent people can never behave competitively because they lack the ability to do so (Skowronski and Carlston 1989).

In the context of a firm, assume that an allegation of ethical wrongdoing by a firm surfaces in the media. If the firm accepts responsibility for the failure, it means that a consumer knows with certainty that the firm did something that was not expected of it. This, as argued previously, will generate negative affective reactions. Further, since the acceptance relates to a failure in the ethical dimension, the information is highly diagnostic in inferring the character of the firm. This will lower the trust and result in a less favorable attitude to the firm. However, if the allegation is denied, consumers would not readily be able to associate an ethical failure with the firm (Riordan et al. 1983). Therefore, consumers are relatively less likely to experience negative emotions. Further, since the denial makes the information less diagnostic, it is less likely to lower trust or attitude to the firm (Folkes and Kamins 1999).

When it comes to allegations of a competence failure, even if the firm accepts responsibility for the failure, it does not provide diagnostic information to the consumer about the competence or incompetence of the firm. Since consumers assume that competent firms can also at times falter, accepting the failure is less likely to lower trust. However, by accepting the failure and working on a resolution (e.g., apology), the focus of the consumer is likely to be on the resolution and not on the failure (Ohbuchi et al. 1989). This shift in the focus is likely to reduce negative emotions associated with the failure (Folkes 1984). If a competence failure is denied, it will limit the association between the alleged failure and the firm. But the denial also signals unwillingness on the part of the firm to initiate a failure resolution. This is likely to increase the negative emotions associated with the failure (Smith and Bolton 2002).

As expected, the results of the first study finds that denying an ethical failure results in a more favorable attitude to the firm compared to accepting responsibility for the failure. However, the results were less clear when the allegation related to competence failure. Accepting responsibility for a competence failure resulted only in a directionally more favorable attitude to the firm compared to denying the allegations. A mediation analysis supported the argument that trust and affect were critical in shaping consumer’s response to the failure. The second study addresses the question of what happens when the allegations are later found to be true or false.

The results of the second study indicates if the allegations have an element of truth, it may be better to accept the failure initially and work on a recovery process, rather than deny the failure initially and then respond after the truth becomes known with certainty. Although denying an alleged ethical failure was better than accepting responsibility, using a denial as a cover up seems to have very serious repercussions when the allegations are found to be true. Even for ethical failures, consumers seem to be willing to give some credit to the firm when it accepts the fault and starts to work on repairing the damage. When evidence of a failure is known with certainty, it may be better to accept the failure and work on regaining the lost trust. However, if one is sure that no failure has occurred, denying the error initially is the better course of action, because both immediately after the response and after the truth is known the attitude continues to be relatively more favorable.

References


