Recovering From Ethical Failures: Role of External Attribution and Monetary Compensation

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We examine the two different recovery strategies from ethical failures - external attribution and monetary compensation. We find that while both strategies improve consumer attitudes post the failure, only external attribution improves behavioral intentions and reduces the likelihood of future ethical failures.

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EXTENDED ABSTRACT
Research has found that denying ethical failures elicits more favorable attitudes than accepting them (Ferrin et al 2007) due to the differential inferences people draw from the failure (Reeder and Brewer 1979). An ethical failure is more diagnostic in judging moral character and hence likely to have greater informational value and impact on judgment. This suggests that the effect of accepting ethical failures is difficult to overcome. However, the literature on moral disengagement (White, Bandura and Bero 2009) provides insight into recovery strategies from ethical transgressions. We focus on two such alternatives that are often observed in a marketing context – external attribution and monetary compensation.

Attributing a failure to outside sources is commonly adopted by firms (e.g. Ford/Firestone). External attribution shifts the culpability of the unethical act away from the firm. By attributing the failure to an outside party, firms can restrict the negative association of having committed an unethical act and consequently reduce the future likelihood of repeating the act. In other words, the diagnostic value of the ethical failure for consumers is reduced. Thus, when the failure is attributed externally, consumers will have more favorable attitudes and intentions towards the firm, greater trust in the firm and be less likely to believe that the firm will make similar errors in the future, as compared to when the firm accepts the failure. Finally, there will be no differences in attitudes, intentions, future likelihood estimates or trust in the firm when the firm externally attributes the failure as compared to when the firm denies the failure.

Monetary compensation, however, attempts to shift the focus away from the failure and its consequences to resolution of the failure. Therefore, we expected to find that this response would improve consumer attitudes but would not improve intentions or reduce the future failure likelihood.

In real life, consumers often hold varying levels of trust in a company. We therefore also hypothesize that under conditions of low prior trust, there will be no differences in consumer responses towards the firm between offering monetary compensation, accepting, externally attributing or denying the failure.

STUDY 1 (N = 154)
Design: 2 (prior trust: high versus low) x 3 (recovery: accept, deny, external attribution) between subjects study. The dependent measures included attitudes towards the firm, trust in the firm, likelihood of future transgressions by the firm and behavioral intentions towards the firm (7-point scales).

We found a significant interaction between prior trust and company responses on attitudes (F (1, 147) = 7.62, p < .01), intentions (F (1, 147) = 10.3, p < .01), post-failure trust (F (1, 147) = 4.89, p < .01) and future likelihood of failure (F (1, 147) = 2.73, p = .06). Planned contrasts revealed that when trust was high, externally attributing the failure led to results that were no different from denying the failure (p’s > .1). However, when trust was low, externally attributing the failure did not improve any of the dependent measures as compared to accepting the failure.

In addition, a mediation analysis revealed that the response significantly predicted post-failure trust in the company (β = .68, p < .05), and when both the type of response and likelihood of future failures were included as predictors of post-recovery trust, only likelihood of future failures remained a significant predictor (F (1, 70) = 19.85, p < .01) and the type of response was non-significant (F (1, 70) = 2.33, p > .1). Thus, external attribution reduces the diagnosticity of the ethical failure and thereby improves consumer perceptions of the firm.

STUDY 2 (N = 147)
In study 2, we varied the failure context (environmental damage) and conducted a 2 (prior trust: high versus low) x 3 (response: accept, deny, external attribution) between subjects study. We replicated the findings from study 1 and found a significant interaction between prior trust and type of response on consumer attitudes (F (2, 140) = 3.57, p < .05) and post-recovery trust (F (2, 140) = 3.49, p < .05). Under high trust, external attribution elicited responses that were no different as compared to denying the failure (p’s > .1) but were significantly higher than when the failure was accepted (p’s < .05) but under low trust, external attribution elicited results that were no different from accepting the failure.

STUDY 3 (N = 200)
Design: 2 (prior trust: low versus high) x 4 (responses to failure: accept, deny, monetary compensation, external attribution) between subjects study. We used the same scenario and dependent measures used in study 1.

We found the expected interaction between prior trust and company responses on attitudes towards the firm (F (3, 192) = 3.0, p < .05), intentions towards the firm (F (3, 192) = 4.39, p < .05) and post-failure trust in the firm (F (3, 192) = 2.29, p = .07). We replicated the pattern of results for external attribution that was found in study 1. Thus, external attribution improved attitudes and intentions and lowered future likelihood of failure when trust was high.

When prior trust was high, monetary compensation improved attitudes, but not intentions, trust or future failure likelihood, as compared to accepting the failure. Thus, externally attributing the failure was better than offering monetary compensation in terms of future intentions and diagnosticity. Also as predicted, there were no differences between any of the four conditions on attitudes, intentions, post-failure trust in the firm or the likelihood of future failures when prior trust in the firm was low (all p’s > .1). Thus, any response to an ethical failure appears to require a modicum of trust in the firm in order to be successful.

CONTRIBUTION
While prior research has shown that denying ethical failures is the only option to retain favorable consumer attitudes and intentions, we identify exceptions to this finding. We show that external attribution reduces the perceived diagnosticity of ethical failures, leading to more favorable attitudes/intentions towards the firm while monetary compensation can improve attitudes, but not future intentions. We also identify an important moderator to these effects – prior trust in the company.
REFERENCES
