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Effect of Perceived Crisis Response on Consumers' Behavioral Intentions During a Company Scandal – An Intercultural Perspective

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ABSTRACT

In the context of a multi-national company scandal, namely Volkswagen's Dieselgate, we examine the effect of customers' perception of organizational crisis response on their revenge and avoidance intentions in different cultural settings. Using data collected in the US and in Germany, we are able to show that the perception of appropriate crisis response reduces customers' revenge as well as avoidance intentions. However, due to the domestic bias of German respondents, the mechanism linking perception of the organization's crisis response to the respective outcomes differs between Germany and the US. Our results demonstrate for the first time that domestic bias is not always associated with being an amplifier of positive factors; rather, in the context of an organizational scandal, it dampens the effects of organizational crisis response.

1. Introduction

Over the past decades, a number of serious organizational crises and scandals have attracted worldwide attention, the most recent being the case of Volkswagen's Dieselgate. In September 2015, Volkswagen publicly admitted manipulating the engine and admission control software of > 500,000 diesel vehicles. Dieselgate is one of the most far-reaching organizational crises that quickly spread worldwide (Blackwelder et al., 2016). Current estimates consider some 11 million Volkswagen Group vehicles to be involved (Ewing, 2015).

The admission of fraud by Volkswagen was preceded by investigations of the International Council on Clean Transportation (ICCT) in early 2014 in an effort to prove that diesel engines could, in fact, meet the strict emission standards required by US legislation. With the help of researchers from the West Virginia University (WVU) Center for Alternative Fuels, Engines and Emissions, newly developed road tests were conducted to measure emissions under "real driving conditions". Whereas conventional laboratory tests conducted by the California Air Resources Board (CARB) were passed, results of the road test conducted by ICCT/WVU exceeded US emission limits for nitrogen oxides by 9 to 38 times. These results were surprising to the testers and eventually uncovered one of the biggest fraud cases in automobile history. In a first reaction to the test results, VW denied any wrongdoing claiming that a software problem had caused the results. However, a voluntary recall of 500,000 vehicles in the US for a software update did not change the test results. Only one and a half years after the first discovery did VW finally admit to manipulating diesel cars to detect standard emission tests in order to pass them, knowing that these standards could never be reached under real driving

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conditions (Blackwelder et al., 2016; Gates et al., 2017).

Volkswagen is not the only firm involved in organizational scandals or crises; examples of high profile crises include organizations such as Toyota, BP and Merck which have led to considerable financial damage and loss of reputation for these companies (Craig, 2011; Freedenthal, 2010; Heineman Jr, 2014; Marx, 2004; Tong et al., 2009; Wilhelm and Camuffo, 2016). In the case of Toyota's massive recall crisis in 2009/10, the company had to admit to malfunctioning parts. This admission of fault took even longer than that of VW, but was caused by poor quality management and reporting rather than intentional fraud (Heineman Jr, 2014; Wilhelm and Camuffo, 2016). Likewise BP had to deal with a blowout on the oil drilling rig Deepwater Horizon, which created the worst oil spill in the history of the US. Again cost pressure and poor control of subcontractors led to the disaster. However, deep water oil drilling is known to be risky and BP had received an official permit from the US authorities (Craig, 2011). One could argue that the worst part of the crisis was not the accident itself, but the inability to stop the oil from leaking from two underwater holes for almost three months. Not even the US government was prepared for such an accident (Freedenthal, 2010). The crisis of Merck comes closest to the current VW scandal with regard to questionable ethical behavior. In September 2004, Merck withdrew Vioxx, a medication for arthritis and other kinds of pain in adults, from the market. As early as the year 2000, Merck had been made aware of potential side effects of its drug (e.g. increased risk of heart attacks and strokes). Despite clear evidence of Vioxx's side effects, Merck kept the drug on the market for another four years during which time it became one of their best selling products (Tong et al., 2009). Even though Merck could be accused of unethical and harmful behavior, it was never forced to act by the US Food and Drug Administration. When Merck finally decided to take Vioxx off the market it was a voluntary withdrawal (Marx, 2004).

It can be argued that the extent of Volkswagen's intentional fraudulent behavior positions the VW emission scandal as a special case of a crisis initiated by a company making it a suitable case for this research.

During a crisis, companies are often faced with decisions in terms of how and what to communicate to their stakeholders (Laufer, 2015). In a recent literature review, Coombs (2014) identifies factors that influence the selection of organizational crisis response and its effect on crisis outcomes. However, much of the existing research on the effects of crisis management focuses on the socio-cognitive process underlying the stakeholders' perception and evaluation of the organization (Bundy and Pfarrer, 2015). Much less attention is paid to the question of how organizational crisis response, especially crisis communication, affects stakeholders' behavioral intentions, although the effects of a crisis on relational outcomes are of great importance (Kahn et al., 2013).

As high profile companies such as Volkswagen operate on a worldwide basis, it is fundamental to consider how organizational crisis response is received in different cultural regions. As of now, research has not yet focused sufficiently on investigating the effects of an organization's crisis response in an international context. In his extensive literature review on crisis communication, Schwarz (2015, p. 7) states that 'despite the importance of international dimensions of strategic organizational communication, scholars have only recently begun to explore international or cross-cultural dimensions of crisis communication'. This is remarkable since the theoretical foundations of crisis communication, i.e. communication processes and affected values and norms, are recognized to be highly culture sensitive (Schwarz, 2015). Additionally, it has been argued that research in this field is very much focused on the US perspective (Garcia, 2011) and that evidence from other western and non-western countries is limited (Claeys and Schwarz, 2016). In terms of methodology, quantitative studies with an explicit cross-cultural design are very rare (Claeys and Schwarz, 2016). As such, the question as to how reactions towards organizational crisis response differ from one country to another remains widely unresolved.

In this research, we aim to uncover the effects of perceived crisis response. We are particularly interested in the individual's perception of the appropriateness of the organization's crisis response and the effect on the individual's behavioral intentions. We, thus, seek to advance research on crisis communication and, more specifically, aim to illustrate a company's appropriate crisis response during a scandal (i.e. sending accommodative signals), and how these affect consumers' behavioral intentions. As indicated by Kumar and Pansari (2016), consumers' behavior is influenced by firms' actions towards the consumers. As such, it is extremely important for organizations to know how consumers react to organizations' crisis response.

We use the commitment-trust-theory (Morgan and Hunt, 1994) and link organizational crisis response to consumers' behavioral intentions and argue that the effect of this link will be influenced by the consumers' home country and culture. To support our argumentation, we consider the context of the recent Volkswagen scandal and use individual consumer data collected in the US (the country in which the Volkswagen scandal was originally discovered) and Germany (the home country of Volkswagen).

This paper makes several contributions to international management literature as well as management practice. First, our results extend existing research on crisis response. We show that the mechanism that translates perceived organizational crisis response into consumers' behavioral intentions is subject to a domestic bias. Second, we show that in the context of a crisis, domestic bias does not serve as an amplifier of positive aspects such as beneficial crisis management. This result extends existing cross-cultural research as it provides evidence that domestic bias is not always favorable. From a managerial perspective, our research provides guidance on how managers should set up appropriate and thus effective crisis responses during a scandal and which additional relational aspects (i.e. trust) need to be nurtured in different countries during a crisis.

2. Crisis response during a scandal

An organizational crisis is an unexpected and harmful event characterized by a high degree of initial ambiguity regarding the cause and the resolution, which affects organizational operations and results in negative perceptions of the organization giving rise to the crisis (Bundy and Pfarrer, 2015; Coombs, 2007; Pearson and Clair, 1998). According to Marcus and Goodman (1991), not all crises are equal, but differ on at least two important accounts: 1) effect on possible victims and 2) degree of deniability of the cause of the crisis. As such, they consider a crisis to be either an accident; a product safety or health incident; or a scandal. Contrary to accidents, a scandal (such as Volkswagen's emission scandal) is not a discrete event, the origin is rather obscure, it has no immediate