Investigating the direct and indirect effects of corporate hypocrisy and perceived corporate reputation on consumers' attitudes toward the company

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ABSTRACT

Consumers are placing increasing importance on the social responsibility of firms when making purchase decisions. Nonetheless, corporate irresponsibility has become more prevalent in the corporate world. Through corporate social responsibility (CSR), companies can showcase their virtues and appear as good citizens while ignoring many internal standards. Hence, the primary purpose of this study was to explore the impact of corporate hypocrisy on CSR belief, corporate reputation, and consumers' attitudes toward a company that may have a bad reputation. Second, we investigated the mediating effect of CSR belief and perceived corporate reputation on the relationships between corporate hypocrisy and consumers' attitudes toward the company. We asked a sample of respondents in Australia (n = 518) to respond to a real CSR campaign launched by a beer company. The results showed that CSR belief mediates the relationship between corporate hypocrisy and consumers' attitudes toward the company. The results indicated a perception that companies may use CSR to try to shift the blame from producers to users. The results of this study provide guidelines for managers, social marketers, and public policy makers on how to create and evaluate companies' CSR campaigns. The results of this study contribute to the debate on how consumers respond to various CSR campaigns as well as the intended or unintended consequences of CSR in directing consumers' attention away from the negative impacts businesses have on society.

1. Introduction

Consumers are placing increasing importance on the social responsibility of companies when making purchase decisions (Wagner et al., 2009; Wan et al., 2016). Luo and Bhattarcharya (2006) found that consumers' perceptions of corporate social responsibility (CSR) influence how they perceive brands, affect intentions to purchase and patronize the retailer, and affect the financial performance of firms. In recent years, one of the main social issues has been excessive alcohol consumption (Kubacki et al., 2011). Research has shown that alcohol use is a significant risk factor for various health problems (Room et al., 2005; Rundle-Thiele et al., 2013; Wechsler et al., 2000). Hence, Jones et al. (2013) found that the leading beer companies are moving toward integrating CSR into their core businesses with responsible drinking at the forefront of their CSR agendas. Nonetheless, corporate irresponsibility has become more prevalent in the corporate world.

A damaged reputation can significantly impact a company's profits and sales (Vanhamme and Grobben, 2009). Consumers have become more negative toward the CSR activities companies have launched, especially in an industry such as beer and spirits (Illia et al., 2013; Jones et al., 2013; Skarmeas and Leonidou, 2013). Szykman et al. (2004) found that consumers who viewed an anti-drinking and driving message saw it as more self-serving when a beer company sponsored it. However, despite the controversy and bad reputations (Yoon et al., 2006), through CSR, beer companies can showcase their virtues and can appear as good citizens while ignoring many internal standards (Jones et al., 2009, 2013; Yoon and Lam, 2013). In the context of the beer industry, government has also identified that the type of beer brewers produce can play a significant role in reducing alcohol problems (Baggott, 2006). These dilemmas create conflicts between the public images of companies and how consumers respond to various CSR campaigns the companies launch to portray themselves as good citizens.

Hence, the primary purpose of this study was to explore the impact of corporate hypocrisy on CSR belief, corporate reputation, and consumers' attitudes toward a beer company. Second, we investigated the mediating effect of CSR belief and perceived corporate reputation on the relationships between corporate hypocrisy and consumers' attitudes toward the company. The results of this study contribute to the debate on how consumers respond to various CSR campaigns as

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well as the intended or unintended consequences of CSR in directing consumers' attention away from the negative impacts businesses have on society. Subsequently, the results of this study provide guidelines for managers and public policy makers on how to manage and evaluate CSR campaigns.

2. Literature review and hypothesis development

2.1. Corporate social responsibility

Carroll (p 43, 1991) defined CSR as "the simultaneous fulfillment of the firm's economic, legal, ethical and philanthropic responsibilities…. CSR firms should strive to make a profit, obey the law, be ethical, and be … good corporate citizen[s]." Similarly, Maignan et al. (1999) defined CSR as the extent to which organizations meet the legal, economic, ethical, and discretionary responsibilities that relevant stakeholders require.

CSR has influenced various elements of businesses such as the impact of CSR behavior on the greater community (Albinger and Freeman, 2000; Arli and Cadeaux, 2014; Oppewal et al., 2006; Sen and Bhattacharya, 2001), the juxtaposition of CSR and the management of the multiple interests of multiple stakeholders (Matten et al., 2003; Waddock, 2004), the price consumers are willing to pay for CSR (Creyer and Ross, 1996; Karem et al., 2012; Parsa et al., 2015, 2015), discussion of CSR in the context of consumer loyalty (Bhattacharya and Sen, 2003; Lichtenstein et al., 2004), reconceptualization of the store image (Gupta and Pirsch, 2008); the influence of CSR on financial performance (Orlitzky, 2003), and the effect of hypocrisy and inconsistent CSR messages on consumer purchase decisions (Wagner et al., 2009). These studies reveal the many areas within the CSR domain that have received academic attention.

One area of particular interest in this research is how consumers respond to bad corporate behavior. Prior research has revealed nine ways consumers respond to perceived corporate misfeasance: through boycott (Klein, 2004), outrage (Lindenmeier et al., 2012), cynicism (Chylinski and Chu, 2010), distrust (Darke and Ritchie, 2007), perceptions of corporate hypocrisy (Wagner et al., 2009), hatred (Lee, 2009), apathy (Devinney, 2006), or revenge (Sweetin et al., 2013). Of these, this research has specifically explored the effects of corporate hypocrisy on the overall feelings consumers have toward companies in response to CSR campaigns.

2.2. Hypothesis development

2.2.1. Corporate hypocrisy

Corporate hypocrisy is a stakeholder's belief that a firm has failed to deliver on its promises (Wagner et al., 2009). Corporations may communicate their good behavior (promises) to their stakeholders, but when consumers find a discrepancy between their claims and their actions, they risk accusations of hypocrisy. According to Szabados and Soifer (2004), many understand hypocrisy as a subtle type of deception. This type of deceptive behavior undermines stakeholder trust, threatening the very relationships that helped to create the corporation (for example, those with investors) and those that continue to sustain the corporation (for example, those with consumers and employees). Yoon et al. (2006) found that CSR activities are ineffective when the sincerity of a firm is ambiguous.

CSR activities can improve a company's image only when consumers believe those activities have a sincere motive (Yoon et al., 2006). Furthermore, a seminal study by Wagner et al. (2009) focused on the impact of communication strategies on consumer perceptions of corporate hypocrisy. Wagner et al. found that proactive communication (actively positioning themselves as engaging and supporting CSR strategies before acting) had a greater influence on corporate hypocrisy than reactive communication (what said the firm said after the incident). Furthermore, they found that regardless of the type of

communication strategy, or the order in which the company presents information to consumers, information inconsistency ultimately leads to perceptions of corporate hypocrisy. Corporate hypocrisy has a destructive impact on a consumer's overall attitude toward the corporation when there is a bifurcation between promises and actions, showcasing that "all is not well with the corporate world" (Crowther and Rayman-Bacchus, 2004, p. 1). Hence, we suggest the following hypotheses:

H1. Corporate hypocrisy negatively influences CSR beliefs of consumers about the company.

H2. Corporate hypocrisy negatively influences the perceived corporate reputation of the company among consumers.

H3. Corporate hypocrisy negatively influences consumers' attitudes toward the company.

2.2.2. CSR belief

CSR belief refers to beliefs by consumers that a company is acting as a responsible entity in society or the extent to which consumers believe a company is socially responsible (Du et al., 2007). Dating as far back as the work of Friedman (1970), this topic has undergone extensive debate as to whether a corporation has an obligation to the society in which it operates. On the one hand, some believe that every large corporation should act as a social enterprise (Dahl, 1972; Murray and Vogel, 1997) as far as it serves the public. On the other hand, some consider the responsibility of a corporation to make decisions that purely maximize the value for stakeholders, with society as just one of those many stakeholders. In essence, a corporation cannot maximize its equity if it ignores the interest of its stakeholders (Jensen, 2001); yet, for some corporations, the welfare of society is not a priority.

H4. Consumers' CSR beliefs positively influence consumers' attitudes toward the company.

2.2.3. Perceived corporate reputation

Fombrun, p 72) (1996) defined corporate reputation as "a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals." Roberts and Dowling (2002) found support for the connection between firm financial performance and the presence of intangible assets – such as reputation. High-quality intangible assets do have an influence on superior performance. For example, the Body Shop, founded in 1976, has incorporated its in-house public relations department within a larger unit labeled values and vision. This ensures that those responsible for creating the public persona align with the overarching CSR objectives (Quarter, 2000). The success of the Body Shop in marketing itself as a socially responsible company is one example of the influence corporate reputation can have on overall performance (Argenti and Druckenmiller, 2004; Fombrun, 1996; McIntosh, 2015). Therefore, we propose the following hypothesis:

H5. Consumers' perceptions of a company's corporate reputation positively influence consumers' attitudes toward the company.

2.2.4. Mediating variables

Stanaland et al. (2011) examined consumer perceptions of CSR and found that particular cues (such as high-quality ethics statements from the corporation) influenced perceived CSR, which in turn impacted consumer trust and loyalty. In another study, Valentine and Fleischman (2008) empirically examined employees' perceptions of CSR and how those perceptions influenced job satisfaction. Furthermore, they found that support for perceived CSR played a mediating role in the relationship between ethics programs and job satisfaction, indicating the importance of CSR initiatives (Deshpande, 1996) for creating and