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Unethical Corporate Behaviour and Customer Brand Perception – A Cross-Cultural Study

News about corruption, environmental catastrophes and companies abusing human rights is spread across the world: `Coca Cola is banned from students union over unethical practices´ (The Independent, England), `La corrupción toca a Walmart de Mexico´ (CNN Expansion, Mexico), `Aldi-Kritiker prangern Ausbeutung an´ (Spiegel-Online, Germany), and `L'Oréal et Adecco condamnés pour discrimination à l'embauche´ (Le Monde, France).

Does such negative coverage of company ethics have an effect on customer perception, and if so, how is it perceived in different cultures? How does it affect the trust people place in brands? Companies invest huge resources and time in building up brands. Crises may severely harm the trust and confidence consumers place in these (Dawar & Lei 2009). Given the increased frequency of ethic-related crises, managing them has become a top priority. In this context, a deeper understanding of the connection between unethical firm behavior and trust is essential. Our cross-cultural study identifies the impact of unethical company behaviour on the trust consumers place in brands. Thus, we aim to provide empirical generalisations and highlight national differences, enhancing the overall understanding of ethic-related crises on consumers and firms.

Through extensive media research of more than 50.000 newspaper articles in strongly opinion forming online and offline media in six countries, we formed a unique dataset. We identified 1395 ethic-related crisis events covered in a total of 3750 articles, featuring brands from 20 different industries. To capture customer brand perception, we use the BrandIndex of YouGov. It tracks the public perception of thousands of brands across different sectors and countries.

By using an event study, we adopt an unconventional method, usually used in finance research, to analyse the impact of negative information in newspapers on brand perception. By controlling for confounding events, we ensure that the effect of unethical firm behaviour is isolated from other events that take place around the same time. Thereby, we are extending the marketing literature and enlarging the pool of scientific research methodologies. Furthermore, by using a regression analysis, we identify conditions under which the impact of unethical behavior is heightened or lessened.

Our results show that unethical firm behaviour impacts customer brand perception and harms the trust consumers place in brands in all countries. We also find that the negative impact is mainly driven by crisis type (human rights issues, environmental issues and operating practices), media coverage, industrial sector (services, non-durables and durables), and whether the crisis occurs where customers live.

The results confirm that companies should take negative media coverage about their brands seriously, to prevent any detrimental impact. They should respect human rights, and establish

guidelines on how employees should behave along the entire value chain. These findings also help companies to better forecast customer brand perception when facing negative news, and give guidance to managers on how to appropriately react. We are convinced that the measurement and conceptualisation of unethical firm behavior in a global context have important contributions to research, management, and society.