Effects of Severity and Knowledge of a Scandal on the Perceived Ethical Behavior and Attitude towards a Company – An Intercultural Perspective on CSR Management

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Abstract

Over the last decades, a number of serious corporate scandals have attracted worldwide attention. This study contributes towards understanding the consequences of scandals from a consumer perspective. We use attribution theory to analyze the effects of knowledge of a scandal and personally perceived severity on assessed ethical behavior and attitude towards a company. The recent Dieselgate scandal involving Volkswagen is used as the empirical setting. We test our developed framework using data collected from respondents in the US (the country in which the scandal was initially discovered) and Germany (home country of Volkswagen). Findings show that knowledge of the scandal as well as personally perceived severity of the scandal negatively affect perceived ethical behavior of the company and attitude towards the same, but the results vary between the countries indicating the relevance of a domestic bias in this context. A major implication for management provided by this research is that while a domestic bias mitigates the negative effect of knowledge on consumers' beliefs and attitudes, it does not mitigate the negative effect of perceived severity.

Keywords
Knowledge, Severity, Ethical Behavior, Scandal, Domestic Bias

1. Introduction

September 18th 2015 marks the date on which a multi-national company publicly admitted one of the most far-reaching fraud cases which soon spread throughout the world. On this day, Volkswagen publicly admitted to having manipulated the engine and admission control software of some 500,000 diesel vehicles sold in the US between 2009 and 2011 in order to comply with emission laws in a test setting only (Blackwelder et al. 2016). Current estimates calculate that 11 million Volkswagen Group vehicles worldwide are involved in the "Dieselgate scandal" (Ewing 2016).

The "Dieselgate scandal" contrasts strongly with Volkswagen's previous communication and marketing strategy emphasizing a proactive attitude in corporate social responsibility (CSR) and showing the company as a promoter of environmentally friendly solutions like "Blue Motion" and the resulting "Think Blue" marketing campaign (Blackwelder et al. 2016). Clearly, this scandal represents a major problem for Volkswagen's reputation.

Deeper insights into cross-national differences in the perceptions of a scandal are especially relevant for international companies. The effects of cultural differences (or more specifically a domestic bias) have so far received very little attention in the context of corporate crises and scandals. The recent Dieselgate scandal provides a suitable context for addressing this research gap by analyzing consumer perceptions and attitudes towards a company during a worldwide scandal.

The present study seeks to contribute to the corporate social responsibility area by establishing the role of domestic bias in people's perception of a company's ethical behavior and attitude towards the company during a scandal. More specifically, the nature, scope and visibility of the Dieselgate scandal provide an opportunity to include three relevant dimensions in the study: 1) the effect of personally perceived severity among people who are (more or less) in distress as a result of the scandal; 2) the effect of perceived knowledge of the scandal; and, 3) since the scandal encompasses several countries including the home country of the multi-national company, a cross cultural component can also be included in the effect evaluation.

The main interest of the paper is to investigate the effects of the scandal on people's attitude towards the company, to identify key drivers and analyze cultural differences between the home country of the brand and the country where the scandal was first discovered. We seek to address universal reactions to the fraud and not, for example, more specific behavior such as (re)purchase intention or complaints.

The present study has two objectives: 1) to develop a framework that links personally perceived severity of the scandal and knowledge of the same to the attitude towards the company and 2) to investigate the effect of a domestic bias in this framework.

Our theoretical aim is to provide a model which helps to explain how knowledge of and personally perceived severity of a scandal will influence perceptions of a firm's ethical behavior as well as the attitude towards it and how these relationships will be influenced by a domestic bias. We feel that by including domestic bias we are able to provide a theoretical framework which is more appropriate for today's globalized businesses. In contrast to previous studies that investigated customers who had suffered direct harm, for example in the case of a service failure (e.g. Smith, Bolton, and Wagner, Lutz and Weitz 1999; Tsarenko and Tojib 2015), this paper focuses on the attitudinal consequences of a corporate scandal on a more general scale. The underlying research has been extended to comprise the broader consumer base namely including customers and non-customers in the study.

From a managerial perspective, our research helps to understand the effects of a company's fraudulent actions on consumers' attitudes in the light of consumers' knowledge of a scandal (i.e. through information available) and their personally perceived severity. In our globally connected world, corporate scandals easily cross borders in virtually no time and, consequently, it is mandatory for managers to gain an understanding of how consumer reactions may differ cross-culturally. Our research focuses on the country where the manipulation was detected and brought to the public's attention, the US and the homeland of the brand, Germany. In most cases, the home market is of particular (economic) interest for global companies due to the traditionally strong market position of domestic brands. The question of whether or not domestic brands are indeed protected against corporate scandals as the result of a consumers' domestic bias is, therefore, crucial for effective international CSR management.

Consequently, measuring the effects of domestic bias will give managers of companies dealing internationally a more diverse view on handling scandals inside and outside their home countries.

The article is structured as follows: we first introduce our baseline model including the theoretical background of our conceptual framework. We then provide a rationale for the development of hypotheses and investigate more deeply the potential differences regarding consumer perceptions and evaluations of the Dieselgate scandal. After a description of the method and the presentation of the results, we conclude by discussing managerial and theoretical implications, limitations and suggestions for future research.

2. Conceptual Framework and Hypotheses

Figure 1 presents our conceptual model of how personally perceived severity of and knowledge of a scandal affect respondents' attitudes towards a company. The model suggests that the effect of personally perceived severity and knowledge of a scandal on their attitude is mediated by the perceived ethical behavior of the company. As a moderator, we consider that the proposed relationships are affected by the respondents' country of residence.

Figure 1: Conceptual Model
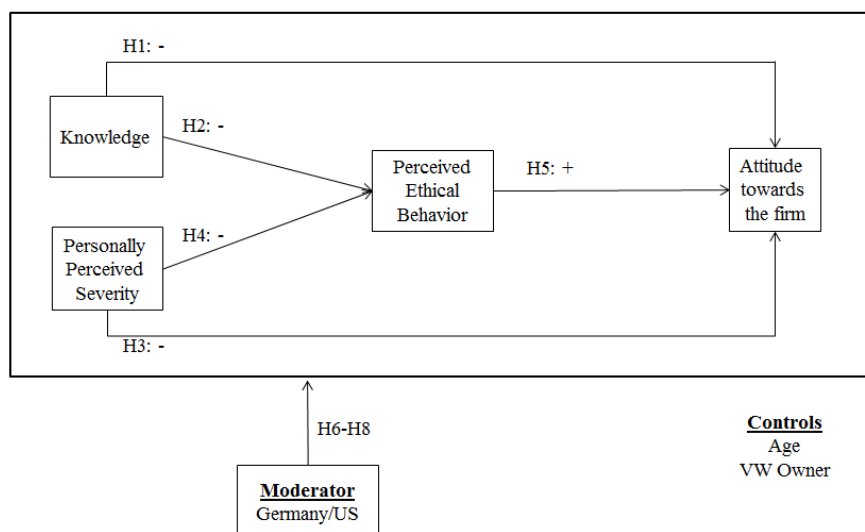
The development of the conceptual framework and the selection of variables are based on the general attitude theory (e.g., Fishbein and Ajzen 1975) and, more specifically, on Weiner's Attribution-Based Theory of Motivation and the Cognitive Appraisal Theory (1980) (e.g. Bagozzi Gopinath and Nyer 1999; Roseman 1991). Our model integrates individual perceptions of a corporate scandal and their cognitive and affective consequences. More specifically, our model focuses on two key perceptions of the scandal (i.e. antecedents of consumer evaluation of the scandal), namely knowledge about the scandal and personally perceived severity. These are linked to the perceived ethical behavior of the company, as a more specific cognitive belief about the company's actions and attitude towards the firm as the general affective evaluation of the company (for a similar approach, see Wagner, Lutz and Weitz 2009). In order to obtain a complete picture of the effects of knowledge of the scandal and personally perceived severity, we account for the direct as well as the indirect effects of knowledge and personally perceived severity on the attitude towards the firm.

When investigating the perception of a worldwide scandal, the country-of-origin effect also needs to be taken into consideration (e.g. Balabanis and Diamantopoulos 2004; Bilkey and Nes 1982; Siamagka and Balabanis 2015; Verlegh and Steenkamp 1999). As such, we include the respondents' country of origin as a moderator in our model assuming the existence of a domestic bias on the proposed relationships.

2.1 Consequences of Knowledge of a Scandal

Knowledge of a scandal refers to the degree to which a person is informed of a scandal. This type of knowledge can be used to understand people's decisions, biases and heuristics (Park and Lessing 1981). It also enables people to form realistic expectations and opinions about the focal subject by enhancing their ability to detect, for example, inferior performance or problems (e.g. Sambandam and Lord 1995). In the given context, knowledge relates to the subjective perception of what an individual believes he or she knows (Brucks 1985) about the scandal.

Effect on Attitude Towards the firm. Attitude is defined as the favorable or unfavorable judgment of a focal object (Ajzen 2005). Commonly, attitudes are conceptualized as a unidimensional affective construct (e.g. Keller 1993) – and are, correspondingly, measured on a single evaluative dimension – even though many researchers acknowledge that attitudes may be more complex (Ajzen and Fishbein 2005). Specifically, the tripartite attitude approach postulates affective (feelings, evaluations), cognitive (opinions) and conative (intentions) components of attitudes. Since this more complex approach has not yet gained sufficient empirical support, the unidimensional concept still dominates in attitudinal research (Ajzen and Fishbein 2005). Therefore, the attitude towards the firm is conceptualized as the global affective assessment of the company based on all the relevant company perceptions and evaluations (Brown and Dacin 1997; Wagner, Lutz and Weitz 2009).

Many studies have shown the effect of knowledge on attitudes in various important and value-related consumption contexts, such as counterfeiting (Marcketti and Shelley 2009), genetically modified food products (Vecchione, Feldman and Wunderlich 2014), green consumption (Bang et al. 2000; Pagiaslis and Krontalis 2014) and corporate transgressions (e.g. Wagner, Lutz and Weitz 2009), implying that knowledge is an important driver of consumers' attitudes in ethically sensitive situations.

In our research model, we propose that the greater the consumers' knowledge of a scandal, the lower the corresponding evaluation of (i.e. attitude towards) the firm. In line with our

affective concept of attitude towards the firm, we define this direct effect of knowledge on attitudes as an affective path. Our reasoning for the negative direct effect is based on the attribution theory and cognitive appraisal theory. Attribution theory states that individuals form causal judgments based on the extent of their knowledge of where the cause of an event lies (internal vs. external to the individual) and the stability and controllability of the cause (Folkes 1984; Weiner 1980). As such, the more knowledgeable an individual is about a scandal, the better he can attribute the causation of the scandal (i.e. locus of control) to the firm in question and, consequently, form a negative judgment (i.e. attitude) towards the firm. This effect on attitudes (i.e. affective path) is also supported by the cognitive appraisal theory (e.g. Lazarus and Smith 1988; Roseman 1991). Appraisal theory extends attribution theory by considering the full range of possible situations (e.g. if an event is good or bad, important or unimportant, certain or uncertain etc.) and not only perceptions of causality (e.g. Bagozzi Gopinath and Nyer 1999; Malhotra 2005). If attribution theory is extended, it focuses explicitly on emotional responses resulting from the processing of all relevant information. When consumers consider events as negative, certain and caused by others, negative emotions such as anger and dislike are likely to occur (Bagozzi Gopinath and Nyer 1999; Roseman 1991). Consequently, the general affective evaluation will be influenced negatively by the extent of the consumer's knowledge leading to the following hypothesis:

Hypothesis 1: Knowledge of a scandal has a negative effect on the attitude towards a firm.

Effect on Perceived Ethical Behavior of a Firm. Our definition of perceived ethical behavior is based on research in the context of corporate social responsibility (Du et al. 2007, Kim et al. 2009; Wagner, Lutz and Weitz 2009) and relates to an individual's belief concerning a firm's social and ethical conduct. "Whereas attitude refers to a person's favorable or unfavorable evaluation of an object, beliefs represent the information he has about the object" (Fishbein and Ajzen 1975, p. 12). Beliefs are cognitive constructs and as such are determined by the consumers' knowledge and interpretation of information on the respective object of belief (Fishbein and Ajzen 1975). In other words, "Beliefs are based on knowledge, or that which the individual perceives to be true" (Bang et al. 2000, p. 454) – undermining the relevance of subjective information on the formation of belief.

Our central assertion of the attribution theory is that individuals form beliefs about a situation based on the degree of controllability of the situation itself (Folkes 1984; Weiner 1980). In the given case, we consider individuals to use their knowledge of the scandal in order to judge whether Volkswagen had control of the scandal. Controllability is especially relevant for the perception of ethical behavior because it indicates whether the wrongdoing on the part of the company was intentional. A violation of central moral rules (e.g. fairness, honesty) is only clearly shown if a wrongdoing is intentional or at least accepted and concealed. It has been shown that, primarily, consumers use this so-called deontological approach (i.e. based on the transgressor's perceived intentions) when making ethical judgments; the consequences of misconduct (i.e. a teleological approach) are only secondary (see Vásquez-Párraga 2000, for a short review).

In the example of VW, the information available indicates that Volkswagen did not prevent the occurrence of the scandal (controllability) since it had or at least should have had some control over the fraud (Gates et al. 2016). Therefore, more knowledgeable consumers should come to the conclusion that controllability was actually given, leading to a negative belief about the firm's ethical behavior. Additionally, the Dieselgate scandal stands in sharp contrast to Volkswagen's (historical) claims about offering clean and sustainable technology.

To summarize, we suggest that consumers showing an extensive knowledge of the scandal are more aware of the disconnection gap between the company's "green" rhetoric and marketing strategies and the practical reality revealed by the Dieselgate scandal. Thus, perceptions of the firm's ethical behaviour will suffer from scandal-related knowledge that consumers have acquired leading to the following hypothesis:

Hypothesis 2: Knowledge of the scandal has a negative effect on the perceived ethical behavior of the company.

2.2 Consequences of Personally Perceived Severity of the Scandal

In addition to perceived knowledge, our model integrates personally perceived severity as a more personal assessment of the scandal. The definition of personally perceived severity of the scandal is based on service failure severity as used in previous studies (see for example Tsarenko and Tojib 2015) and refers to the level of personally perceived affectedness. More precisely, it relates to an individual's assessment of the perceived degree of harm or lost benefits caused by the scandal. The severity of a given incident has been proven to be a key driver of consumer reactions in the context of a reputational crisis (e.g. Tsarenko and Tojib, 2015) as well as more individual service and product failures (Grégoire and Fisher 2008; Grégoire et al. 2010). The Dieselgate scandal can be classified as a value-related crisis that involves important ethical issues (Tsarenko and Tojib 2015) and that affects a wide array of stakeholders, such as community members, employees, customers, suppliers and shareholders (Coombs 2007). It is, therefore, not only limited to VW customers or even owners of manipulated cars as it influences significant societal values.

Effect on Attitude Towards the Firm. A company crisis or transgression can cause harm to stakeholders on different levels – for example, emotionally, when feeling betrayed by the company or financially as in the case of shareholders (Coombs 2007). In our case, personally perceived severity is closely related to experienced emotional harm.[i] As shown in the service failure research, personal experiences, i.e. problems and inconveniences encountered, can also function as a source of information for attributions and appraisals along with more general knowledge of the scandal (e.g. Harrison-Walker 2012; Tsarenko and Tojib 2011). The more personally affected consumers feel, that is the higher the severity or magnitude of the problems encountered, the more they may experience negative emotions such as stress, irritation, disappointment, frustration or anger related to the company (Harrison-Walker 2012) resulting in the perceived severity having a negative effect on the consumers' overall attitude towards the firm.

Hypothesis 3: Personally, perceived severity of the scandal has a negative influence on the attitude towards the firm.

Effect on Perceived Ethical Behavior of the Firm. In addition to the direct affective pathway, we also propose a cognitive effect on perceived ethical behavior. A high level of perceived severity may lead to an in-depth examination of the company's ethical behavior. As Aaker, Fournier and Basel (2004) argue, transgressions represent "hallmarks" in the consumer-brand relationship which cause negative inferences on a brand's or company's capabilities and efforts to fulfill its obligations. Positive inferences relate to the avoidance of defects, keeping promises, effective problem-solving and considering long-term consumer interests. "In essence, the transgression reveals disconfirming evidence of the partner's intentions to act according to

the terms of the relationship contract" (Aaker, Fournier and Basel 2004, p. 3). In our model, the relationship contract is represented by the perceived ethical behavior that includes beliefs about the afore-mentioned ethical capabilities and efforts (i.e. "The company keeps its promises", "The company is a socially responsible company", "The company is concerned to improve the well-being of society"). Therefore, we can conclude that the perceived severity of the transgression translates into an erosion of the perceived ethical behavior of the firm.

Hypothesis 4: The personally perceived severity of the scandal has a negative influence on the perceived ethical behavior of the company.

2.3 Effect of Perceived Ethical Behavior of the Firm on the Attitude towards the Firm

On a very general level, beliefs are the main antecedents of attitudes: "At any point of time, a person's attitude toward an object [...] may be viewed as determined by his *salient* set of beliefs about the object" (Fishbein and Ajzen 1975, p. 218). Salience refers to the activation of beliefs from memory and their integration in the attitude formation process (Fishbein and Ajzen 1975; Mitchell and Olson 1981). Since it is estimated that only five to nine beliefs are considered in the attitudinal process (Fishbein and Ajzen 1975), it is important to discuss whether belief in the ethical behavior of the firm is relevant in the given context.

Although studies on the financial effects of corporate social responsibility activities have been partly inconclusive (Sen and Bhattacharya 2001), the link between company ethics and the global assessment of the firm from a consumer perspective has been broadly supported in various research studies (e.g. Brown and Dacin 1997; Coombs 2007; Wagner, Lutz and Weitz 2009). In the automotive sector in particular, due to its considerable public visibility and stringent governmental regulations regarding safety features, fuel economy, emissions, and pollution control (Blackwelder et al., 2016), the responsible or ethical behaviour of the company should be considered by consumers when building their overall attitude. We, therefore, assume that perceived ethical behaviour represents a diagnostic belief that consequently influences the attitude towards the firm.

Hypothesis 5: Perceived ethical behavior has a positive influence on the attitude towards the company.

Taken together, we consider personally perceived severity and knowledge of the scandal to have an indirect cognitive effect on the attitude towards the firm. More specifically, we contend that the effect of our perceptual antecedents (i.e. knowledge and personally perceived severity) on the attitude towards the firm is mediated by the cognitive belief about the ethical behaviour of the company.

2.4 The Moderating Effect of Respondents' Country of Origin

We consider that the country of origin moderates the proposed relationships due to the domestic bias among German respondents. As the company which caused the Dieselgate scandal was founded and still has its headquarters in Germany, a domestic or home country bias may exist associated with more positive brand-related perceptions and attitudes of German consumers compared to non-German consumers.

The prevailing concept generally used to explain domestic bias is consumer ethnocentrism (CET). CET was established by Shimp and Sharma (1987, p. 280) and is defined as "the beliefs held by [...] consumers about the appropriateness, indeed morality, of purchasing foreign-made products". In general, CET represents the systematic preference for domestic products due to the consumers' belief that those goods are superior compared to non-domestic alternatives (Sharma, Shimp, and Shin 1995; Shimp and Sharma 1987; Verlegh and Steenkamp 1999). In a

recent re-conceptualization of CET, Sharma (2015) suggests that CET consists of three components: 1) affective – relating to positive emotional reactions towards domestic products; 2) cognitive – referring to a cognitive bias in favor of domestic products; and 3) behavioral – representing the tendency to favor domestic products.

These aspects (i.e. a favorable evaluation of domestic products) can easily be transferred to the given context. In car-loving Germany, domestic brands enjoy an outstanding reputation and account for an aggregated share of about two thirds of the market (Graf and Nicolaysen 2015). Additionally, VW represents a strong German brand with a rich tradition and can be viewed as a local icon (Steenkamp, Batra, and Alden 2003) and an important symbol of the German culture. German consumers have strong affective bonds with the company and its brands since they relate to their identity and, at least for some consumers, also to autobiographical memories (Verlegh and Steenkamp 1999). As such, the country of origin should influence the hypothesized effects in our model positively.

More specifically, we propose that the negative effect of knowledge of the scandal is stronger in the US compared with Germany. We assume the domestic bias to influence how German respondents read and interpret the reasons for and effects of the scandal due to the cognitive bias induced through CET. Thus, we consider German respondents to interpret media reports more positively than foreign respondents (i.e. US respondents). Therefore, we suggest the existence of a significant home country bias:

Hypothesis 6: The negative effect of knowledge of the scandal on a) perceived ethical behavior and b) attitude towards the firm will be stronger in the US than in Germany.

The domestic bias should also lead to a less pronounced relevance of the personally perceived severity in Germany. German consumers should be more willing to distance themselves from their personal situation and translate their personal affectedness into less unfavorable perceptions of the company. Therefore, we hypothesize that the negative link between personally perceived severity and ethical behavior is stronger in the US than in Germany.

Hypothesis 7: The negative effect of the personally perceived severity of the scandal on a) perceived ethical behavior and b) the attitude towards the firm will be stronger in the US than in Germany.

We also expect that the link between perceived ethical behavior and the attitude towards the firm is weakened by the domestic bias. In general, as indicated by CET, attitudes towards iconic domestic brands should be more persistent and resistant than towards foreign brands (Sharma 2015). Consequently, even a negative event or, more specifically, a (temporary) negative evaluation of the company's ethics should not influence the attitude towards the firm as much in the domestic market as in a foreign market.

Hypothesis 8: The positive effect of perceived ethical behavior on the attitude towards the firm will be weaker in Germany than in the US.

3. METHOD

3.1 Data Collection

Given our aim to assess the influence of the domestic bias on the relationships between knowledge of the scandal and the personally perceived severity of the scandal, we employed a cross-sectional research design and collected data from respondents living in the US (the country in which the scandal occurred first) and Germany (the home country of Volkswagen).

We used data collected by means of an online questionnaire. Data collection took place between October and December 2015, almost immediately after the first occurrence of the scandal. In total we received 488 completed questionnaires, 250 from the US and 238 from Germany. The majority of respondents (51.8%) were male (50.8% for the US and 52.8% for Germany), the respondents' age ranged between 16 and 82 years, with a mean of 35.9 years (mean age in the US: 37.6 years and in Germany 34.2 years). The majority of the respondents (70.1%) had a household income equivalent to $60.000 or less (61.2% for the US and 79.4% for Germany).

3.2 Measures

We followed well-established procedures to develop the instrument for this study. Whenever possible, we used established measures of the constructs and adapted them to fit our context. The instrument was pre-tested, translated, and back-translated before administration. All constructs were assessed by means of seven-point multi-item scales. Information about the measurement instrument is shown in Table 1.

The scale to assess the *perceived ethical behavior of the firm* is based on the definition provided. It refers to the degree to which individuals perceive the company as behaving responsibly both socially and ethically. Wagner, Lutz and Weitz's (2009) corporate social responsibility beliefs scale and corporate hypocrisy scale were used as a guide to develop six items measuring perceived ethical behavior. The items used include aspects such as, 'The company puts its words into actions'; 'The company is a socially responsible company'; 'The company does exactly what it says'. *Attitude towards the company* was measured using a four-item semantic differential scale (Wagner, Lutz and Weitz 2009). Items include for example 'my feelings towards the company are unfavorable-favorable / bad-good / positive-negative'. We used five items to assess *knowledge of the scandal.* These items were adapted from Sambandam and Lord (1995) and relate to aspects such as considering oneself as having a wide knowledge of the scandal, keeping oneself informed of the emission scandal and knowing a lot of background to the emission scandal. In line with Grégoire, Tripp and Legoux (2009) we measured *personally perceived severity* on a semantic differential scale using three items, such as 'the scandal caused me minor-major problems / small-big inconveniences'. In the hypothesized model, we controlled for age and whether the respondent was a VW owner.

In order to reduce common method bias ex-ante, we employed a careful design of the study. Following the recommendations of Podasakoff et al. (2003) we a) constructed the items and formulated the questions in a way that was as unambiguous and precise as possible; b) separated the measure of predictor and criterion variable within the questionnaire; and c) assured anonymity to reduce evaluation apprehension.

4. RESULTS

4.1 Measurement Validation

Before estimating the model, we tested the assumption of cross-cultural measurement invariance. We followed the approach adopted by Kumar, Scheer and Steenkamp (1995) to evaluate metric equivalence across countries. In line with their approach, we performed a series of analyses: a) an analysis of psychometric properties at the national level to examine whether the psychometric properties exhibit similar patterns across the countries; b) a multi-group

analysis to assess whether an invariant pattern of parameter estimates exists across the countries; and c) an analysis of aggregated data to assess the psychometric properties of the pooled data.

To evaluate the psychometric properties at a national level in the countries, we ran a four-factor confirmatory factor analysis using AMOS 24 to assess the reliability and discriminant validity of the multi-item measures on a country-by-country basis. Overall, the confirmatory factor models of both countries fit the data well[ii]. In addition, hypothesized factor loadings were all statistically significant at the .05 level, and well above the recommended level of .50.

Table 1: Means, Standard Deviations, and Standardized Loadings for the Measures

Measures [a]	GERMAN SAMPLE				US SAMPLE		
	Mean	Standard deviation	Standardized estimate		Mean	Standard deviation	Standardized estimate
Perceived ethical behavior							
(German sample: α=.90; CR=.91; AVE=.62)							
(US sample: α=.95; CR=.92; AVE=.74)							
Volkswagen does exactly what it says	3.33	1.39	.80		3.34	1.49	.84
Volkswagen keeps its promises	3.74	1.35	.85		3.45	1.45	.81
Volkswagen puts its words into action	3.95	1.37	.81		3.59	1.48	.84
Volkswagen is a socially responsible company	4.06	1.47	.73		3.32	1.57	.90
Volkswagen is concerned to improve the well-being of society	3.69	1.51	.76		3.21	1.59	.87
Volkswagen follows high ethical standards	3.32	1.43	.76		3.09	1.66	.92
Attitude towards the company [b]							
(German sample: α=.97; CR=.97; AVE=.88)							
(US sample: α=.98; CR=.98; AVE=.94)							
unfavorable - favorable	4.69	1.63	.91		3.09	1.66	.98
bad – good	5.04	1.56	.96		4.07	1.86	.97
unpleasant – pleasant	4.94	1.51	.92		4.15	1.85	.95
negative – positive	4.93	1.60	.96		4.09	1.87	.97
Knowledge of the scandal							
(German sample: α=.94; CR=.92; AVE=.75)							
(US sample: α=.96; CR=.95; AVE=.81)							
Compared to the average person, I know a lot about VW's emission scandal	4.01	1.75	.90		3.43	1.84	.91
I keep myself informed about VW's emission scandal	4.25	1.82	.76		3.23	1.77	.86
I understand very much about the emission scandal	4.10	1.71	.90		3.61	1.94	.91
I know a lot about the backgrounds of the emission scandal	3.98	1.66	.89		3.21	1.80	.92
I consider myself having a lot of knowledge about the emission scandal	3.86	1.78	.90		3.32	1.83	.96
Personally perceived severity of the scandal [b]							
(German sample: α=.91; CR=.94; AVE=.79)							
(US sample: α=.94; CR=.94; AVE=.85)							
no problems - major problems	1.65	1.29	.94		1.85	1.51	.99
no inconvenience - big inconvenience	1.77	1.43	.92		1.77	1.45	.95
no aggravation - major aggravation	1.84	1.47	.80		2.17	1.69	.83

Note. All loadings are significant (*p*<.01). α= Cronbach´s alpha; CR = composite reliability; AVE = average variance extracted.
[a] 7-point Likert-type scales were employed with 1=strongly disagree and 7=strongly agree as anchors, unless otherwise indicated.
[b] 7-point Likert-type scales with anchors as indicated.

The Cronbach alpha values were all well above Nunnally's (1978) recommended level of .70. As shown in table 1, the requirement of a composite reliability of at least .60 (Bagozzi and Yi 1988) is met for every construct. The average variance extracted was higher than the recommended level of .50 for each construct (Fornell and Larcker 1981).

Discriminant validity was analyzed by applying the method suggested by Fornell and Larcker (1981). For each latent construct, the square root of the variance extracted is larger than any correlation with another construct, in support of discriminant validity. Construct means, standard deviations and correlations for each country are reported in Table 2.

The psychometric properties of the two countries exhibit a similar pattern indicating that the study's focal variables are similar across the countries.

Table 2.A: Latent Construct Means, Standard Deviations, and Correlations - Germany

Construct	German					
	Mean	SD	1	2	3	4
. Ethical Behavior	3.68	1.17	**.78**			
. Attitude	4.90	1.50	.68	**.93**		
. Knowledge of the scandal	4.03	1.57	.25	.17	**.86**	
. Personally perceived severity of the scandal	1.76	1.29	-.20	-.13*	.15	**.88**

Note: Bold numbers on the diagonal represent the square root of average variance extracted; Elements below the diagonal represent correlations between latent constructs
Insignificant (*p*>.05) correlations are indicated by an asterisk (*).

Table 2.B: Latent Construct Means, Standard Deviations, and Correlations - USA

Construct	US					
	Mean	SD	1	2	3	4
. Ethical Behavior	3.33	1.37	**.86**			
. Attitude	4.12	1.82	.75	**.96**		
. Knowledge of the scandal	3.36	1.71	-.21	-.18	**.90**	
. Personally perceived severity of the scandal	1.93	1.47	-.05*	-.15	.20	**.91**

Note: Bold numbers on the diagonal represent the square root of average variance extracted; Elements below the diagonal represent correlations between latent constructs
Insignificant (*p*>.05) correlations are indicated by an asterisk (*).

To evaluate the pattern of parameter estimates across the countries (i.e. metric invariance across the countries), we compared an unconstrained factor model in which the item-to-factor loadings are allowed to vary across the countries, and a constrained factor model, in which the item-to-factor factor loadings are set equal across the countries (Steenkamp and Baumgartner 1998). For the 4-factor model, the unconstrained model yielded a good fit (χ^2 (258) =486.98, p< .001, RMSEA = .042, CFI = .98, TLI = .97). The chi-square value of the fully constrained factor model was significantly different from the chi-square value in the unconstrained model, full metric invariance is, thus, not supported. Therefore, we tested for partial metric invariance, by sequentially relaxing the constraints on some indicators[iii]. We allowed three loadings to vary across the countries. The fit of this model was not significantly different from the unconstrained model ($\Delta\chi^2$ (15) =23.4 p> .05, same RMSEA, CFI, TLI). Thus, partial metric invariance is supported.

In a third step, we ran a confirmatory factor analysis in order to analyze whether the model fits the aggregated data. The overall fit indices of the aggregated data model indicate a good fit of the data (χ^2 (129) =307.53, p< .001, RMSEA = .05, CFI = .98, TLI = .97).

Taken together, the analysis at the national, multi-group and aggregated data level indicates a high cross-country measurement equivalence; we were, thus able to test our hypothesis (Triandis 1982).

4.2 Test of Multi-Group Differences

To test the hypotheses, we employed a multi-group structural equation modeling (SEM) using AMOS 24. Similarly to the approach of Badrinarayanan et al. (2012), we ran several

models to assess the influence of knowledge of the scandal and personally perceived severity among respondents from the US and Germany. In the first run of the full model, a model (Model 1) with all structural parameters constrained equally across the two groups was tested. In a second run of the full model, a model (Model 2) with the structural parameters unconstrained across the two groups was tested. Since Model 1 (constrained) is nested in Model 2 (unconstrained), the chi-square of Model 1 will be higher than that of Model 2. A significant chi-square difference between Model 1 and Model 2 indicates differences across some or all of the parameters. Following that, the parameters need to be tested individually to assess the differences between US and German respondents.

As shown in Table 3, the models demonstrate adequate fit indices. Furthermore, the chi-square of Model 2 shows a significant improvement over Model 1 (p<.01 for the chi-square difference of $41.32_{df=9}$) indicating significant differences between the two groups. In order to asses which structural parameters exhibit significant differences between the groups, each path will be constrained individually and compared to the unconstrained model. A significant chi-square difference between the model with one constrained parameter and the fully unconstrained model (Model 2) indicates a difference between US and German respondents for the parameter tested.

Table 3: Goodness of Fit-Indices for Model 1 (constrained) and Model 2 (unconstrained)

Model	Specifications	Chi²(df)	Chi²/df	CFI	RMSEA
Model 1	Fully Constrained	599.57 (323)	1.86	.97	.042
Model 2	Unconstrained	558.25 (314)	1.78	.98	.040

4.3 Test of Hypothesized Relationships and Post Hoc Analysis

We first tested the hypothesized effects across the two countries (see Table 4, Model 1). Hypotheses 1 and 2 suggest a negative effect of knowledge of the scandal on the attitude towards the firm and the perceived ethical behavior of the firm. The results do not indicate a significant relationship, failing to support H1 and H2. However, the results indicate the existence of a negative relationship between personally perceived severity and attitude (p<.05) and the perceived ethical behavior of the firm (p<.01), thereby supporting H3 and H4. In hypothesis 5, a positive relationship between perceived ethical behavior and the attitude towards the firm was proposed. We also find support for this hypothesis (p<.001).

All proposed relationships were then examined separately across respondents from the US and Germany[iv]. In order to test for significant differences across the parameter estimates, we constrained the respective path so that it was equal across the countries and compared the chi-square value of these models with the chi-square value of the unconstrained model. The corresponding results for the significant differences across the two groups is presented in Table 4, last column (Country Difference Δ Chi²).

Table 4: Results of Multi Group Analysis

Effects	Model 1 Fully Constrained Estimate (C.R.) [b]	Model 2 US Estimate (C.R.) [b]	Model 2 German Estimate (C.R.) [b]	Country Difference Δ Chi^2 [a]
Direct Effects				
H1: Knowledge → Attitude	-.01 (-.27)	.00 (.07)	.00 (.12)	H6b: .00
H2: Knowledge → Perceived Ethical Behavior	.04 (1.01)	-.18*** (-3.51)	.19*** (4.11)	H6a: 28.98***
H3: Perceived Severity → Attitude	-.09* (-1.98)	-.15** (-2.63)	.01 (.88)	H7b: 3.08
H4: Perceived Severity → Perceived Ethical Behavior	-.11** (-2.73)	-.03 (-.59)	-.20*** (-3.27)	H7a: 4.28*
H5: Perceived Ethical Behavior → Attitude	.99*** (16.26)	1.08*** (13.43)	.86*** (9.12)	H8: 3.28
Control Variables				
Age → Ethical Behavior	-.01** (-2.70)	-.01 (-1.60)	-.01 (-1.55)	
Age → Attitude	.00 (.52)	.01 (1.32)	-.01 (-.78)	
VW Owner → Ethical Behavior	.73*** (4.66)	1.01* (2.33)	.72*** (4.24)	
VW Owner → Attitude	.46** (2.62)	-.21 (-.46)	.65*** (3.41)	

NOTE: Values are unstandardized estimates.

[a] The chi square difference is the value difference between the unconstrained model (Model 2) and a model in which only the respective path was constrained to be equal across both countries.

[b] C.R. is the critical ratio (t-value)　　　　　* p<.05; ** p<.01; ***p<.001

Figure 2: Results[a]
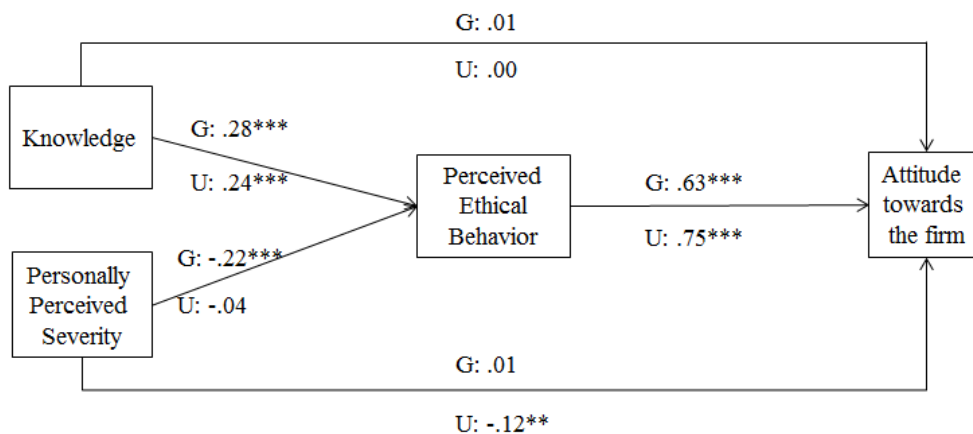
[a] Path estimates show standardized results
G = German sample standardized estimates
U = US sample standardized estimates　　　　　* p<.05; ** p<.01; ***p<.001

In short, we did not find any significant differences across the groups for the relationship between knowledge of the scandal and attitude towards the firm (H6b), personally perceived severity and attitude towards the firm (H7b), and perceived ethical behavior and attitude towards the firm (H8). [v] As such, we reject H6b (German sample: standardized estimate = .01, *n.s.* | US sample: standardized estimate = .00, *n.s.*), H7b (German sample: standardized estimate = .01, *n.s.* | US sample: standardized estimate = -.12, p<.01) and H8 (German sample: standardized estimate = .63, p<.001 | US sample: standardized estimate = .75, p<.001).

However, we did find significant differences across the two groups on all the other proposed relationships in support of H6a and H7a.

As hypothesized in H6a, the negative effect of perceived knowledge of the scandal is stronger in the US than in Germany. More specifically, the effect is negative in the US sample (standardized estimate = -.24, p<.01), whereas in the German sample we found a positive effect of knowledge of the scandal on the perceived ethical behavior of the company (standardized estimate = .28, p<.01). As the effect is negative in the US and positive in Germany, this hypothesis is supported.

In hypothesis 7a, we suggested that the negative effect of personally perceived severity of the scandal on the perceived ethical behavior would be stronger in the US than in Germany. In the German sample, we found a significant negative effect (standardized estimate = -.22 p<.001), whereas the effect was not significant in the US sample (standardized estimate = -.04, *n.s.*). As such, although the difference between the two countries is significant, the results do not support hypothesis 7a.

Taken together, the results indicate that the perceived ethical behavior of the firm functions as a mediator between knowledge and attitude towards the firm as well as between personally perceived severity and attitude towards the firm. Therefore, in order to get further insight into the mediating role of perceived ethical behavior, we tested the significance of the indirect effects of knowledge of the scandal on attitude towards the firm and personally perceived severity on attitude towards the firm.

We used 1000 bootstrapped samples to determine the significance of the indirect paths for each country. In both the US as well as the German sample, the indirect path from knowledge of the scandal to the attitude towards the firm was significant (US: standardized indirect effect = -.18, *SE* = .06, p<.001, bias corrected $CI_{.95}$ = {-.30, -.07} | Germany: indirect effect = .17, *SE* = .04, p<.001, bias corrected $CI_{.95}$ = {.09, .27}). The indirect effect of the personally perceived severity of the scandal on the attitude towards the firm was only significant in the German sample (US: standardized indirect effect = -.03, *SE* = -.05, *n.s.*, bias corrected $CI_{.95}$ = {-.13, .06} | Germany: indirect effect = -.14, *SE* = .04, p<.001, bias corrected $CI_{.95}$ = {-.22, -.06}).

Thus, we can conclude that within the German sample the perceived ethical behavior of the firm fully mediates the effect of knowledge of the scandal on the attitude towards the firm as well as the effect of the personally perceived severity on the attitude towards the firm. Within the US sample, the perceived ethical behavior of the firm only mediates the negative effect of knowledge of the scandal on the attitude towards the firm, but not the negative effect of the personally perceived severity on the attitude towards the firm.

5. Discussion

A test of the structural model provides evidence for several hypotheses and, therefore, confirms the research aim of the study to provide a better understanding of what influences the attitude towards a firm in the case of a company induced scandal.

Analyzing the effects of knowledge of the scandal provided partially unexpected results. In both countries only the proposed indirect effect on attitudes mediated by perceived ethical behavior could be confirmed. While US respondents behaved as predicted, German respondents evaluated the ethical behavior of the company as well as the attitude towards the firm more positively the greater their knowledge of the scandal was. We believe that two aspects might have led to this result. Firstly, the content of information received may have been different in the US compared to Germany. In both countries the media such as newspapers, TV and Internet are important sources of information. Since media sources differ between the two countries, content is likely to differ as well. This also leads to point two: domestic bias might have influenced the information content as well as the evaluation of the information by respondents. More specifically, the ultimate attribution error can be used as an explanation for the given result (Pettigrew 1979). The ultimate attribution error seeks to explain ethnocentrically biased attributions when trying to explain behaviors of in- vs. out-groups. "Good acts are attributed dispositionally if performed by an in-group member and situationally if performed by an out-group member, and vice versa for bad acts (Hogg and Abrams 2007, p. 344). According to this line of reasoning, it may be possible that German consumers view Volkswagen as part of the in-group due to its high identification potential. The ultimate attribution error may lead German consumers to attribute the respective negative event, i.e. the scandal, to external or situational causes (i.e. competitive pressure, ambitious law firms etc.) rather than to internal causes such as an unethical corporate culture to protect their social identity which is an important source of pride and self-esteem (Tajfel and Turner 1986). This might even result in a positive effect of knowledge on perceived ethical behavior if the ultimate attribution error culminates in a reversed perception of Volkswagen being the victim.

The influence of the personally perceived severity of the scandal on the evaluation of the ethical behavior could only be supported for Germany. For US respondents, this relationship did not exist. However, the personally perceived severity of the scandal directly affected the attitude towards the firm among the US respondents. Based on the results, it can be concluded that the German as well as the US respondents' attitude towards the firm worsens the more they feel personally affected by the scandal. For the German sample, the worsening in attitude is due to the lower evaluation of the ethical behavior of the company. Within the US sample, we did not find any support for the perceived ethical behavior being the mediator of the relationship between personally perceived severity and attitude towards the firm. A possible explanation could be that German respondents may be more involved with the company and, therefore, evaluate the cause of the problem more intensively before forming their attitude whereas US respondents display a more direct and personal reaction. As stated in the elaboration likelihood model, higher involvement leads to a more elaborate and thoughtful evaluation of the situation (Petty and Cacioppo 1986). In other words, German consumers need "good" reasons to change their attitude towards a domestic brand whereas US respondents form their attitude of a foreign brand more directly and affectively. Interestingly, the overall effect of personally perceived severity on the attitude towards the firm is comparable in both countries indicating that the domestic bias loses its "protective power" if consumers feel personally affected.

Furthermore, we found a strong and significant relationship for both US and German respondents between perceived ethical behavior and the attitude towards the firm. This result is in accordance with previous studies showing a positive effect of corporate social responsibility on attitude (e.g. Brown and Dacin 1997; Coombs 2007; Wagner, Lutz and Weitz 2009).

Taken together, the results provide support for domestic bias. The assumed negative effect of knowledge is not only weakened for German consumers, it is even "turned positive". However, domestic bias does not show the predicted outcome when it comes to the effect of personally perceived severity on the attitude towards the firm. We find this result to be very noteworthy because domestic bias appears to have a different effect on the influence of knowledge of a scandal on the one hand and, on the other hand, on the influence of perceived severity which is based on more personal experiences. Finally, domestic bias could not be found with regard to the relationship between perceived ethical behavior and the attitude towards the firm. Even though US respondents showed a slightly more positive relationship between the evaluation of ethical behavior and the attitude towards VW, the comparison to the German sample was not significant.

6. Implications for Theory and Management

The results provide several contributions for marketing theory and practice. Firstly, an important contribution of this study is the cross-country comparison of a global scandal of a multinational company such as VW. Results indicate that domestic bias might influence the way information about the scandal is interpreted. Future studies on evaluating the influence of the ethical behavior of multinational firms on consumers should, therefore, take careful consideration of the possible influences of domestic bias.

Secondly, the results provide a better understanding of the effects of knowledge of a scandal as well as the personally perceived severity of the scandal on the attitude towards the company. German respondents translate their knowledge as well as their personally perceived severity of the scandal through their perception of the company's ethical behavior into attitudes towards the firm. Managers can strengthen or mitigate these effects which we found in the home country of the firm by increasing communication about the company's ethical behavior. In the foreign country, intensive communication about the company's ethical behavior may be counterproductive as it may strengthen the negative effect of knowledge of the scandal. Therefore, adequate communication concerning the scandal has to be developed and executed very carefully. Thirdly, another important finding is the fact that people who are personally affected by the wrongdoing of a company do not show any favorable domestic bias. Management cannot, therefore, expect any ease of pressure in their "home country" from those who suffer personally from the company's wrongdoing. In addition, managers should expect a direct negative influence of the personally perceived severity of a scandal on their foreign customers' attitude towards the firm. Further research should investigate how companies should react to recover the consumer-brand relationship considering intercultural differences. For example, due to the direct effect of personally perceived severity on brand attitudes, companies could possibly focus on minimizing consumers' negative emotions.

Lastly, another management implication is that the perception of ethical behavior will influence the attitude towards the company regardless of domestic bias. Companies operating internationally should be aware that an ethnocentric evaluation of consumer behavior may lead to misperceptions about the effects of information on the scandal in countries other than the

home country of the multinational. With the fast dissemination of information on a global basis, companies must be aware that information about their behavior will affect consumers' assessment of their ethical behavior on a global scale and that this assessment might be more negative outside their home country.

Finally, within the context of a company scandal, this article provides evidence as to what shapes the attitude towards a firm in a multi-country environment (namely knowledge of the scandal and personally perceived severity)and which will ultimately influence consumers' product related evaluation as outlined by Dawar, Parker and Price (1996).

7. Limitations and Future Research

Although it provides useful insights, this study is not without its limitations. Cross- cultural studies are always critical with regard to the possible interference of cultural artifacts that may moderate tested relationships. Adopting a realism approach, we are aware that researcher bias may have interfered with the study.

This study did not include an analysis of information sources or their content regarding the scandal in order to determine the quality in addition to the amount of knowledge available. We suggest that future research should investigate how the quality and content of information available might influence the perception of unethical behavior. The results of the direct relationship between the personally perceived severity of the scandal and the attitude towards the company indicated that for the US sample there might be other factors which may have mediated this relationship. Future studies identifying these mediators would certainly add to a better understanding of how personally perceived severity translates into the attitude towards the firm. We, therefore, suggest expanding our model with variables that measure personal involvement with the firm and/or product category. Trust and identification with the company may also be potential mediators. With regard to cultural comparisons, future research should examine cultural values, such as individualism or emotionality or consumer ethnocentrism. Moreover, a more explicit inclusion of attributions and appraisals as well as resulting emotional responses would be an interesting field for further investigation. Finally, this study only covered one company and two countries and, therefore, displays generally recognized limitations of single case studies as well as being limited to the particular cultural contexts of these countries. Future studies should attempt to confirm results in several different countries and with regard to more than one company.

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ENDNOTE

[i] Please note that VW drivers who were actually affected only represent a neglectable minority in our sample.

[ii] German sample model fit: (χ^2 (129) =204.04, p< .001, RMSEA = .049, CFI = .98, TLI = .98)

US sample model fit: (χ^2 (129) =282.95, p< .001, RMSEA = .068, CFI = .97, TLI = .97)

[iii] Researchers (e.g. Byrne et al., 1989; Steenkamp and Baumgartner 1998) argue that full metric invariance is not necessary for a meaningful comparison of factor means across groups.

[iv] We also estimated a direct effects only model which showed that knowledge of the scandal as well as the personally perceived severity of the scandal had significant effects on attitudes towards the firm in the US as well as in the German sample.

[v] Looking at the direct effects only model, we found a significant difference between the US and the German sample with regard to the relationship between knowledge of the scandal and attitude towards the firm (Δ Chi^2(df)= 14.46(1)); the difference between the US and the German sample concerning the relationship between personally perceived severity – attitude towards the firm was not significant (Δ Chi^2(df)= .02(1)).