



Paradox, tribalism and the transitional consumption experience: In light of post-postmodernism

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Corporate Misconduct and the Loss of Trust

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Review

Corporate Misconduct and the Loss of Trust

Questionable corporate behaviour is often subject to scrutiny and any serious misconduct can become news both nationally and internationally, but with varying effect on public opinion and behaviour. We know that poor behaviour by companies is linked to whether they are trusted or not (Leonidou *et al.*, 2013) and that any consequent negative publicity can reduce trust in a company (Cho, 2006). We also know that the media (and companies) can frame or present such issues in different ways (An and Gower, 2009) influencing the impact of corporate behaviour. But we lack a complete understanding of why consumers react differently to the same crisis (Coombs, 2007a) and consequently what companies might do to mitigate the effects of any crisis.

Our focus here is the difference in loss of trust that the same issue can cause depending upon how poor behaviour by a company is interpreted. For example, a large retailer in the UK may (within the letter of the law) display a 'sale' price on a product which is actually higher than that previously charged, if it had charged an even higher price in a few of its stores prior to the 'sale'. This behaviour could be interpreted by an individual or by the media as the company bending the law, or acting unfairly, but which interpretation of the same issue would be more or less likely to damage trust? And will the effects vary from individual to individual? We compare the relative impact of six types of misconduct on corporate trust that we deduce mainly from prior work on how trust is created. We manipulate the level of initial trust by varying the type of product sold and the country of origin of the organisation that respondents are asked to consider. We measure the (agreeable) personality of respondents and use this and their age and gender to understand

1
2
3 how demographic and psychographic variables might influence the propensity to lose trust.
4
5 Finally we identify how our work can inform the study and practice of crisis communication.
6
7 We begin by reviewing the relevant parts of the literatures on trust, corporate misconduct
8
9 and crisis communication.
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11

12 13 14 **Trust**

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17 Trust is a complex construct and one which has been variously defined, with some authors
18
19 even arguing that it represents more than one idea (Bigley and Pearce, 1998). Others
20
21 distinguish between interpersonal and institutional trust (e.g. Hosmer, 1995; Kramer, 1999;
22
23 Bachmann and Inkpen, 2001). Hough *et al.* (2010) for example link trust in the police to their
24
25 perceived legitimacy, the idea that established organisations are accorded trustworthy
26
27 status because they are part of a regulated society, leading to an expectation that any such
28
29 organisation will behave in an acceptable way. Institutional trust is then an assumed state,
30
31 while interpersonal trust relies more upon experience (Zaheer *et al.*, 1998).
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39 Once established the nature of both is seen as similar. Drawing upon various definitions in
40
41 prior work, Rousseau *et al.* (1998: 395) characterise trust as: *a psychological state*
42
43 *comprising the intention to accept vulnerability based upon positive expectations of the*
44
45 *intentions or behaviour of another.* The definition identifies two aspects of a trusting stance
46
47 that we apply here, the predisposition of the individual and the behaviour of the entity
48
49 being trusted.
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55 A number of constructs have been linked with trust in organisations and/or in individuals
56
57 that also help to understand it. In a review of prior work on trust in a marketing channel,
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1
2
3 Geyskens *et al.* (1998) identify the perceived honesty and benevolence of the other party as
4
5 defining whether the other party can be trusted. Others add competence (e.g. McKnight *et*
6
7 *al.*, 1998; Zhong *et al.*, 2014), or reliability (e.g. Johnson-George and Swap, 1982) to the
8
9 factors that determine or which define trust. Hurley *et al.* (2013) add having common
10
11 values, aligned interests and showing empathy among the signals that might be used to
12
13 decide whether a company can be trusted. The assumption we made in creating our
14
15 typology is that failure in any aspect associated with trust will result in loss of trust, for
16
17 example as honest behaviour is used to decide whether a company can be trusted,
18
19 dishonest behaviour will result in a loss of trust.
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27 We also see trust as a reputational asset and one that can be increased or decreased as a
28
29 consequence of an organisation's behaviour and, most important to our work, how it is
30
31 interpreted or 'framed'. Views differ as to whether trust and distrust are conceptually
32
33 different or semantic opposites (see for example Lewicki *et al.*, 1998 and Schoorman *et al.*,
34
35 2007 as examples of both stances). Our focus is solely on changes in the level of trust and
36
37 specifically what causes loss of trust, by which we mean *a reduction in how a company are*
38
39 *trusted by the individual.*
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46 **Corporate Misconduct and Trust**

47
48 The perspective most frequently adopted in the study of corporate misconduct is that of
49
50 legality and of acting within the law (Arlen and Kraakman, 1997). This literature emphasises
51
52 the consequences of misconduct that involve an actual or alleged breach of law and the
53
54 effectiveness of the legal system in discouraging such behaviour. Consequently, within such
55
56 work, the word 'misconduct' specifically implies a breach of the law by a company (e.g.
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3 Murphy *et al.*, 2009). Here we adopt a broader definition of misconduct, that of
4
5 *unacceptable or improper behaviour*, one which is more aligned with definitions in English
6
7 dictionaries and which recognises that behaviour which is not interpreted as illegal can still
8
9 damage trust.
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15 The reputation literature emphasises that corporate misconduct can generate reputation
16
17 loss and that this threat might represent as much of a deterrent as any potential legal
18
19 sanction (King, 2014; Iacobucci, 2014) as being trusted is a core aspect of a company's
20
21 reputation (Geuens *et al.*, 2009). This literature is however equivocal on the links between
22
23 misconduct and sanction, as company reputation ranking data does not show the negative
24
25 correlation with other secondary data (for the same firms) of reported wrong doing which
26
27 might be expected, rather the opposite (Jackson and Brammer, 2014). One explanation is
28
29 that the effects of any misconduct are context specific, such that only behaviour that
30
31 potentially affects the individual is likely to create a negative reaction (Karpoff, 2014) while
32
33 behaviour that only affects others might be ignored. Another explanation is that companies
34
35 can mitigate reputation damage if they offer competing explanations for any alleged
36
37 misconduct, in what is labelled as their crisis communications (Bruhn, 2009), so that their
38
39 reputation might remain undamaged. Additionally a company's reputation prior to any
40
41 potentially damaging event can make it more or less susceptible to reputation loss (Hess *et*
42
43 *al.*, 2002; Klein and Dawar, 2004). Recent work emphasises the idea of building reputational
44
45 capital, including investment in Corporate Social Responsibility (CSR), to mitigate the effects
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47 of any future crisis (e.g. Vanhamme and Grobbsen, 2009).
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3 Within the reputation perspective, crisis communication theory has developed with the
4
5 intent of understanding how best to respond to an event or series of events that threaten to
6
7 damage an organisation's reputation and in particular whether it can be trusted (Coombs
8
9 and Holladay, 1996). Negative media comment is often associated with reputation damage
10
11 and the crisis communication literature offers a plethora of options for companies to
12
13 consider in countering any effects (Benoit, 1997). Coombs and Holladay (1996) use
14
15 attribution theory to argue that a company's choice of response should depend upon
16
17 whether the company is seen as responsible for the crisis. Writers on crisis communication
18
19 often recommend a defensive strategy, one which seeks to challenge or re-present the facts
20
21 of the matter (Marsh, 2006). The idea of message framing is relevant here. While the term
22
23 'framing' is used in many disciplines with varying definition (Borah, 2011), its sense here is
24
25 to give different meaning to the same basic rhetoric by focussing on, or by emphasising, one
26
27 or more aspects of the issue, or by contextualising the issue from one perspective. For
28
29 example whether a crisis is presented as having a human interest or not and whether it is
30
31 seen as accidental or not will influence whether the company are blamed (Cho and Gower,
32
33 2006). Framing as an idea is relevant to our work, as the same event can be framed in
34
35 different ways and in ones which may be more or less damaging to an organisation. But
36
37 while there have been a number of attempts to categorise crises so as to better tailor a
38
39 crisis response (Parsons, 1996; Mitroff, 2004; Ulmer *et al.*, 2010) one issue remains that:
40
41 "we know precious little about how stakeholders react to crises" (Coombs, 2007a). Prior
42
43 work often measures reaction to a specific incident such as product harm (e.g. Heerde *et al.*,
44
45 2007) rather than to how the company's behaviour might be viewed, especially in terms of
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47 what we know about trust.
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3 Our work aims to add to our understanding of why responses to corporate misconduct
4 differ, from a customer perspective. Our focus is to understand whether a typology of
5 misconduct relevant to trust loss can help explain why there can be differences between
6 individuals in their loss of trust in a company from the same crisis. As many crises are
7 related to how a company is perceived to behave, a logical first step is to understand what
8 generic types of misconduct behaviours can be expected to damage trust and to identify
9 which are more likely to have the greater effect. We first discuss the derivation of our
10 typology and then the factors that might impact upon their effect, including the initial level
11 of trust and the characteristics of the person being asked to trust.
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27 **Types of Misconduct Behaviour**

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29 In this section we identify six types of behaviour a company might exhibit that can be
30 expected to cause a loss of trust, mainly from a literature review on what creates trust but
31 also from examining examples in the media of how corporate misconduct is described. In
32 addition we conducted semi-structured interviews with ten respondents to ensure that we
33 had not omitted any obvious type of misconduct and that each type we identified was also
34 seen as relevant by members of the public. Respondents were asked to explain for example
35 when and why they had lost trust in an organisation. However the main criterion for
36 inclusion in our list was that there was prior work that supported the idea that the type of
37 misconduct could be expected to (negatively) influence trust. In no particular order the six
38 are: making mistakes, not telling the truth, acting unfairly, not listening to criticism, bending
39 the law and acting irresponsibly. We now justify each in turn.
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Making mistakes

The service quality literature emphasises the consequences of an organisation's making frequent mistakes, including a loss of trust (e.g. Berry *et al.*, 1990). All companies will make the occasional, minor error and particularly if they remedy any problems that occur as a consequence, then trust may not be damaged, for example if an employee gives a customer the wrong advice but corrects the error immediately it is spotted and apologises. If however making mistakes becomes a regular occurrence (for example a number of UK energy companies have been accused of making frequent errors in their billing) then trust can be damaged via two mechanisms: first due to a perceived lack of reliability, indicating a lack of competence (both reliability and competence are frequently cited as trust-related issues, e.g. Zhong *et al.*, 2014 and Johnson-George and Swap, 1982) and; second, because the company's behaviour is not consistent and therefore not predictable, another trust related issue (Mayer *et al.*, 1995).

Not telling the truth

Implied in any trusting relationship is the idea that the trusted party will tell the truth. Honesty is frequently cited as an aspect of, or an indicator for, trust (e.g. Larzelere and Huston, 1980; Johnson-George and Swap, 1982). When a trusted entity behaves in a way that is not compatible with the behaviour expected, loss of trust can occur. When the same behaviours are accompanied by deception, trust is less likely to recover (Schweitzer *et al.*, 2006). If consumers, for example, believe that a marketing claim is both misleading and deceptive, the consequences can include distrust (Darke *et al.*, 2010). In summary companies whose behaviour is seen as involving regular incidents of not telling the truth risk losing trust.

Acting unfairly

Fairness as a concept is closely associated with justice as both refer to behaviour that is appropriate within a social framework. It is also associated with institutional trust as one consequence of being seen as acting fairly is institutional legitimacy (Hough *et al.*, 2010) and so if an organisation wishes to be trusted it needs to be fair in its dealings. Fairness is closely related to being trusted when individuals deal with institutions (Van den Bos *et al.*, 1998) and has also been shown to be a determinant of trust in the context of consumer purchasing (Chen and Chou, 2012). A transaction for example might be governed by specific terms and conditions but firms who are generous to customers in their interpretation of these are more likely to be trusted, while those who hide behind them risk being trusted less. How companies treat their employees or suppliers are examples of relevant media comment. Supermarkets for example are often criticised in the media for predatory pricing on items such as milk and blamed for the consequences of small farmers being unable to cover their production costs. While fairness can be expected to increase trust, acting unfairly can be expected to have the opposite effect.

Not listening to criticism

Listening and responding appropriately to another person's point of view and recognising their feelings, in other words an ability to show empathy, is important in a personal relationship (Ickes, 1993) and empathy is a trait that can influence trust in a commercial context (Feng *et al.*, 2004; Hurley *et al.*, 2013). An essential part of being empathetic is a willingness to accept feedback and to act upon it. The associated construct of benevolence (showing sympathy and goodwill towards others) is also seen as a key determinant of trust (Mayer *et al.*, 1995) and its absence can be expected to damage trust.

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5 A company might be criticised in the commercial or social media for its actions. If it fails to
6
7 respond appropriately to such feedback, then trust can be lost. For example websites such
8
9 as TripAdvisor offer hotel customers the opportunity to post reviews. Negative reviews
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11 influence potential customers (Litvin *et al.*, 2008) and their trust (Sparks and Browning,
12
13 2011). Managers have the opportunity to reply, but if they fail to do so appropriately the
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15 consequences can be greater damage. (In one reported case, a hotel apparently 'fined'
16
17 guests who posted negative reviews).
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24 ***Bending the law***

25
26 Bending or breaking the law is potentially the most serious behaviour likely to cause loss of
27
28 trust. It strikes at the heart of institutional trust, the assumption that established
29
30 organisations would be unwilling to risk their legitimacy by acting illegally. But companies
31
32 are obliged primarily to be profitable, an imperative that has been argued to be super-
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34 ordinate to acting within the law (Carroll, 1996: 59). Companies will then make judgements
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36 about the cost effectiveness of acting within the letter but without the spirit of the law, as
37
38 for example, when retailers ape the get up of a national brand or one company copies the
39
40 technical innovation of another (Cusumano, 2013). Companies may retain specialists whose
41
42 roles include exploiting grey areas within legislation to their benefit. For example, 'tax
43
44 aggressive policies' have been used by multinationals to organise their affairs so that they
45
46 pay their corporation tax in low tax locations. Tax aggressiveness is perceived negatively
47
48 (Lanis and Richardson, 2012) and so such behaviour is likely to impact trust and result in the
49
50 integrity of the company being questioned, a core issue in trust (Morgan and Hunt, 1994).
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52 However, in our preliminary work a clear breach of the law was regarded as wholly
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3 unacceptable by respondents, whereas for companies to bend the law for their own
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5 purposes was almost expected by some. In our main study we decided therefore to adopt
6
7 the expression 'bending the law' to describe this misconduct.
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10 11 12 ***Acting irresponsibly*** 13

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15 There is strong evidence of positive links between a company's involvement in social
16
17 responsibility initiatives and consumer trust. Trust mediates the effect of perceptions of the
18
19 motives of company in being philanthropic (Vlachos *et al.*, 2009) and the company's image
20
21 for CSR, customer loyalty and willingness to pay a premium for its fair trade products
22
23 (Castaldo *et al.*, 2009). It follows that if a company is seen to act irresponsibly, for example
24
25 by damaging the environment, public trust will fall. Companies are expected to act as good
26
27 corporate citizens, but many would agree to the view that their only social role is to
28
29 maximise their returns to their owners, who can decide whether or not to be philanthropic
30
31 with their dividends (Friedman, 1970). Companies may trade off the costs and risks of being
32
33 seen as irresponsible and their profitability. For example, marketers of breast milk
34
35 substitutes might decide to flaunt voluntary codes of practice in developing countries
36
37 (Aguayo *et al.*, 2003) because of the huge potential such markets represent to them. If a
38
39 company is thought to be acting irresponsibly, its integrity is called into question, damaging
40
41 trust.
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50 51 **Contextual Factors** 52

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54 In addition to exploring the relative effects of our 6 misconduct types on loss of trust, we
55
56 included three variables that can be expected from prior work to influence such effects:
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3 personality, gender and age. We also decided to consider the effects of the initial level of
4
5 trust in an organisation.
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7 8 **Personality Effects**

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10 Trusting is not necessarily a wholly rational process. It is done in the absence of perfect
11
12 information and individuals are more or less predisposed to trust, making this crucial in
13
14 determining whether trust will exist (Schoorman *et al.*, 2007). Specifically, how readily
15
16 someone is willing to trust depends upon their personality, where the dimension labelled as
17
18 agreeableness has been consistently and positively related to relationship variables such as
19
20 trust (White *et al.*, 2004). The more agreeable the individual, the greater their propensity to
21
22 trust, but it is unclear whether high agreeableness implies greater sensitivity towards trust
23
24 loss. We decided to test this by including a measure of respondent agreeableness in our
25
26 survey.
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30 31 **Gender effects**

32
33 There is some evidence to suggest that there might be a gender effect when individuals are
34
35 faced with evidence that could reduce trust. Prior work suggests that females score higher
36
37 on being trusting than males (Fiengold, 1994) but that they are also less likely to be forgiving
38
39 than males if trust is violated (Yao *et al.*, 2014).
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43 44 **Age Effects**

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46 Age as well as gender is included as a control variable in research related to behaviours such
47
48 as being trusting (Tan and Lim, 2009). One reason is that older age groups are more likely to
49
50 trust than younger ones because of their greater experience (Sutter and Kocher, 2007).
51

52 53 **Initial Trust**

54
55 As highly trusted companies might be penalised more if their behaviour disappoints (e.g.
56
57 Jackson and Brammer, 2014) we decided to manipulate the initial level of trust respondents
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3 might have, to explore whether the level of initial trust influences either the scale or nature
4
5 of response to our six types of misconduct.
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10 **Methods**

11 *Research Design*

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13 As mentioned earlier, the research design of work within the crisis communications field
14
15 tends to focus on the consequences of specific events (e.g. Argenti, 2002) and to examine
16
17 how the context or its framing influences the attribution of responsibility for the crisis. Our
18
19 objective here is to compare the relative impact of six types of misconduct on the
20
21 individual's trust, making the adoption a similar approach impractical. The same action by a
22
23 company might be seen as being evidence of more than one of our misconduct types. For
24
25 example, in a recent scandal in Europe, where products labelled as beef were found to
26
27 contain significant quantities of horse meat, the issue might have influenced the individual's
28
29 view on whether manufacturers, retailers and traders were exhibiting one of a number of
30
31 the generic types of misconduct we identify. Some prior work tests the correlation between,
32
33 for example, how deceptive a company's actions appear to be and trust in that company
34
35 and if a significant correlation exists to infer that deception damages trust (e.g. Darke and
36
37 Ritchie, 2007). However, this is different from asking respondents directly how much
38
39 damage to an existing level of trust will occur if a company engages in misconduct. Our
40
41 concern is then to identify whether the framing of the issue (if the same misconduct is
42
43 perceived to be bending the law, rather than not telling the truth for example) might
44
45 influence any consequent reduction in trust. Thus we needed a methodology where we
46
47 could compare the impact of each of the six types. Our chosen technique, conjoint analysis,
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49 is frequently used to compare the relative efficacy of different factors likely to influence the
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3 same outcome (Wittink *et al.*, 1992). It has an advantage over other techniques in our
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5 context because it allows the comparison of different levels of the same factors, in our case
6
7 the frequency of the misconduct, a factor that emerged in our qualitative work as important
8
9 in deciding whether trust was damaged.
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14 However, for trust in something to be damaged there has to be an existing level of trust that
15
16 can be lost. To ensure this, we had the option of using known companies in our empirical
17
18 work, but for two reasons we decided to use fictitious ones. First, we needed to be sure that
19
20 the actual behaviour of a real company as experienced by our respondents and their
21
22 relationship with the company would not influence our findings and second, we wanted to
23
24 study the influence of differing levels of initial trust and therefore we needed to control it.
25
26 To achieve this, we described four different companies, one to each of four groups of
27
28 respondents and we manipulated their initial levels of trust by using two effects: the
29
30 product type the company sold (we used two types, food and electrical products) and the
31
32 influence of its country of origin (we used two countries, Sweden and Turkey).
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41 The type of product a company produces can be expected to influence the nature of
42
43 consumer trust. For example, how much functional risk (cost, physical safety) is involved in
44
45 product purchase has been shown to influence the level and nature of trust in that product
46
47 (Chaudhuri and Holbrook, 2002; Elliott and Yannopoulou, 2007). Companies within a sector
48
49 can also be stereotyped due to the type of product they make or sell, for example, oil
50
51 companies might be distrusted as a group (Du and Vieira, 2012). How much a company is
52
53 trusted will also depend upon its country of origin (COO) (Jiménez and San Martín, 2009).
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3 In our questionnaires we presented respondents with a brief scenario about a company.
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5 One half of respondents were told to evaluate a company based in Sweden, the other half a
6
7 company based in Turkey; half again were told the company marketed food, half that they
8
9 marketed electrical products. The two countries were chosen to represent a highly
10
11 developed economy and a less than highly developed economy so as to use the COO effect
12
13 to manipulate and establish a different initial level of perceived trust in the company. The
14
15 product categories were similarly chosen to represent everyday items (food) and
16
17 consideration items (electrical products) where the risks from purchase might differ.
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24 Once our questionnaire was designed, it was pre-tested in face to face interviews with a
25
26 convenience sample of 20 respondents. In the survey itself respondents were given the
27
28 scenario described earlier about a fictitious company and first asked, based only upon this
29
30 information (country of origin and product type), to indicate their trust in the company on a
31
32 5 point scale anchored with the descriptions 'I would not trust them at all' (1) and 'I would
33
34 trust them a lot' (5).
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40 Respondents were then told that they would be asked to consider a number of scenarios
41
42 about six things the company might be reported to be doing: making mistakes, not telling
43
44 the truth, acting unfairly, not listening to criticism, bending the law and acting irresponsibly.
45
46 We chose the same two levels for each of the 6 misconduct's, 'sometimes' and 'frequently'.
47
48 Using a scale from 0 to 100, respondents were asked to rate 8 misconduct combinations
49
50 (one of our 6 misconduct types and either sometimes or frequently) to indicate which ones
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52 were more likely to damage their trust in the company, where 0 indicated a combination
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54 that would not be likely to make them lose trust in the company and 100 a combination that
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3 would be very likely to make them lose trust in the company. They were asked not to
4
5 allocate the same rating to any two combinations. The 8 combinations were derived using
6
7 SPSS 20 and the orthogonal design option within conjoint analysis which reduces the
8
9 number of combinations (in our case of six types of misconduct and each at two levels) the
10
11 respondent has to consider to a set which is adequate for a conjoint analysis, but which is
12
13 not overly onerous for the respondent to consider.
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17 An example of the 8 combinations was:

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19
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21 'The company:

22 sometimes makes mistakes,
23 sometimes does not tell the truth,
24 frequently acts unfairly,
25 sometimes does not listen to criticism,
26 frequently bends the law, and
27 frequently acts irresponsibly'.
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33 The agreeableness dimension of human personality was measured using an 8 item measure
34
35 from Soto and John (2009). All items were assessed on a 5 point, Likert-type scale from
36
37 'strongly disagree' (1) to 'strongly agree' (5). Demographic items requested were gender
38
39 and age.
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44 Two screening questions were used: nationality to eliminate any potential respondents from
45
46 either of the two chosen countries and whether they had been a resident of the UK, the
47
48 location for our survey, for more than one year. Respondents were also to be over the age
49
50 of 18. We used the services of an online research company who maintain a panel of
51
52 potential respondents. The company was asked to allocate respondents randomly to each of
53
54 the four contexts and so, other than as a consequence of failing our screening questions, the
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3 sample was a convenience sample of panel members. After removing incomplete responses
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5 and reversals (where the analysis indicated that the respondent had misinterpreted the
6
7 scale to the opposite of that intended) the sample numbered 404, divided into four
8
9 approximately equal groups around the country of origin and product type (a Swedish
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11 electrical company, 97, a Swedish food company, 116, a Turkish electrical company, 99, and
12
13 a Turkish food company, 92). The sample was 52.5 % male. Respondents were asked to
14
15 indicate their age within one of 6 categories and these with the percentage of the whole
16
17 sample were : <25 (12.6%); 26-35 (42.3%); 36-45 (19.1%); 46-55 (11.4%); 56-65 (11.1%); >65
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19 (3.1%).
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24 25 26 27 **Results**

28
29 The mean score for initial trust across the four respondent groups differed, as we had
30
31 expected. That for when respondents were told to consider a Swedish company
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33 (mean=3.49) was significantly higher (at $p < .001$) than when they were told it was a Turkish
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35 company (2.91) and for when they were told it was a food company (3.41) significantly (at
36
37 $p < .001$) higher than when they were told it was an electrical goods company (3.01). We had
38
39 expected a significant correlation between the respondent's agreeableness and the
40
41 measure of initial trust, as prior work indicates that agreeable people are more likely to see
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43 another party as trustworthy (White *et al.*, 2004) but this was not found in both the whole
44
45 data set and at the level of any of the four cells. There was no significant difference in the
46
47 mean score for initial trust by gender (males = 3.24, females = 3.20) possibly because there
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49 was also no difference either in agreeableness scores by gender (males = 3.75, females =
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51 3.80) despite prior work suggesting otherwise (Fiengold, 1994).
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3 The conjoint data analysis method rank orders each combination for each respondent and
4
5 then deduces an overall ranking for each misconduct. Views differ as to the most
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7 appropriate output from a conjoint analysis to compare the influence of stimuli, in our case
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9 the 6 misconducts (Wittink *et al.*, 1992). The 'beta' value indicates how sensitive to an
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11 increase in the frequency of a misconduct is its impact on trust loss and the 'utility' is a
12
13 measure of the absolute impact of each misconduct, compared to that of the other 5
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15 misconduct types. We present initially both utility scores and the beta values and then focus
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17 on one or the other as appropriate to illustrate our other findings.
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24 Table (1) shows the estimated utility figures for all respondents for the two levels of each
25
26 misconduct type, together with the standard error of these estimates. In each case the
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28 utility when the company is said to exhibit this 'frequently' is, as expected, higher than
29
30 when the company is said to exhibit this 'sometimes'. The rank order of importance of the 6
31
32 generic misconducts in damaging the trust respondents had in the company (based upon
33
34 the beta values or the maximum utility score) is: bending the law, not telling the truth, not
35
36 listening to criticism, making mistakes, acting irresponsibly and (the least damaging) acting
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38 unfairly. The standard errors of the utilities are low compared with the utility figures
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40 themselves, such that the differences between the maximum utilities for each misconduct
41
42 type are statistically significant and thus the rank order is reliable. The closest in terms of
43
44 effect are the two that had the most impact on trust, bending the law (utility for frequently
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46 14.63, s.e. 0.059) and not telling the truth (utility for frequently 14.36, s.e. 0.059) where the
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48 difference is still significant (at $p=0.01$).
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55 ***Take in Table 1 here***
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3 As the rank order for the relative effect of each misconduct is the same when either the
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5 beta or the maximum utility figures are considered, for the sake of parsimony in the next
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7 two tables we show only the more appropriate of the two measures.
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9

10 11 12 ***Effects of Contextual Variables***

13 14 15 ***Company and Country Context***

16
17 The rank order of the relative effect of the misconducts does not change when the data are
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19 considered at the level of either of the countries respondents were asked to imagine the
20
21 fictitious company was from, or by the type of product they sold (Table 2). Put another way,
22
23 ‘bending the law’ and ‘not telling the truth’ appear far more likely to cause a loss of trust
24
25 than ‘acting unfairly’ or ‘acting irresponsibly’, across companies with a different country of
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27 origin or who sell different product types. The differences between the utility scores also
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29 remain significant.
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34 ***Take in Table 2 here***
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37 38 ***Initial trust***

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40 However if the data are divided into that for each of the four groups, a slightly different
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42 pattern emerges (Table 3). Here the main issue is the possible effect of differences in rank
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44 order due to the initial level of trust in the company, as prior work argues that the
45
46 reputation of a company influences the nature and magnitude of the response to a crisis
47
48 (e.g. Vanhamme and Grobben, 2009). The mean score for initial trust for the Swedish
49
50 electrical products company was the highest and the rank order of effect for the
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52 misconducts differs somewhat from that for the other three contexts. However if such
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54 differences are explained by the differences in the initial level of trust, the initial trust
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3 figures should correlate with either the beta values or the individual utility scores. As they
4
5 do not we can reject the initial level of trust as the sole explanation of the differences in the
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7 data in Table (3).
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11 ***Take in Table 3 here***

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13 Furthermore as the standard error for the Swedish food company data is quite high, the
14
15 differences between the utilities for individual misconducts are often not significant at p
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17 $=0.05$. For example the utility for bends the law frequently (13.62) is only slightly different
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19 from that for not telling the truth (significant only at $p=0.09$) and different from the second
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21 ranked misconduct, not listening to customers, only at $p=0.08$.
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27 **Respondent effects**

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29 There are some more convincing differences in the response patterns when the results are
30
31 compared by gender that can be best understood by comparing the utility estimates (Table
32
33 4). The utility from 'bending the law' was similarly high for both genders but females
34
35 evaluated 'does not tell the truth' higher still. While the difference for the 'frequently' level
36
37 evaluated 'does not tell the truth' higher still. While the difference for the 'frequently' level
38
39 for bending the law for example (14.55 vs. 14.71) is significant (at $p= 0.004$), the difference
40
41 for the 'frequently' level for not telling the truth (12.94 vs. 15.92) is even more significant, at
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43 $p<0.0001$.
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47 ***Take in Table 4 here***

48
49 As to the influence of age, while the rank order of importance for the 6 misconducts was
50
51 virtually the same for those under and over 35 years of age, Table (6), data from younger
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53 respondents yielded higher utilities; in other words, they were more influenced than older
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55 respondents by each misconduct type.
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Take in Table 5 here

Similar differences are apparent from an analysis of the influence of respondent personality. To produce Table (5) the data on the agreeableness of the respondent were used to categorise respondents into two groups, of high and low agreeableness, using a median split of the respondent scores for the Soto and John (2009) measure.

Take in Table 6 here

For all but 'acts irresponsibly' the utility scores for the high agreeableness group are significantly higher (at $p < 0.05$) than for the low agreeableness group. In other words, the typical response to the misconducts are more marked among the former group, evidence of an influence from personality and that those who are more predisposed to trust appear more influenced by any communication of misconduct .

In summary, while the rank order of effect for the various misconducts remained fairly constant for all our analyses, when the data are analysed by different respondent variables (gender, age and personality) the size of the influence of each misconduct differs, with female respondents, younger respondents and more agreeable respondents being more affected than males, older respondents and those with a less agreeable (less trusting) personality. However, the relative importance of each misconduct in damaging trust does not appear to vary between such groups.

Discussion and Conclusion

There is wide agreement that trust is an important factor in shaping the relationships between individuals and organisations and that damage to trust represents the potential loss of a significant intangible asset for an organisation. The risk of an organisation's losing trust and suffering a consequent loss in reputation are seen as an alternative mechanism to the law for society to ensure the appropriate conduct of commercial institutions (King, 2014). However, while our work demonstrates that a range of type of misconduct can damage trust, each of the six types of misconduct we identify differs in its potential to do so. Further we show that the effect of any misconduct varies with the characteristics of the individual. We can deduce that one explanation for why the damage to trust from questionable behaviour differs markedly between individuals is that any damage depends primarily on how the misconduct is interpreted or framed and because it can also vary between individuals. Consequently, our work adds primarily to the literature on corporate misconduct and specifically to that on understanding reputation damage.

The first point of detail to emphasise from our findings is that the differences between the utility scores in most of our analyses are generally significant, the exceptions being when we consider one individual cell and therefore a smaller sample. This is strong evidence that the six misconduct types we identified from prior work on trust and from the theory of trust are distinct in their influence over trust loss.

'Bending the law' and 'not telling the truth' consistently emerged as the two corporate behaviours most likely to create distrust irrespective of context (how much the company was trusted in the first place, the type of product the company sold and its country of origin)

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2
3 and the characteristics of the respondent (gender, age and agreeable personality). In our
4
5 preliminary work, breaking the law emerged as almost a guarantee of trust loss. We can
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7 conclude that if we had included breaking the law as a corporate behaviour it would have
8
9 emerged as the most likely to damage trust. That 'bending the law' emerged as the most
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11 important source of trust damage might then have been expected from institutional trust
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13 theory, which emphasises the legitimacy that organisations have attributed to them due to
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15 the structures that society places upon them to ensure appropriate behaviour (Hough *et al.*,
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17 2010). Assuming our findings can be generalised to all commercial organisations, companies
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19 who bend the law, for example Starbucks by their judicious choice of where to pay
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21 corporation tax (Christians, 2013) or who even break it, for example Barclays Bank in its
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23 manipulation of Libor rates (Fouquau and Spieser, 2015) would appear to take far greater
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25 risks than those who might, for example, be thought to behave irresponsibly.
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34 Reputation damage is one of a number of risks that companies should consider and attempt
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36 to manage (Scott and Walsham, 2005) and our data indicate that there is a hierarchy of
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38 effect, depending upon the type of misconduct, which should be factored into any such risk
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40 analysis. Our findings may also be of interest to those dealing with social policy who see the
41
42 potential of reputation damage as an alternative to legal sanction to ensure companies
43
44 behave. The media may be reluctant to frame behaviour as illegal for fear of being sued.
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46 Furthermore, civil law suits, such as those between Apple and Samsung, do not always
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48 appear to influence sales. Only if a company or its executives are taken to court and found
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50 guilty, would the media be certain to label their behaviour as illegal, which defeats the
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52 objective of reputation damage being used as a substitute for legal action. However being
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3 seen as not telling the truth has a similar effect on trust loss and might offer the media a
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5 safer frame to use in challenging corporate misconduct.
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10 Two other behaviours emerged as consistently less likely to damage trust, acting unfairly
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12 and acting irresponsibly. That the latter had a relatively low impact is somewhat surprising
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14 and even counterintuitive, given the emphasis in both the media and academic research on
15
16 CSR, including the idea of reputation being a buffer against the effects of a crisis
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18 (Vanhamme and Grobbsen, 2009). Fairness is clearly identified in institutional trust theory as
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20 a construct influencing trust but the relative importance of unfair behaviour in our work is
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22 low.
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29 The relatively stable pattern (bending the law and not telling the truth as consistently more
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31 liable to reduce trust and acting unfairly or irresponsibly as less likely) begs the question of
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33 why? One possible explanation from prior work is that transgressions can be categorised by
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35 whether they call into question the values of an organisation or its competence (Dirks *et al.*,
36
37 2009) and that, consequently, the former will impact more than the latter on one's
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39 propensity to trust in the future. A willingness to bend the law or to tell untruths would
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41 suggest a company with suspect values, while making mistakes, which generally had a lesser
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43 impact, speaks more to a lack of competence. However, such an interpretation does not
44
45 explain why acting unfairly or irresponsibly were consistently less likely to impact on trust,
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47 as both suggest a company with questionable values. It would be interesting to test in
48
49 future work which aspect or aspects of trust each misconduct type influences the most and
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51 whether this can explain their relative impact on reducing overall trust.
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3 While we can point to a pattern, it is important to acknowledge that there may be some
4
5 differences in the saliency of the six types of misconduct depending upon context.
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7 Specifically, respondents who considered a Swedish company selling electrical products
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9 rated 'acting irresponsibly' as more important in reducing trust and so we cannot totally
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11 eliminate context effects for both this or other misconducts being more or less salient in
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13 damaging trust in specific contexts.
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19 The influence we found from respondent specific variables, gender, age and personality,
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21 was convincing. Willingness to trust is said to increase with age due to the extra confidence
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23 brought about by experience (Sutter and Kocher, 2007) and this can explain the lower
24
25 utilities we found for the over 35 group, increased age apparently reducing the impact of all
26
27 misconducts. A similar explanation may be relevant for the gender effects we found, with
28
29 women in general being more influenced by misconduct in terms of trust loss than men.
30
31 However, there was no difference in the initial trust scores in our study between the
32
33 genders or ones which correlated with age. Nevertheless companies serving market
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35 segments defined by gender and age need to be cognisant of the differences in impact of
36
37 any reported misconduct.
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46 Personality could offer a simpler explanation for both demographic effects, as there is
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48 evidence that personality changes with age as well as differing between genders (Soto *et al.*,
49
50 2011) with agreeableness rising from adolescence into adulthood and females being
51
52 typically more agreeable than males. People who score high on this dimension tend to
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54 believe that most people are honest, decent and trustworthy. Individuals who score high on
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56 the trust facet of agreeableness generally believe others' intentions to be more benevolent
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3 (Costa and McCrae, 1991). It follows that the same trait would define a personality who
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5 would be less reactive to misconduct and less likely to lose trust. In our work, the more
6
7 agreeable group reacted more strongly to each misconduct. Our measure of agreeableness
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9 was however quite short (8 items) and future work might usefully revisit this point to
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11 consider the effects of specific facets of that personality dimension on the propensity for
12
13 damage to trust to occur.
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19 We used imaginary examples of companies rather than real companies, arguing that we
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21 needed to eliminate any effects of prior experience. Nevertheless, the validity of our
22
23 conclusions would be increased by undertaking similar work in a real world context. A high
24
25 level of trust in a company may lead to higher expectations and consequently greater
26
27 damage to a company's reputation (Rhee and Haunschild, 2006) and greater identification
28
29 with an organisation may also mitigate the influence of misconduct. However, in our work
30
31 the initial level of trust did not appear to impact greatly upon the effects of misconduct
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33 (Table 2). If a respondent has knowledge or experience of any prior misconduct then they
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35 might react more strongly, but we did not test that.
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43 Within the literature most relevant to reputation damage, the largest area of prior work is
44
45 probably that devoted to managing communication after an incident, so-called crisis
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47 management. Attribution theory has been proposed as a useful theoretical framework to
48
49 study the topic (Coombs 2007a; 2007b). Prior work suggests that whether the individual
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51 recovers trust in a company depends upon whether the trust violation was attributed to
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53 them or to a third party (Tomlinson and Mryer, 2009). Consequently, individuals or
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55 institutions might see the attribution of responsibility to others, or some other stasis of
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3 apologia, as a way to mitigate any damage to their reputation (Kramer and Olson, 2009).
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5 Attribution theory and the crisis management literature help build our understanding as to
6
7 why one crisis can be more damaging than another. Our work adds to such insights by
8
9 showing that the public's understanding of the nature of any misconduct behind a crisis will
10
11 influence the damage it causes to trust. For example if one person perceives the cause of a
12
13 crisis to be the company bending the law while another sees the company as acting
14
15 irresponsibly, then the first individual is more likely to lose their trust in the company than
16
17 the second. One further practical implication from our work is that companies might look to
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19 reduce the impact of any reported misconduct on how much the public trust them if they or
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21 the media attribute the cause of the misconduct to a generic type of misconduct that is
22
23 inherently less damaging. It would then be useful in future academic work on the effects of
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25 negative publicity from corporate misconduct to consider whether the impact of such
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27 publicity varies depending upon which type of corporate misconduct the behaviour is
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29 attributed to.
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38 Our framework differs from those used previously to categorise crises (Parsons, 1996;
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40 Mitroff, 2004; Coombs 2007a; 2007b; Coombs and Holladay, 2010; Ulmer *et al.*, 2010)
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42 where the focus is on responsibility and culpability for a crisis. However our framework can
43
44 be used in future work in combination with these and other frameworks to help build an
45
46 understanding of why responses to individual events vary. Individual examples of corporate
47
48 misconduct can be complex and further work could usefully examine not only to which type
49
50 of misconduct the public attribute a specific incident but to understand why. Would, as prior
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52 work suggests, individuals with a greater identification with a specific company be more
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54 likely to attribute an issue to its being a mistake, rather than to telling untruths? Losing trust
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3 is one thing but regaining it is another. Our findings can also inform future work on trust
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5 recovery by providing an understanding of how trust might have been lost.
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10 Our typology, of corporate misconduct likely to damage trust, was informed by examples in
11
12 the media, and interviews with members of the public; but most important was that each of
13
14 the six behaviour types was grounded in the theory of organisational or institutional trust.
15
16

17 There are alternatives to our approach, for example those that take a more employee
18
19 focussed approach, drawing from the thinking of Mitroff *et al.* (1992) that there are cultural
20
21 explanations for the crises organisations become embroiled in. From empirical data
22
23 Lasthuizen *et al.* (2011) argue a framework of 10 types of employee integrity violations.
24
25 However integrity is only one aspect of trust and most (8) of their 10 types are examples of
26
27 employees bending or breaking the law and all can be categorised into just three of our 6
28
29 types. A complete typology covering all possible behaviours that might damage external
30
31 trust could be too long to be useful. Our approach offers a parsimonious but comprehensive
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33 framework and one that is theoretically grounded.
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40 There is growing interest in whether distrust is the semantic opposite of trust, as a
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42 dictionary definition might imply, or whether there are two, negatively correlated but
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44 separate constructs with trust with the other party being associated with being reliable,
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46 empathetic and not looking to exploit the relationship and distrust more associated with the
47
48 other party provoking feelings of scepticism and suspicion (McKnight and Chervany, 2001;
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50 Chang and Fang, 2013; Walle and Six, 2014). Our work concerns loss of trust and, not
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52 necessarily, the creation of distrust. If distrust is a separate construct from trust then similar
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54 work to ours asking about the creation of distrust would be appropriate.
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5 As we imply above, our work has its potential limitations (as context effects cannot be
6 totally eliminated and we used only a short measure for agreeable personality). Our six
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8 misconduct types were each deduced from work on what creates trust, two from
9
10 institutional trust theory and four from the wider literature. There may be other generic
11
12 types of misconduct that can be identified that impact trust. Our application of conjoint
13
14 analysis is unusual but it provided a good insight into our data and statistically significant
15
16 findings which should encourage its wider application both in this context and in other
17
18 research. Our one concern was that respondents might have difficulty with the question
19
20 format, hence the sizable pre-test, but this did not prove problematic as also evidenced by
21
22 the stability of the rank order of misconducts and the significant differences between the
23
24 utility scores. Finally, while trust in companies has been rising generally, only half of us seem
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26 to trust them (Edelman, 2014); and the level of such trust varies by country, indicating that
27
28 in some markets there is a very low level of trust in commercial and other organisations. As
29
30 attitude towards a company's ethical behaviour has been shown to be influenced by
31
32 national culture (Leonidou *et al.*, 2013) our findings may be culture specific. It would be
33
34 useful to undertake a comparative study, in countries where trust levels in companies differ,
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36 to assess not only whether the same typology is relevant but to understand if responses to
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38 corporate misconduct differ between cultures and markets.
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Tables

Misconduct Type	Level	Utility Estimate	Std. Error	Beta values
Makes mistakes	Sometimes	5.40	.030	5.40 (4)
	Frequently	10.81	.059	
Does not tell the truth	Sometimes	7.18	.030	7.18 (2)
	Frequently	14.36	.059	
Acts unfairly	Sometimes	3.28	.030	3.28 (6)
	Frequently	6.55	.059	
Does not listen to criticism	Sometimes	6.28	.030	6.28 (3)
	Frequently	12.55	.059	
Bends the law	Sometimes	7.31	.030	7.31(1)
	Frequently	14.63	.059	
Acts irresponsibly	Sometimes	4.23	.030	4.23 (5)
	Frequently	8.46	.059	

Table (1) Utilities and beta values for Specific Misconduct Types in Creating a Loss of Trust (rank order in parentheses)

Misconduct Type	Sweden	Turkey	Electrical	Food
Makes mistakes	5.07 (4)	5.80 (3)	6.00 (3)	4.85 (4)
Does not tell the truth	7.77 (1)	6.52 (2)	7.22 (2)	7.14 (2)
Acts unfairly	3.32 (6)	3.23 (6)	3.13 (6)	3.41 (6)
Does not listen to criticism	6.81 (3)	5.69 (4)	5.89 (4)	6.64 (3)
Bends the law	7.35 (2)	7.27 (1)	7.33 (1)	7.30 (1)
Acts irresponsibly	4.26 (5)	4.20 (5)	4.70 (5)	3.79 (5)

Table (2) Beta values for Specific Misconduct Types in Creating a Loss of Trust by Context (rank order in parentheses)

Misconduct Type	Sweden Electrical	Sweden Food	Turkey Electrical	Turkey Food
Makes mistakes	11.18 (5)	9.25 (4)	12.78 (3)	10.24 (4)
Does not tell the truth	14.64 (2)	16.29 (1)	14.25 (1)	11.75 (2)
Acts unfairly	7.24 (6)	6.13 (5)	5.32 (6)	7.67 (6)
Does not listen to criticism	11.50 (4)	15.39 (2)	12.07 (4)	10.62 (3)
Bends the law	16.01 (1)	13.62 (3)	13.39 (2)	15.85 (1)
Acts irresponsibly	11.74 (3)	5.82 (6)	7.09 (5)	9.82 (5)
Standard error	1.134	0.996	0.157	0.489
Mean Score Initial Trust	3.351	3.612	2.679	3.163

Table (3) Utility Values for the 'Frequently' Condition (rank order in parentheses) for each type of company.

		Male (n= 212)		Female (n= 192)	
Misconduct Type	Level	Utility Estimate	Std. Error	Utility Estimate	Std. Error
Makes mistakes	Sometimes	5.31	.233	5.50	.320
	Frequently	10.63	.467	11.01	.641
Does not tell the truth	Sometimes	6.47	.233	7.96	.320
	Frequently	12.94	.467	15.92	.641
Acts unfairly	Sometimes	3.66	.233	2.85	.320
	Frequently	7.32	.467	5.70	.641
Does not listen to criticism	Sometimes	6.02	.233	6.57	.320
	Frequently	12.03	.467	13.13	.641
Bends the law	Sometimes	7.27	.233	7.36	.320
	Frequently	14.55	.467	14.71	.641
Acts irresponsibly	Sometimes	4.57	.233	3.86	.320
	Frequently	9.14	.476	7.71	.641

Table (4) Utilities for Specific Misconduct Types in Creating a Loss of Trust: Gender

Misconduct Type	Level	Under 35 N= 222		35 and Over N= 182	
		Utility Estimate	Std. Error	Utility Estimate	Std. Error
Makes mistakes	Sometimes	7.17	.646	3.247	.723
	Frequently	14.34	1.29	6.495	1.45
Does not tell the truth	Sometimes	8.40	.646	5.692	.723
	Frequently	16.80	1.29	11.385	1.45
Acts unfairly	Sometimes	4.06	.646	2.313	.723
	Frequently	8.13	1.29	4.626	1.45
Does not listen to criticism	Sometimes	7.66	.646	4.596	.723
	Frequently	15.31	1.29	9.192	1.45
Bends the law	Sometimes	8.55	.646	5.799	.723
	Frequently	17.11	1.29	11.599	1.45
Acts irresponsibly	Sometimes	4.75	.646	3.599	.723
	Frequently	9.50	1.29	7.198	1.45

Table (5) Utilities for Specific Misconduct Types in Creating a Loss of Trust: Age

Misconduct Type	Level	Low Agreeableness N= 213		High Agreeableness N=191	
		Utility Estimate	Std. Error	Utility Estimate	Std. Error
Makes mistakes	Sometimes	3.74	.046	7.26	.114
	Frequently	7.48	.092	14.52	.228
Does not tell the truth	Sometimes	5.86	.046	8.65	.114
	Frequently	11.72	.092	17.30	.228
Acts unfairly	Sometimes	2.74	.046	3.87	.114
	Frequently	5.48	.092	7.75	.228
Does not listen to criticism	Sometimes	5.46	.046	7.19	.114
	Frequently	10.91	.092	14.39	.228
Bends the law	Sometimes	6.98	.046	7.69	.114
	Frequently	13.96	.092	15.37	.228
Acts irresponsibly	Sometimes	4.25	.046	4.21	.114
	Frequently	8.51	.092	8.42	.228

Table (6) Utilities for Specific Misconduct Types in Creating a Loss of Trust: Agreeableness

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