

# **BRANDS IN CRISES: CONSUMER AND INVESTOR RESPONSES**

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# **BRANDS IN CRISES: CONSUMER AND INVESTOR RESPONSES**

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## SUMMARY

Crises happen more frequently than ever. Chapter 1 explores how consumers respond to brand crises. Prior research discusses strategies that a brand may use to respond to a crisis arising from a transgression associated with the brand. When a brand uses these strategies (e.g., compensating affected parties, offering apologies), it implicitly or explicitly acknowledges its responsibility for a transgression. In many instances, however, a brand may want to deny responsibility for a transgression. For instance, if a brand's supplier rather than the brand engaged in unethical labor practices, the brand could claim that it is not responsible for the transgression. Across four experimental studies, I find that a brand's denial of responsibility leads to lower brand evaluations. Consumers view a brand's denial of responsibility as morally unacceptable, even when the brand's supplier rather than brand engaged in a transgression. The negative effect of denials on brand evaluations are moderated by consumers' political orientations and a brand's prior social behavior. Specifically, the negative effect is stronger among liberal consumers as compared to conservative consumers for values-related crises (but not for performance-related crises). In addition, a brand's prior social behaviors raise consumer expectations of moral behavior from the brand more than they provide the brand a moral license for future transgressions.

In Chapter 2, I investigate how investors react to firm's decisions related to product recalls. Prior research demonstrates that investors react to timing of recalls and investigation durations (Astvansh and Eshghi 2023; Eilert et al. 2017). However, I study resolution dormancy, which I define as *the time elapsed between when a recall is officially*

*issued (either voluntarily or involuntarily) and when consumers are notified.* During the dormancy period, manufacturers can prepare for the recall, and manage their costs. I explore how investors respond to dormancy periods depending on the type of CSR. Utilizing data from the National Highway Traffic and Safety Administration and CSRHub, this research examines automotive recalls between 2009 and 2019. I find that investors respond negatively to dormancy periods when the manufacturer has high philanthropic CSR, as the manufacturer may not signal resource efficiency. Findings of this research provide a different perspective on understanding investor reactions to automobile product recalls.

# **CHAPTER 1. TO DENY OR NOT TO DENY: THE QUESTION FOR A BRAND IN CRISIS**

## **1.1 Introduction**

When consumers associate a brand with harmful transgressions such as deceptive advertising, marketing defective products, or engaging in unethical labor practices, it can result in consumer backlash severe enough to cause a crisis for the brand (Khamitov et al. 2020; Whitley et al. 2021; Xu et al. 2021). For example, Nike's poor labor practices in developing countries, Urban Outfitter's offensive advertising, and BP's oil spill in the Gulf of Mexico were viewed negatively and criticized by a broad audience (Banjo 2014; Robertson and Lipton 2010; Rooney 2014).

Prior research discusses a variety of strategies that a brand may use to respond to a crisis arising from a transgression (Benoit 1995; Coombs 2007; Khamitov et al. 2020). These strategies include providing compensation to affected parties, offering apologies, and changing business operations that led to a crisis in the first place (Dawar and Pillutla 2000; Dutta and Pullig 2011; Langaro et al. 2024; Nickerson et al. 2022). In general, prior studies have found that when a brand takes responsibility for a transgression resulting in a crisis, consumers tend to respond favorably to the brand.

In many instances, however, a brand may want to deny responsibility for a transgression that leads to a crisis. For instance, if a brand's supplier, rather than the brand

itself, engaged in unethical labor practices, the brand could claim that it is not responsible for unethical behaviors. Similarly, if consumers ignore a brand's instructions and misuse its products, resulting in harm to themselves, the brand could deny responsibility for the harm to consumers. By denying responsibility for harmful behaviors, the brand could potentially safeguard its reputation and avoid financial liability for the harm. Indeed, several brands have denied responsibility for harmful behaviors on numerous occasions (e.g., Rutherford 2019). Prior research, however, does not investigate the impact of denials on consumer evaluations toward a brand<sup>1</sup>. As such, it remains unclear whether denial of responsibility is an effective strategy for dealing with brand crises.

We argue that because transgressions associated with a brand can harm consumers and others such as employees, and society at large, consumers are likely to consider the morality of the brand's decision to acknowledge or deny responsibility for such transgressions. We theorize that consumers judge a brand's denial of responsibility as morally acceptable or unacceptable based on their morality-related expectations from the brand, and these judgments influence their evaluations of the brand. Furthermore, we argue that consumers' morality-related expectations from a brand are a function of their expectations from (1) brands in general and (2) the brand in particular. In line with this argument, we investigate variables that likely shape these two expectations respectively: (1) consumer political ideology and (2) brand social behavior.

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<sup>1</sup> For ease of exposition, we use "denial of responsibility" and "denial" in this paper to refer to a brand denying that it is responsible for a transgression leading to a brand crisis.

First, an individual's political ideology reflects the importance the individual gives to various behaviors for the wellbeing of society (Graham, Haidt, and Nosek 2009; Lovett, Jordan, and Wiltermuth 2012). This influences the behaviors the individual ideally expects among a society's members, which impacts the individual's judgment about whether a behavior is good or bad for society (Xu et al. 2021). Consistent with this argument, there is empirical evidence that individuals' political ideologies influence their judgments of whether a behavior is morally acceptable or unacceptable (Jordan, and Wiltermuth 2012; Xu et al. 2021). We therefore hypothesize that consumers' political ideology influences their judgments about the morality of a brand's denial of responsibility, and these judgments influence their brand evaluations.

Second, a brand's prior social behavior signals the extent of its concern for society and reflects its moral standards (Aksoy et al. 2022; Campbell and Winterich 2018). We argue that a brand's prior social behaviors lead consumers to expect similar social behaviors in the future. As such, consumers' judgments about the morality of a brand's denial of responsibility are influenced by the extent to which the denial is consistent with the brand's prior social behaviors. In turn, these consumer judgments influence their brand evaluations.

We investigate the effect of denial of responsibility on consumer brand evaluations across consumers with differing political ideologies and across brands with differing levels of social behavior using four experimental studies. Across the four studies, we find that consumers view denials of responsibility as morally wrong, even when the transgressions

are not by brands but their suppliers. Denials of responsibility lead to lower brand evaluations among consumers in general. The negative effects on brand evaluations are stronger among liberal consumers as compared to conservative consumers for values-related crises. In contrast, the negative effects on brand evaluations are similar in magnitude among liberal and conservative consumers for performance-related crises. These findings point to the relevance of the morality perspective in understanding consumer responses to denials of responsibility. The literature suggests that good behavior can lead to moral licensing (e.g., Blanken, Van De Ven, and Zeelenberg 2015; Kliamenakis, Grohmann and Bodur 2023; Mullen and Monin 2016). Our findings, however, suggest that this effect is either absent in the present context or weaker than the effect of expectations.

We contribute to the brand crisis literature that typically takes cost/remedy perspective by bringing a morality perspective to study consumer responses to brands' denials of responsibility. We argue that because transgressions directly or indirectly harm members of a community, a moral perspective helps us better understand to what extent consumers find denials of responsibility acceptable. In particular, consumers' views of the role of brands in a community reflected in their political ideologies are likely to influence their expectations from brands, hence their responses to denials of responsibility. Consumers' moral expectations from brands are also likely to be influenced by their prior social behaviors and impact how consumers evaluate denials of responsibility. When consumers' moral expectations from a brand are not met, their brand evaluations go down.

Our study provides important insights for managers considering denying responsibility for a brand crisis. One might expect that consumers will accept a brand's denial of responsibility for a crisis which it had limited control over. However, our study indicates that denials fall short of consumers' expectations of moral behavior from brands, and lead to a reduction in brand evaluations regardless. Our findings suggest managers should proceed very cautiously when considering denying responsibility for transgressions resulting in brand crises.

Managers should be especially cognizant of the more negative evaluations from liberal (vs. conservative) consumers which are likely to take denials for value-related crises (e.g., employee rights) seriously. However, managers of brands that primarily target conservative-leaning consumers should recognize that conservative consumers respond as negatively as liberal consumers to denials for performance-related crises (e.g., product harm). Furthermore, managers of brands that have extensively engaged in social behaviors should recognize that their prior good initiatives do not give them a moral license for transgressions, but rather lead consumers to expect them to do more to improve society's wellbeing.

## **1.2 Theoretical Development**

There are various types of crises encountered by brands. Interestingly, Whitley et al. (2021) point out that brands face two distinct types of crises. The first type of crisis is "performance-related." It stems when a brand cannot deliver the functional benefits via products or services as expected by consumers (Khamitov, Grégoire, and Suri 2020; Smith,

Thomas, and Quelch 1996; Whitley et al. 2021). For example, a brand may deliver defective products to consumers; or fail to safeguard consumer data from hackers. The second type of crisis is “values-related.” It stems from a brand’s actions that conflict with ethical norms (Kubler et al. 2020). For example, a brand may discriminate among consumers based on race; engage in environmentally harmful behaviors; or fail to provide safe working conditions for employees. These two types of brand crises—performance-related and values-related—may be argued to have differential effects on consumers’ attitudes towards the brand as well as consumer expectations from the brand.

### *1.2.1 Brand Responses to Crises*

There are various strategies of how a brand could respond to a crisis. One set of strategies is based on acknowledging crises and taking responsibility for it by providing compensation to affected parties, offering apologies, and changing business operations that led to the crisis in the first place (Dawar and Pillutla 2000; Dutta and Pullig 2011; Langaro et al. 2024; Nickerson et al. 2022). Prior research on these strategies offers useful insights. For instance, apologies are found to be effective only when they offer a genuine expression of concern and remorse (Davis and Gold 2011; Fehr and Gelfand 2010; Grappi et al. 2024). Additionally, philanthropic activities unassociated with fixing harm have been shown to not have any positive influence on consumer evaluations as consumers likely perceive such initiatives as insincere (Lantos 2001; Nickerson et al. 2022). In general, however, prior studies have found that when a brand takes responsibility for a harmful behavior resulting in a crisis, consumers tend to respond favorably to the brand.

Another set of strategies does not acknowledge responsibility and there are many variations of this approach. Some brands remain silent (Dawar and Pillutla 2000), some don't acknowledge that there is a problem at all, or some downplay the crisis (Benoit 1995; Coombs 2007). These strategies are shown to be effective when a crisis cannot be easily attributed to a brand. In contrast to the aforementioned strategies, we study the effect of a previously uninvestigated strategy—explicitly denying responsibility for a transgression.

### *1.2.2 The Main Effect of Denial of Responsibility*

Transgressions associated with a brand which directly or indirectly harm members of a community can represent a crisis for the brand when the harm is substantial because it can lead to wholesale boycotts by consumers, financial damages, and restrictive actions by regulators. In response to a crisis, a brand may accept the responsibility for the transgression and apologize, and/or compensate community members, and/or take steps to avoid future transgressions. While the brand may be appreciated for taking these actions, its reputation may suffer because of its involvement with the transgression in the first place. In order to avoid this, the brand may want to deny that it was responsible for the transgression, especially if it was by other entities associated with the brand such as a supplier who engaged in unfair labor practices, or customers who misused the brand's products resulting in harm to themselves. The brand's decision to accept or deny responsibility is likely to be viewed by consumers in part as a moral one for two reasons.<sup>2</sup>

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<sup>2</sup> Moral decisions are those that can lead to harm (Graham, Haidt, and Nosek 2009; Lovett, Jordan, and Wiltermuth 2012; Xu et al. 2021)

First, consumers view brands as powerful entities with substantial resources at their disposal to do good if they choose to; and more powerful are viewed as having a moral obligation to take care of the less resourceful (Ordabayeva and Fernandes 2018). Second, a brand's decision to accept or deny responsibility for a transgression has direct implications for the extent to which harm suffered by a community's members is addressed, and thus represents a moral issue (Graham, Haidt, and Nosek 2009; Lovett, Jordan, and Wiltermuth 2012).

In response to crises, denying responsibility for harmful behavior, particularly those involving suppliers or consumers, may appear to be a reasonable approach to safeguard a brand's reputation among consumers. Morality is fundamentally about harm (Schein and Gray 2018). Even if the harm was not physical, emotional damage can trigger consumers to use their moral judgements (e.g., Suhler and Churchland 2011). Rai and Fiske (2011) suggested a broader conception of morality in which moral judgments are determined not by the nature of the *act* but by the hierarchy of groups. Consumers view brands powerful as they generate profits from their communities and possess substantial resources (Gray, Young and Waytz 2012; Xu, Bolton and Winterich 2021). This is likely to lead consumers to believe that brands have moral obligations to look out for the interests of their community members, even when harm is caused by the brands' business partners, such as suppliers, or consumers themselves (Aksoy et al. 2022; Dunfee, Smith, and Ross 1999).

A denial of responsibility does little to help the harmed consumers, employees, or the environment. It does not prevent future harm either. When a brand denies responsibility

for a harm, consumers are likely to see the brand as primarily interested in protecting itself instead of protecting the interests of others (Barone, Norman, and Miyazaki 2007; Coombs 2007; Ellen et al. 2006). Therefore, consumers are likely to view the brand's response as morally unacceptable. In fact, a single morally wrong act by a brand can trigger consumers to express moral judgements, and in turn lead to negative evaluations by consumers (Brunk and Blümelhuber 2011; Philipp-Muller 2022). We therefore expect a brand's denial of responsibility to have a negative effect on consumer evaluations of the brand. Thus:

*H<sub>1</sub>: Denial of responsibility by a brand has a negative effect on the brand's evaluations by consumers.*

*H<sub>2</sub>: The negative effect of a brand's denial of responsibility on consumer evaluations of the brand (H<sub>1</sub>) is mediated by the extent to which consumers view the denial as morally unacceptable.*

### *1.2.3 Moderators*

In this research, we study two variables that are arguably related to consumers' moral expectations from brands in general (global expectations) and from a focal brand in particular (local expectations). First, consumers' expectations of brands in general are argued to be related to their political ideology. Not all consumers are likely to have the same level of concern toward brand transgressions, given that people often differ in how they judge and respond based on their political ideology (Graham, Haidt, and Nosek 2009; Lovett, Jordan, and Wiltermuth 2012; Xu et al. 2021). Second, consumers' local

expectations about the focal brand are captured by its prior social behavior (corporate social responsibility at the brand level). A brand's prior social behavior influences the behavior stakeholders such as consumers expect from the brand in the future (Aksoy et al. 2022). In turn, these expectations have important implications for how external stakeholders (e.g., consumers) respond to a brand's actions. We discuss these two variables in the following section.

#### 1.2.3.1 The Moderating Effect of Political Ideology

Political ideology is defined as “*a set of interrelated attitudes and values that contain cognitive, affective, and motivation components, describes how societies and individuals within those societies should function*” (Farmer, Kidwell and Hardesty 2020; Jost, Federico, and Napier 2009). Prior research suggests that liberals care more about the “individualizing dimension” of morality. This dimension focuses on caring for harmed entities that are less powerful to ensure a balance between entities (Haidt and Graham 2007; Winterich, Zhang and Mittal 2012). In contrast, conservatives place more importance on the “binding dimension” of morality, which focuses on authority, loyalty, tradition, and purity (Graham, Haidt and Nosek 2009).

Consumers with different political ideologies are likely to have different moral standards depending on the moral values they prioritize (Aksoy et al. 2022). For example, they both have empathy, however they may differentiate in terms of the group which they show to have more empathy with. Prior research stated that liberal leaning individuals tend

to have more empathy with individuals such as, immigrants, whereas conservative leaning individuals may have for companies (Bloom 2016; Morris 2020).

Political ideologies and morality are closely intertwined. They both deal with beliefs about appropriate behaviors of individuals and companies (e.g., Henry 2010; Jost 2006; Jost, Federico, and Napier 2009). There is empirical evidence that political identity systematically differentiates consumers' moral beliefs (Goenka and Van Osselaer 2023; Haidt 2012). Furthermore, one of the dimensions that distinguishes liberal-leaning and conservative-leaning individuals are whether they accept social hierarchy (Jost et al. 2003; Ordabayeva and Fernandes 2018). Consumers' perspective of a particular firm may range from seeing it as a community member expected to take responsibility for associated crises even without direct guilt, to viewing it as an entity focused solely on profit maximization expected to take responsibility only for direct liabilities. Thus, political ideologies reflect consumers' expectations of either a broader or narrower scope of moral responsibility of firms.

In our context, brands hold more power and resources than potentially affected entities such as consumers or employees. Brands gain resources from consumers over time and, in this sense, *owe* it to consumers to take care of them when harm occurs to fulfill the need for reciprocity. As such liberals are likely to expect the brand to play a more important role in ensuring wellbeing of their communities compared to conservatives (Fernandes et al. 2022; Shepherd et al. 2024). This may lead liberal consumers to expect brands to do more for the well-being of their communities compared to conservative consumers.

Therefore, when a brand denies responsibility for a harm, liberals are more likely to find the brand's response morally unacceptable and therefore evaluate the brand more negatively than conservatives.

*H<sub>3</sub>: Denial of responsibility by a brand leads to a greater negative effect on its evaluations by liberal consumers compared to conservative consumers.*

### 1.2.3.2 The Moderating Effect of Brands' Social Behavior

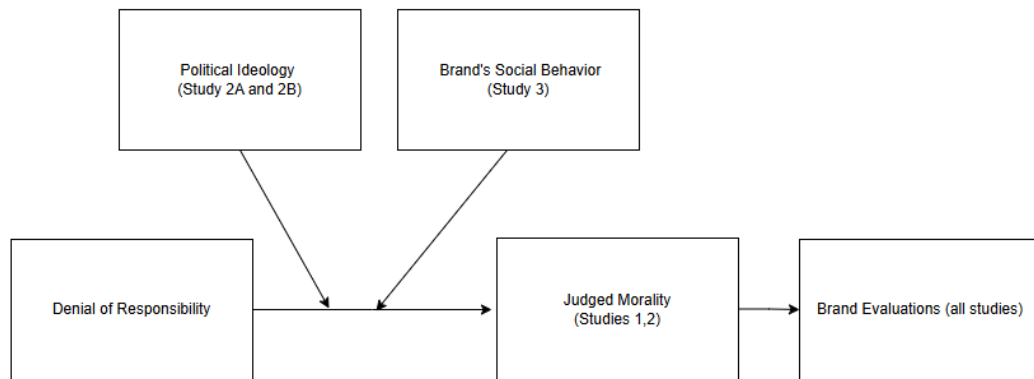
Corporate social responsibility is defined as “*discretionary business practices and contributions of corporate resources intended to improve societal well-being*” (Korschun, Bhattacharya, and Swain 2014; Kotler and Lee 2005; Nickerson et al. 2022). In the context of a brand, we directly translate corporate social responsibility to “*a brand's social behavior*”. Such behaviors include activities like offering educational scholarships, organizing volunteer programs, and promoting charitable giving (e.g., Hildebrand et al. 2017). Behaviors like these by a brand are designed to help its external stakeholders. Prior research indicates that social behaviors lead consumers to favorably evaluate their products (Chernev and Blair 2015), purchase more from brands (e.g., Sen and Bhattacharya 2001), and be more loyal to them (Du et al. 2007).

A brand with greater social behavior signals that it is interested in the wellbeing of consumers, employees, and other stakeholders. The fact that a brand is willing to expend resources for consumers' wellbeing is a signal that it has high moral standards (Wang, Krishna, and McFerran 2017). In contrast, a brand with minimal social behavior may be

perceived as purely focused on profits and not the overall wellbeing of its consumers. Since social behaviors reflect concern for matters of society, they represent high levels of moral behavior and standards (Campbell and Winterich 2018). As such, consumers are likely to expect the brand to engage in morally acceptable behaviors in the future (e.g., Inoue et al. 2017; Wagner et al. 2009). When a brand with a strong history of social behavior denies responsibility for harm towards the community, it suggests that the brand is unlikely to take steps to address the harm experienced by the community. This is likely to fall below consumers' moral expectations from the brand. As such, the brand's denial is likely to be less acceptable than the denial of a brand with lower social behavior facing the same scenario. Therefore, we hypothesize that denial of responsibility by a brand with a stronger track record of social behavior has a stronger negative effect on consumers' brand evaluations.

*H4: When a brand engages in higher levels of social behavior, denial of responsibility by the brand leads to a greater negative effect on its evaluations (compared to a brand that engages in lower levels of social behavior).*

In sum, the conceptual model shows that when a brand denies responsibility, consumers are likely to find it morally unacceptable, which in turn leads to reduction in brand evaluations (Figure 1). We also examine that consumers' moral expectations from brands in general (political ideology) and from a focal brand in particular (brand's social behavior) as moderators.



**Figure 1. Theoretical Framework**

### **1.3 Overview of Current Studies**

We test the main effect of denial responsibility on brand evaluations and mediating effect of judged morality (Study 1). Following the main study, we test the moderating effect of political ideology using two different crisis scenarios (Study 2A and Study 2B), and the moderating effect of brands' social behavior (Study 3) on brand evaluations using experiments.

### **1.4 Research Studies**

#### *1.4.1 Study 1*

The goal of study 1 is two-fold. First, we investigate the impact of denial of responsibility on brand evaluations in a controlled setting to test H1. Second, we test

whether the negative effect of denials on brand evaluations (hypothesized in H1) is mediated by the extent to which consumers find the brand's response morally wrong, as hypothesized in H2.

#### 1.4.1.1 Method

*Design, procedures, and sample.* Study 1 was a two-group (brand response: denial of responsibility vs. control) between-subjects design. A total of 400 adults participated in the experiment on Prolific ( $M_{\text{age}} = 43$ ,  $N_{\text{male}} = 194$ ) and received financial compensation. Twelve participants were screened out based on an attention check.

To begin, participants were instructed to read a description of a fictitious grocery store named Centrum Grocery that operated in multiple locations, had decent growth, and offered various products. Subsequently, participants were presented with a news article about a brand crisis involving the fictitious grocery store's supplier. The crisis was about a fire that resulted in the collapse of the supplier's factory building, trapping several workers inside. When asked by a journalist to comment on the incident, a spokesperson for the grocery store made different announcements in the two experimental conditions. These were randomized and counterbalanced. In the denial of responsibility condition, the grocery store expressed sympathies and stated that they cannot accept responsibility for the fire at its supplier's factory. In the control condition, the grocery store expressed sympathies and indicated that they will be investigating the incident to learn what led to the losses. The stimuli for this study, as well as all subsequent studies, can be found in the Appendix.

#### 1.4.1.2 Measures

After reading the news article, participants completed a manipulation check for Centrum Grocery's response and were asked to evaluate the brand. Brand evaluations was measured using scales anchored with "bad-good," "dislike-like," "positive-negative," and "favorable-unfavorable" (Ferraro, Kirmani, and Matherly 2013; Yoo and MacInnis 2005;  $\alpha = .99$ ; refer to Appendix A for all items used in this and subsequent measures). Following Goenka and Van Osselaer (2023), we asked participants to rate the morality of Centrum Grocery's response: "I think Centrum Grocery's response is ..." (1 = "morally acceptable," and 7 = "morally wrong"). Finally, participants completed a thought-listing task (e.g., Cacioppo, Von Hippel, and Ernst 1997; Harmeling et al. 2017). All measures were rated on seven-point Likert scales.

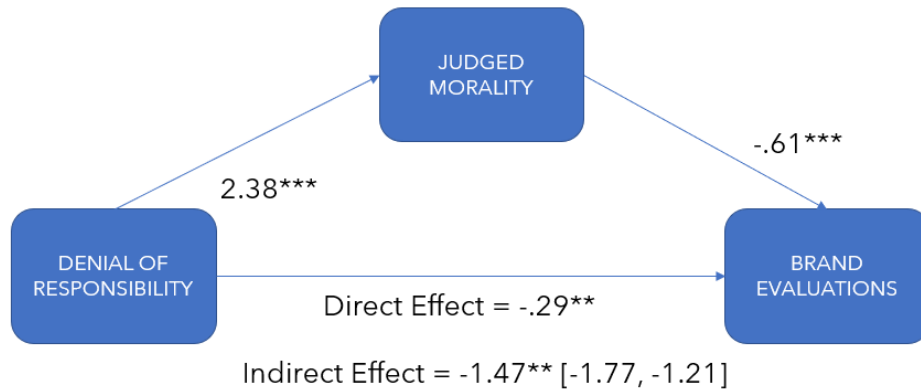
#### 1.4.1.3 Results

*Manipulation Check.* In the denial condition, participants agreed more strongly with the statement that "Centrum Grocery is denying responsibility for the fire at its supplier's factory." ( $M_{\text{denial}} = 5.62$  vs.  $M_{\text{control}} = 3.12$ ,  $F = 190.373$ ,  $p < .001$ ).

*Brand Evaluations.* An ANOVA with brand evaluation as the dependent variable revealed a statistically significant effect of denial of responsibility ( $M_{\text{control}} = 4.70$  vs.  $M_{\text{denial}} = 2.93$ ;  $F = 124.196$ ,  $p < .001$ ). In other words, denial of responsibility hurt brand evaluations. Thus, H1 is supported.

*Mediation Analysis.* We tested whether the negative effect of a brand's denial of responsibility on consumer evaluations of the brand is mediated by the extent to which consumers view the denial as morally unacceptable. We conducted mediation analyses using the PROCESS macro (Hayes 2017, MODELS 4) with 5000 bootstrapped samples, and summarize the results in Figure 2. The mediation analysis indicates that consumers' judgments about the morality of a denial of responsibility mediate its effect on brand evaluations (indirect effect:  $\beta = -1.47$ , 95% CI [-1.77, -1.21]). The direct effect of denials on brand evaluations is statistically significant ( $\beta = -.29$ ,  $p < .001$ ), suggesting a partial mediation. Thus, H2 is supported.

The thought-listing exercise revealed a potential explanation for these findings. Participants agreed that the grocery chain may not have legal responsibility, but thought the grocery chain did have a moral responsibility even though the event happened at its supplier's factory as indicated by the following representative quotes: *"I have no idea if they were legally liable, but morally I do believe they had an obligation to help those people."*; *"The grocery store is responsible at least morally, so they should at least take some of their profits and either help improve the factory or at least help out the families of those that were killed in the fire."*; *"If it's their supplier then they definitely are at least partially responsible."*; *"I would not expect any big corporation to have any amount of basic morals."*



**Figure 2. Study 1 Mediation Model**

#### *1.4.1.4 Discussion*

Study 1 provides support for our hypothesis that denial of responsibility has a negative effect on consumers' brand evaluations (H1). This effect is mediated by consumer judgments about the morality of the denial of responsibility (H2). Interestingly, consumers find denials morally wrong even when a brand's supplier rather than the brand itself engages in a transgression that results in a crisis.

#### *1.4.2 Study 2A*

The purpose of Study 2A is to investigate how consumers' political ideologies (liberal versus conservative) moderate their responses to denials of responsibility by a brand. We also investigate why consumers with different political ideologies respond differently to denials (e.g., socially driven and economically driven expectations).

#### 1.4.2.1 Method

*Design, procedures, and sample.* Study 2A is a two-group (brand response: denial of responsibility vs. control) between- subjects design. A total of 425 adults participated in the experiment on Prolific ( $M_{\text{age}} = 43$ ,  $N_{\text{male}} = 201$ ) and received financial compensation. Twenty-six participants were screened out based on an attention check.

Following Study 1, participants were instructed to read a description of a fictitious grocery store (*Centrum Grocery*) that operated in multiple locations, had decent growth, and offered various products. Subsequently, participants were presented with the same news article about a brand crisis involving the grocery store's supplier. Per the previous study, when asked by a journalist to comment on the incident, the spokesperson for the grocery store's announcement varied based on the assigned condition, which was randomized and counterbalanced. In the denial of responsibility condition, the grocery store expressed their sympathies and stated that they cannot accept responsibility. Per the previous study, in the control condition, the grocery store expressed their sympathies and indicated that they will be investigating the incident to learn what led to the losses. The stimuli for this study can be found in Appendix B.

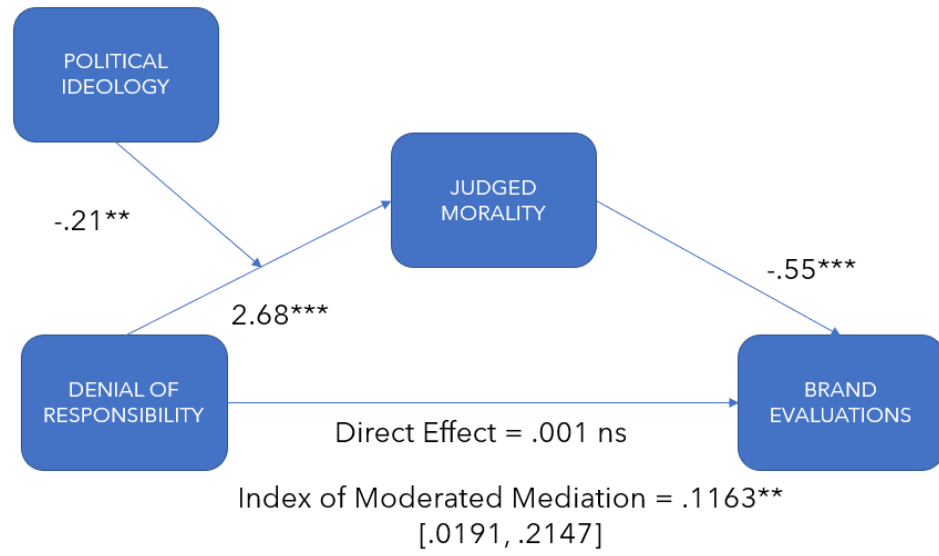
#### 1.4.2.2 Measures

After reading the news article, participants completed a manipulation check for the grocery store's response. Participants were asked to provide their evaluations of the brand. Brand evaluation was measured using scales anchored with "bad-good," "dislike-like,"

“positive-negative,” and “favorable-unfavorable” (Ferraro, Kirmani, and Matherly 2013; Yoo and MacInnis 2005;  $\alpha = .99$ ; refer to Appendix B for all items used in this and subsequent measures). Following Goenka and Van Osselaer (2023) we asked participants to rate the morality of Centrum Grocery’s response: “I think Centrum Grocery’s response is ...” (1 = “morally acceptable,” and 7 = “morally wrong”).

In order to understand why liberal consumers would react more negatively to denials, we tested the moderating effect of moral expectations driven by two distinct considerations – community-based considerations and economics-based considerations (agreement with the following statements: “Centrum Grocery has a moral obligation to take care of the communities in which it is present”; “Because Centrum Grocery benefits economically from its consumers, it has a moral obligation to take care of them”).

Finally, participants completed a thought-listing task (Cacioppo, Von Hippel, and Ernst 1997; Harmeling et al. 2017), indicated their political ideology (1 = “very liberal” and 7 = “very conservative”) (Kidwell et al. 2013) and filled out demographic questions. All measures were rated on seven-point Likert scales. We mean-center political ideology in our regression analyses. We control for age in our regression models as political ideology tends to evolve over time, with younger individuals avoiding extreme political identities and developing stronger political identities over time with the accumulation of life experiences and through historical events, such as wars (e.g., Huddy 2001; Lipsman 2007).



**Figure 3. Study 2A Moderating effect of Political Ideology**

#### 1.4.2.3 Results

*Moderated Mediation Analysis.* We conducted a moderated mediation analysis (PROCESS MODEL 7; Hayes 2017) with the brand’s response as the independent variable, brand evaluations as the dependent variable, consumer judgments about the morality of denials as the mediator, and political ideology as the moderator, which yielded a significant index of moderated mediation ( $ab = -.12$ ,  $SE = .05$ , 95% CI  $[.0191, .2147]$ ). The indirect effect of denials on brand evaluations was more negative when the political ideology was 1 SD lower than the mean (i.e., liberals) ( $ab = -1.69$ ,  $SE=.16$ , %95 CI  $[-2.02, -1.38]$ ) compared to 1 SD above the mean (i.e., conservatives) ( $ab = -1.28$ ,  $SE=.19$ , %95 CI  $[-1.65, -.93]$ ). These results support H3.

In order to understand why liberal consumers react more negatively to denials, we tested the moderating effect of socially and economically driven expectations by running two separate analyses. First, we conducted a moderated mediation analysis (PROCESS MODEL 7; Hayes 2017) with the brand's response as the independent variable, brand evaluations as the dependent variable, consumers' morality judgments as the mediator, and *socially driven expectations* as the moderator. This analysis yielded a significant index of moderated mediation ( $ab = -.14$ ,  $SE = .05$ , 95% CI [-.2596, -.0384]). Next, we conduct a t-test to see whether consumers with different political ideologies significantly differ in their socially driven expectations. We find that liberal consumers have higher community-based moral expectations from brands compared to conservative consumers ( $M_{\text{liberal}} = 5.81$ ,  $M_{\text{conservative}} = 5.46$ ,  $t = -2.628$ ,  $p < .05$ ).

Next, we conducted a moderated mediation analysis (PROCESS MODEL 7; Hayes 2017) with denial of responsibility as the independent variable, brand evaluations as the dependent variable, consumer judgments about the morality as the mediator, and *economics-driven expectations* as the moderator. Moderated mediation analysis yielded a significant index of moderated mediation ( $ab = -.18$ ,  $SE = .05$ , 95% CI [-.2973, -.0746]). Next, we conduct a t-test to check whether consumers with different political ideologies significantly differ in their economically driven expectations. As a result, similar to socially driven expectations, we find that liberal consumers have higher economically driven expectations from brands than conservative consumers ( $M_{\text{liberal}} = 5.83$ ,  $M_{\text{conservative}} = 5.41$ ,  $t = -2.988$ ,  $p < .05$ ).

#### 1.4.2.4 Discussion

Political ideology deals with expectations about appropriate behaviors of different people and companies (e.g., Henry 2010; Jost 2006; Jost, Federico, and Napier 2009). Our findings suggest that liberal consumers find a brand's denial of responsibility less morally acceptable than conservative consumers. We show that this is because liberals expect brands to take care of the communities in which they are present more so than conservative consumers. We find support that reciprocity (e.g., economic benefit) also underlies moral expectations. These findings support our theorizing that consumers believe brands gain resources from consumers over time and, in this sense, owe it to consumers to take care of them when harm occurs to fulfill the need for reciprocity. As this study involves a *value-based crisis*, in the next study, we investigate whether liberals react more negatively when a brand denies responsibility for a *performance-related crisis*.

#### 1.4.3 *Study 2B*

##### 1.4.3.1 Method

*Design, procedures, and sample.* Study 2B was a two-group (brand response: denial of responsibility vs. control) between- subjects design. A total of 651 adults participated in the experiment on Prolific ( $M_{\text{age}} = 46$ ,  $N_{\text{male}} = 322$ ) receiving financial compensation.

Again, participants were instructed to read a description of a fictitious grocery store (Centrum Grocery) that operated in multiple locations, had decent growth, and offered various products. Different than Study 2A, the description ended with a paragraph

mentioning Centrum Grocery’s read-to-eat meals under its own brand name “Centrum”. These meals are not manufactured by Centrum Grocery, however sourced from a reputable national manufacturer. Subsequently, participants were presented with a news article about a brand crisis involving Centrum ready-to-eat meals. The crisis was about customers falling ill due to E. coli found in these ready to eat meals, resulting in 23 hospitalized cases, and 3 life-threatening conditions.

When a journalist asked to comment on the incident, the spokesperson for Centrum Grocery’s announcement varied based on the assigned condition, which was randomized and counterbalanced. In the denial of responsibility condition, Centrum Grocery expressed their sympathies and stated that they cannot accept responsibility. In the control condition, Centrum Grocery expressed their sympathies and indicated that they will be investigating the incident to learn what led to the cases. The stimuli for this study can be found in Appendix C. This stimulus represents a performance-related crisis.

#### 1.4.3.2 Measures

After reading the news article, participants completed a manipulation check for Centrum Grocery’s response. Participants were asked to evaluate the brand. Brand evaluation was measured using scales anchored with “bad-good,” “dislike-like,” “positive-negative,” and “favorable-unfavorable” (Ferraro, Kirmani, and Matherly 2013; Yoo and MacInnis 2005; refer to Appendix C for all items used in this and subsequent measures). Following Goenka and Van Osselaer (2023), we asked participants to indicate their moral perception about Centrum Grocery’s response: “I think Centrum Grocery’s response is ...”

(1 = “morally acceptable,” and 7 = “morally wrong”). Each of these measures was collected using 7-point scales anchored on “strongly agree” and “strongly disagree”. Finally, participants completed a thought-listing task (e.g., Cacioppo, Von Hippel, and Ernst 1997; Harmeling et al. 2017), indicated their political ideology (1 = “very liberal” and 7 = “very conservative”) (Kidwell et al. 2013) and filled out demographic questions. All measures were rated on seven-point Likert scales. Following Study 2A, we mean-center political ideology and control for age in our regression models.

#### 1.4.3.3 Results

*Moderated Mediation Analysis.* We conducted a moderated mediation analysis (PROCESS MODEL 7; Hayes 2017) with the brand’s response as the independent variable. Brand evaluations was the dependent variable, the extent to which consumers find the brand’s response morally wrong was the mediator, and political ideology was the moderator. Moderated mediation model did not yield a statistically significant interaction at the  $p = 0.05$  level ( $\beta = -.1, p > .05$ ) and index of moderated mediation ( $ab = -.01, SE = .04, 95\% CI [-.0753, .0836]$ ).

#### 1.4.3.4 Discussion

This study shows that when the denial is about a performance-related crisis, both liberals and conservatives view denials unfavorably. Performance-related crises may trigger the “customer is king” expectations, leading them to think that the affected individuals are entitled to receive a form of remedy (e.g., compensation) for the harm (Jung

et al. 2017; Fernandes et al. 2022; Shepherd et al. 2024). Therefore, conservative consumers may be more sensitive when brands fall short of this expectation.

#### 1.4.4 Study 3

##### 1.4.4.1 Method

*Pretest.* We conducted a pretest with 191 prolific members receiving financial compensation. The main objective was to test the social behavior manipulation. The study involved a 2 (social behavior: high vs. low) x 2 (brand response: denial of responsibility vs. control) between-subjects design.

To begin, participants were instructed to read a description of a fictitious grocery store (*Centrum Grocery*) that operated in multiple locations, had decent growth and offered various products (see stimuli in Appendix 4). Per the previous study, while all participants read the same description about the grocery store, key details varied based on the participant's assigned condition (randomized and counterbalanced). In the high social behavior condition, the grocery store was portrayed as behaving responsible towards local communities, getting placed high in recent study of social responsibility initiatives. In the low social behavior condition, it was instead made clear that the grocery store did not behave responsibly towards its local communities, getting placed low in a recent study of social responsibility initiatives.

Following other studies, after reading information about the grocery store, participants were guided to read the recent news article about it. The news article contained

information about the brand crisis involving the grocery store's supplier. The supplier's factory had a fire resulting in injuries and deaths. The pretest showed that participants in the high social behavior condition perceived the brand more socially responsible after reading the brand's response for a crisis ( $M_{\text{low behavior}} = 2.47$ ,  $M_{\text{high behavior}} = 4.89$ ,  $F(1, 189) = 150.155$ ,  $p < .001$ ). Further, participants in the denial of responsibility condition perceived a higher intensity of denial from the brand's announcement compared to the control condition ( $M_{\text{control}} = 3.60$ ,  $M_{\text{denial}} = 5.57$ ,  $F(1, 189) = 184.229$ ,  $p < .001$ ).

*Main study.* Study 3 was a 2 (brand response: denial of responsibility vs. control) x 2 (Social behavior: high vs. low) between-subjects design. A total of 802 adults participated in the experiment on Prolific ( $N_{\text{male}} = 398$ ,  $M_{\text{age}} = 41.51$ ,  $SD = 12.95$ ) and received financial compensation. After reading the description of the grocery store detailed in the pretest, participants were asked how much goodwill they have towards the brand using scales anchored with "cold-warm", "unkind-kind", "unfriendly-friendly", "uncaring-caring" (adapted from Toure-Tillery and McGill 2015;  $\alpha = .86$ ). Next, participants were asked about their moral expectations from the brand, rating their level of agreement with three statements; "I expect Centrum Grocery to behave in an ethical manner in the future", "I believe Centrum Grocery will be fair when dealing with its stakeholders", and "I expect Centrum Grocery to be considerate of its customer". Each of these measures was collected using 7-point scales anchored on "strongly agree" and "strongly disagree" ( $\alpha = .99$ ).

Per the previous study, participants were presented with a news article about a brand crisis involving the grocery store's supplier. The crisis was about a fire that resulted

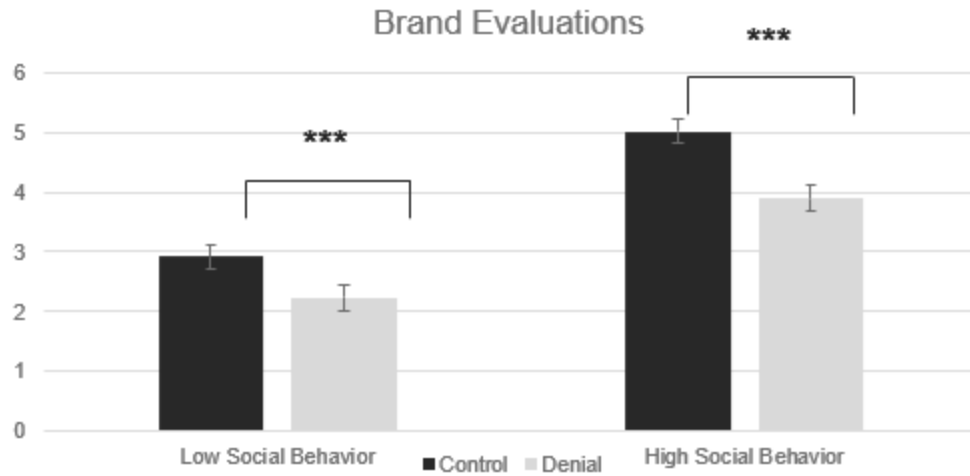
in the collapse of the supplier's factory building, trapping several workers inside. When a journalist asked to comment on the incident, the spokesperson for Centrum Grocery's announcement varied based on the assigned condition, which was randomized and counterbalanced. In the denial of responsibility condition, Centrum Grocery expressed their sympathies and indicated that their suppliers are independent companies who run their own operations and it is impractical for them to monitor each of them and denied responsibility. In the control condition, Centrum Grocery expressed their sympathies and indicated that they will be conducting an investigation of the incident to learn what led to the fire. The stimuli for this study can be found in Appendix D. After reading the news article, participants were asked for their evaluations of the brand using scales anchored with "bad-good," "dislike-like," "positive-negative," and favorable-unfavorable" (Yoo and MacInnis 2005). Next, participants indicated the extent to which they blame Centrum Grocery using a seven-point Likert scale. Finally, they completed manipulation checks, provided their age and gender.

#### 1.4.4.2 Results

*Manipulation checks.* Consistent with the intended manipulation, a one-way ANOVA revealed participants in the high social behavior condition perceived the brand more socially responsible after reading the brand's response for a crisis ( $M_{\text{low social behavior}} = 2.51$ ,  $M_{\text{high social behavior}} = 4.73$ ,  $F(1, 800) = 392.055$ ,  $p < .001$ ). Further, participants in the denial of responsibility condition perceived a higher intensity of denial from the Centrum

Grocery's announcement compared to the control condition ( $M_{\text{control}} = 3.21$ ,  $M_{\text{denial}} = 5.95$ ,  $F(1, 800) = 544.705$ ,  $p < .001$ ).

*Results.* An ANOVA on brand evaluation showed a significant interaction ( $F(1, 798) = 4.202$ ,  $p = .041$ ) and significant main effects of both denial of responsibility ( $F(1, 798) = 71.615$ ,  $p < .001$ ) and social behavior ( $F(1, 798) = 311.235$ ,  $p < .001$ ). The findings were robust even after controlling for participant's blame towards Centrum Grocery. Contrast analysis showed that in high social behavior condition, denial of responsibility response led to significantly lower brand evaluations than in the neutral response condition ( $M_{\text{control}} = 5.02$ ,  $M_{\text{denial}} = 3.90$ ,  $F(1, 798) = 15.572$ ,  $p < .001$ ). For low social behavior brand, denial of responsibility had a significant effect on consumers' evaluations ( $M_{\text{control}} = 2.92$ ,  $M_{\text{denial}} = 2.23$ ,  $F(1, 798) = 54.977$ ,  $p < .001$ ). Consistent with our hypothesis, the reduction in consumer evaluations was greater for the high social behavior brand. Given these findings, H4 is supported.

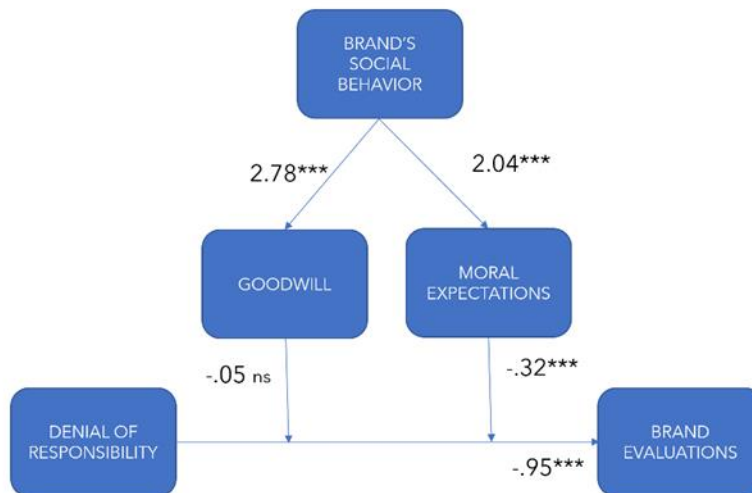


**Figure 4. Study 3 Two-Way ANOVA**

We also examine whether a brand’s prior social behaviors led to expectations and goodwill and whether these moderate the relationship between denial of responsibility and brand evaluations. By using Model 2 and 14 from the PROCESS macro, we isolate mechanisms of social behavior (goodwill and moral expectations), which consumers respond to denial of responsibility announcement (Hayes 2017). Continuous variables (goodwill and expectations) are mean centered. We find that a brand’s prior social behaviors positively impact participants’ goodwill towards the brand ( $\beta = 2.78, p < .001$ ) and expectations from the brand for the future ( $\beta = 2.04, p < .001$ ). The effect of denial of responsibility on brand evaluations was negative and significant ( $\beta = -.95, p < .001$ ), indicating that denial of responsibility announcement lowers consumers’ brand evaluations. The moderating effect of moral expectations on denial of responsibility and

brand evaluations relationship is significant and negative ( $\beta = -.32$   $p < .001$ ), however the moderating effect of goodwill on denial and brand evaluation relationship is not significant ( $\beta = .05$   $p = .54$ ). Our findings suggest that consumers evaluate denials based on their moral expectations that are influenced by a brands' prior social behavior. Please see Figure 5 for detailed results.

We asked open questions in the pretest to better understand what participants think of the brand following the denial announcement for the fire in its supplier's factory. One participant commented that "*Central Grocery should have shown compassion and merit for the workers at the factory. Even though, it is not responsible for the fire that occurred at the factory. It is responsible for its public perception and image and thus should support the factory by stating that they support and will do their best to help the supplier recover from the incident.*". This statement suggests that even though participants do not blame the brand for the harm, the denial by the brand still violates consumers' moral expectations.



**Figure 5. Study 3 Moderation Model**

#### 1.4.4.3 Discussion

By participating in social behavior initiatives, brands signal to their stakeholders—including customers, employees, suppliers, and the broader community—what they stand for beyond profit-making. These actions serve as a tangible representation of a brand's commitment to protecting the community. As such, consumers expect the brand to engage in morally sound behaviors in the future. When a brand with a strong history of social behavior denies responsibility for harm towards the community, consumers' moral expectations from a brand are not met. As such, the brand's denial appears to be less acceptable than the denial of a brand with a lower level of social behavior facing the same scenario. These findings support our theorizing that consumers evaluate denials even more negatively when brands act in ways that violate moral expectations.

## 1.5 General Discussion

Brands frequently face crises resulting from a range of transgressions such as deceptive marketing, defective products, and unethical labor practices. How brands deal with such crises can have an important effect on consumers' evaluations of those brands. Prior studies suggest that when brands respond to such crises in an accommodating way, for example, by compensating consumers, remedying the harm, and revising harm-causing operating procedures, consumers respond to the brands favorably (Dawar and Pillutla 2000; Nickerson et al. 2022). In many cases, however, a brand may want to deny responsibility for harmful behavior such as a transgression by a brand's *supplier* (instead of the brand) or by willful misuse of a product by consumers. Prior literature, however, does not shed light on the considerations consumers use to judge a denial of responsibility or how it affects consumers' brand evaluations. The present research addresses these questions and makes several theoretical contributions with important implications for practice.

### 1.5.1 Theoretical Contributions

We contribute to the brand crisis literature by bringing in the impact of consumer morality on their responses to brands' denials of responsibility. We argue that because transgressions directly or indirectly harm members of a community, a moral perspective is informative in understanding consumer judgments of the appropriateness of denials of responsibility. In particular, consumers' views of the role of brands in a community, reflected by their political orientation, are likely to influence their expectations from

brands, hence their responses to a brand's denials of responsibility. Consumers' moral expectations from brands are also likely to be influenced by brands' prior social behaviors, which in turn impact how consumers evaluate brands following their denial. When consumers' moral expectations from a brand are not met, their responses are unfavorable.

Across four studies, we find that consumers see denials of responsibility as morally wrong, even when the transgressions are not by brands but their suppliers. Denials lead to lower brand evaluations among consumers in general, especially among liberal consumers. These findings point to the importance of the morality perspective in understanding consumer responses to denials. Interestingly, our findings suggest that prior behaviors by a brand raise consumer expectation of moral behavior from the brand more than they give the brand a moral license for missteps in the future.

Our research makes several theoretical contributions. First, prior research posits that how consumers perceive a brand in the event of a brand crisis is influenced by the words they use and actions they take (Benoit 1995; Coombs 2007). This, in turn, shapes current and future consumers' responses toward the brand. When brands face crises, they have multiple strategies to choose from. Prior studies mostly focused on how consumers respond to remedial strategies such as providing compensation, offering apologies, refunds, or taking corrective actions (Dawar and Pillutla 2000; Desmet, De Cremer, and van Dijk 2011; Dutta and Pullig 2011; Langaro et al. 2024; Nickerson et al. 2021). Past research found that generally, when brands follow one of the remedial strategies, consumers tend to respond favorably. However, there may be valid reasons for a brand to deny responsibility for a crisis, especially when they believe that they are not the ones to

blame. We further contribute to these theories by studying how consumers respond when brands deny responsibility for crises over which they have limited control over.

Second, we contribute to brand equity literature by showing the moderating effect of brands' social behavior. Brands' prior actions can be a double-edged sword. One stream of literature shows that it can protect brands during crises (e.g., Dawar and Pillutla 2000; Fombrun and Shanley 1990; Oliver 1980). However, another stream of literature demonstrates that prior positive actions or relationships can increase consumers' expectations, causing crises to violate these high expectations and therefore lead to even more negative consumer responses (Oliver and Swan 1989; Yoon, Gurhan-Canli and Schwarz 2006; Harmeling et al. 2016). We find that prior social behavior of a brand lead consumers to believe that the firm will act in similarly desirable ways in a wide range of activities that have an impact on the community. Consumers hold brands with prior social behavior to a higher standard of morality. Compared to a brand with low level of prior social behavior, denial by a brand with social behavior causes a greater gap between what consumers expected and what the brand did in the instance of a denial. This in turn leads to a greater drop in consumers' favorability of a brand.

Third, we also advance literature by focusing on political ideology. Moral foundations literature suggests that liberals and conservatives may get sensitive about different moral issues (Goenka and Thomas 2024; Haidt and Graham 2007). Prior work suggests that liberals (vs. conservatives) are especially cognizant of situations where individuals are harmed or denied their rights (Goenka and Van Osselaer 2023). Since employees or consumers get harmed as a result of a brand crisis, liberal leaning consumers are likely to expect more from brands to take responsibility for the harm as they have more

resources. We demonstrate that liberals (vs. conservatives) are likely to view a brand's response morally wrong and therefore view that brand less favorably when brands deny responsibility for a crisis. Specifically, we find that liberal consumers are more inclined than conservative ones to believe that brands have moral obligations towards consumers for *values-related crises* such as employee rights. However, we find that liberals and conservatives do not differ on how they view a brand's denial of *performance-related crises* about their product that influence its own customers. Our findings support prior research, for certain crisis types, conservative-leaning consumers feel entitlement, which shapes their expectations about brand's appropriate behavior (e.g., remedy, special treatment) (Shephard et al. 2024).

### 1.5.2 Managerial Implications

Our study provides important insights for managers who may be considering denying responsibility for a brand crisis they are facing. One might expect that consumers will understand if a brand denies responsibility for a crisis over which it had limited control. However, our study indicates that denials fall short of consumers' expectations of moral behavior from brands and lead to a reduction in brand evaluations. Therefore, we recommend brand managers need to be very cautious when considering denying responsibility following a brand crisis.

Managers should be especially cognizant of increased negative evaluations from liberal (vs. conservative) consumers likely to follow denials for value-related crises such as employee rights violations. However, managers of brands which target primarily conservative-leaning consumers should not think that denials won't hurt them at all. Our

experimental studies suggest that liberal- as well as conservative-leaning consumers respond negatively to denials for performance-related crises such as product harm. Furthermore, managers should avoid denying responsibility if their brands have engaged in social behavior extensively because the consequences of denials are more severe for these brands. Consumers have higher expectations from these brands to protect wellbeing of the society and prevent any harm.

Overall, before deciding to deny responsibility for a crisis, managers should consider the political views of their consumers as well as their brand's previous social behavior. Managers should understand where they stand with these key factors to better predict how negatively their consumers will respond to a crisis, and if the cost savings associated with denying a crisis would offset the costs of offering a remedy.

### *1.5.3 Limitations and Future Research Directions*

Our research left some unanswered questions that future research could address. In our research, we only examine how consumers respond to the denial of responsibility strategy; however, it might be interesting to compare this strategy with other crisis management strategies. For instance, future research can explore how do consumers respond to insincere apologies versus denials. Past research has found that, apologies worsen consumers' negative evaluations when companies' transgressions were exposed by NGOs (Grappi et al. 2024). As consumers think that the apology is inauthentic and had to be done due to the NGO exposure.

In this research, we focused exclusively on the denial of responsibility strategy. However, some companies may employ different forms of denial strategies, such as

denying any intent to do harm, blaming the victim, claiming that “everyone is doing it” or minimizing the perceived damage caused by the crisis (Coombs 2007). While these strategies are a form of denial, they may operate differently compared to denial of responsibility. Another avenue to consider denial of responsibility is how denial statements were framed, whether brands deny responsibility in an empathetic or defensive way. Consumers may view alternative denial strategies differently in terms of whether they are morally right or wrong, and therefore influence favorability of the brand. We study consumers’ response to denials in terms of favorability of the brand, however, past research emphasized that the image of the market entity negatively impacts consumers’ moral behaviors and can even lead to toxicity (Duffek, Eisingerich, and Merlo 2023; Rotman, Khamitov, and Connor 2018). Additionally, future researchers can study whether denials by firms can lead consumers to boycott a firm’s products or services (Lim and Shim 2019) or protest the firm (Grappi, Romani, and Bagozzi 2013).

Future research could also explore the moderating effects of the consumer’s religiosity and the harmed entity’s vulnerability on denials during brand crises. This would add depth to our current understanding of how varied factors, brand’s prior social behavior and political orientations, influence consumers’ moral expectations of a brand. Even though religious consumers are likely to have higher moral standards of how companies should behave, forgiveness is a value shaped by religion (Mathras et al. 2016). Recent research has found that religion influence consumers to be more forgiving when evaluating brand transgressions and response strategies where a brand takes responsibility (Hyodo and Bolton 2015).

Another concept that future research can investigate is the size of the company impacted. Larger firms are inherently more powerful; thus, consumers may have higher expectations of reciprocity when interacting with them. Firms that are smaller, or perceived as smaller and local may have lower reciprocity expectations from consumers. Investigating whether smaller firms with a demonstrated history of strong social behavior have any additional moral insurance may provide managers with additional insights as they build their response strategy to crises.

In addition, some industries are more prone to transgressions. This may result in an overall shift in consumer expectations. If crises are more common in a particular industry vs. others, consumers may expect less from brands in that industry. While crises caused by labor practices and environmental harm may be common in the fast fashion industry, the pharmaceutical industry may face fewer crises due to regulations, strict quality control standards, and compliance requirements. Consumers may react more negatively to a crisis in the pharmaceutical industry as unlike the fashion industry, most major brands do not have a history of transgressions. Investigating this relationship may help managers take the industry they operate in into consideration when building a crisis response strategy.

## **CHAPTER 2. BUMP IN THE ROAD OR A POTHOLE: DO RESOLUTION DORMANCY AND CSR MATTER FOR RECALLS?**

### **2.1 Introduction**

A product recall is a “*recovery strategy through which a firm asks its customers to return its defective product in order to replace, fix, or reimburse*” (Khamitov, Grégoire, and Suri 2020, p. 520). Today, firms are being held even more accountable about how they manage a product recall. Firms take variety of decisions related to how to manage a recall, which provide a chance not only to minimize damages but also find opportunities to present its capabilities (e.g., Raithel et al. 2023; Siomkos and Kurzbard 1994; Smith, Thomas, and Quelch 1996).

Recall announcements provide important information to investors to help evaluate a recall and decide on how they will react to this new information either by penalizing or rewarding the firm. Investors evaluate recalls in terms of direct and indirect costs (Chen, Ganesan, and Liu 2009; Gao et al. 2015; Hora, Bapuji, and Roth 2011; Javadinia, Gill, and Jayachandran 2023; Liu, Shankar, and Yun 2017). Direct costs involve expenses related to product recall process processes, such as operational costs associated with remedying a defective component. Indirect expenses involve potential damages caused beside the recall process, such as a drop in firm reputation (e.g., Liu, Shankar, and Yun 2017). Investors evaluate firms’ decisions regarding the timeframe in which the issue will be addressed, and a recall campaign will be completed to predict direct and indirect costs associated with

a recall. Prior studies show that delays in initiating a recall, such as notifying NHTSA, result in higher penalties on firm value (Astvansh et al. 2022; Eilert et al. 2017). Yet, prior research has not examined the timeframe between announcing a recall and starting the resolution process. The timeframe we are studying in this paper is the time elapsed between when a recall is officially issued and when consumers are notified, which we call as *resolution dormancy*. The resolution dormancy may provide critical information about how costly the recall will be in terms of operational and financial planning. From investors' perspective, how much time a firm allocates to coordinate a recall may act as an indicator of the magnitude of direct and indirect costs.

However, investors do not only react to manufacturers' decisions involving the current recall, but they also consider the prior actions of these manufacturers. Firms acquire intangible resources through engaging in corporate social responsibility initiatives (CSR) (Surroca, Tribó, and Waddock 2010). Prior literature has shown that CSR initiatives demonstrate firms' intention to respond to the needs of a variety of stakeholders, which in turn builds competitive advantage for the focal firm (Mishra and Modi 2016; Sen, Bhattacharya, and Korschun 2006). Prior studies demonstrate an inconsistency between CSR initiatives and stakeholder responses due to the varying type of CSR initiatives (Peloza 2009; Peloza and Shang 2011). Investors do not view every CSR type equally attractive (e.g., Campbell 2007). As firms have the option to engage in a variety of CSR initiatives, it is important to understand which type of CSR initiative results in favorable versus unfavorable investor reactions in responding to product-harm crises with longer resolution dormancy. We take an exploratory approach (Golder et al. 2023) to answer the following research questions:

(1) Does recall resolution dormancy influence firm value?

(2) How do different types of CSR influence the relationship between resolution dormancy and firm value?

Utilizing data from the National Highway Traffic and Safety Administration (NHTSA) and CSRHub, we examine automotive recalls between 2009 and 2019. Past research has shown that delays in recalling are punished and signal higher costs (e.g., Eilert et al. 2017), however long resolution dormancy also helps firms to be more efficient with their resources. Using the event study methodology, our results indicate that resolution dormancy has a positive impact on firm value. However, we find that investors respond negatively to higher resolution dormancy when the manufacturer has high philanthropic CSR, as the manufacturer falls short in terms of efficiency. So, firms may not benefit fully from longer resolution dormancy when engaged in philanthropic CSR.

We contribute to the product recall literature by exploring the financial consequences of resolution dormancy. Prior studies explored the consequences of the time between investigation start date and recall issue date (e.g., Astvansh and Eshgi 2023; Eilert et al. 2017), defect awareness and recall issue date (e.g., Astvansh, Ball, and Josefy 2022), and product launch date and recall announcement date (Hora, Bapuji, and Roth 2011). However, we study the time between recall issue date and owner notification date. Timeframes in prior studies cover the time before the recall was issued, whereas our timeframe covers after the recall was issued. We show that a longer dormancy time would mitigate direct costs such as planning and signal information about resource efficiency of a manufacturer. Further, we build on prior research by showing boundary conditions that

firms can use to influence how investors respond to resolution dormancy. Since product-harm crises are common, managers should gain a better knowledge of how to respond to these crises and protect themselves through the decisions they can take. This research responds to recent calls to explain when positive (or negative) consequences are expected in product-harm crises by examining the impact of diverse corporate social responsibility initiatives on product-harm crisis management (e.g., Khamitov, Grégoire, and Suri 2020).

## **2.2 Theoretical Framework**

### *2.2.1 Product Recalls*

Product recalls may convey negative information about a brand. From investors' perspective, recalls incur costs. Direct costs involve defective component repair costs, and indirect ones involve costs related to loss in reputation (Liu, Shankar, and Yun 2017). Investors evaluate both direct and indirect costs of product recalls to picture financial health of the manufacturer in the long term (Chen, Ganesan, and Liu 2009; Thirumalai and Sinha 2011).

In this paper, we follow the exploratory (empirics first) approach (Golder et al. 2023). Considering stakeholder theory and resource-based view (RBV) of the firm, we investigate how firm value is impacted by *resolution dormancy* and how the *type* of CSR firms engage in influences the relationship between resolution dormancy and firm value. Stakeholder theory emphasizes the importance of delivering stakeholder value for a firm to be financially successful (Donaldson and Preston 1995; Pelozo and Shang 2011). Stakeholder theory suggests that firms should prioritize the interests of their stakeholders (Freeman 1984; Philips et al. 2019). Keeping strong relationships with stakeholders helps

firms enhance their cash flow and decrease idiosyncratic risk, which improves the firm's financial performance (Brav and Heaton 2002).

RBV suggests that firms can create resources by demonstrating how they manage a product harm crisis and investing in CSR. These resources are defined as any entity, tangible or intangible, that the firm has at its disposal to “*enable it to produce efficiently and/or effectively a market offering that has value for some market segment or segments*” (Hunt and Morgan 1995, p. 6). The RBV posits that the firm's competitive advantage is rooted in assets that are valuable and non-substitutable (Barney 1991; Sen, Bhattacharya, and Korschun 2006). This competitive advantage likely leads investors to think that the company is better at managing product recalls (e.g., coordinating logistics). This in turn, positively influences profitability (Day and Wensley 1988; Day and Van de Bulte 2002; Grant 1991).

Brands also utilize CSR initiatives to build or enhance relationships with stakeholders (Brown and Dacin 1997; Peloza and Shang 2011). CSR has been defined as, “*...the efforts undertaken by a firm to prevent, limit, or redress either the negative externalities of its operations or broader social problems not necessarily of its own creation,*” (Jayachandran, Kalaignanam, and Eilert 2013, p.1255). CSR involves a wide range of practices and differing objectives (Peloza 2009). Prior research shows that investors respond to CSR initiatives differently, as these initiatives' potential benefits vary based on the risks to which a brand is exposed to and the expectations they create (Koh et al. 2014; Mishra and Modi 2016; Peloza and Shang 2011). Therefore, firms are not capable to generate value from all types of CSR initiatives (e.g., Jayachandran, Kalaignanam, and Eilert 2013).

In this study, we focus on CSR initiatives related to community. We focus on community CSR in this study for several reasons. First, community CSR initiatives are more visible than other types of CSR, making them more likely to shape investor expectations (Peloza 2009). Second, the primary goal of product recalls is to promote safety and sustain consumer well-being, this also aligns closely with the main objectives of community CSR. Therefore, investors are more likely to evaluate a manufacturer's prior community CSR initiatives in product recall context.

Firms engaging in community CSR initiatives gain a positive image among the community and create opportunities for firms. CSR initiatives build intangible assets, which are viewed positively by investors (Fombrun, Gardberg, and Barnett 2000; Godfrey 2005; Luo and Bhattacharya 2009). Resources gained from CSR initiatives shape how investors evaluate a firm's actions and what they expect from firms (Minor and Morgan 2011). Investors may penalize companies with a strong CSR record when they engage in behaviors that are not consistent with the "good" image (Miller, Eden, and Li 2020).

We adopt two types of community CSR- philanthropic and product CSR as they provide distinct resources and shape expectations differently. Product CSR is about efforts toward offering sustainable product/service solutions and maintaining quality of these products and services (CSRHub 2024; Mishra and Modi 2016). Product CSR initiatives are directly tied to the operations of a manufacturer. Stakeholders are likely to view operational capability and urgency to resolve issues related to consumer safety as beneficial resources. On the other hand, philanthropic CSR is about efforts toward charitable giving, volunteerism, and donation of goods (CSRHub 2024). Philanthropic CSR effort provide intangible resources, such as a "good" image and indicates slack

resources (File and Prince 1998; Lantos 2001). Philanthropic CSR covers relationship between a company and the communities within which a company is embedded in, whereas product CSR covers the responsibility of a company for the development, design, and management of its products and services and their impacts on customers.

### *2.2.2 The Effect of Resolution Dormancy on Firm Value*

After initiating a recall, automotive manufacturers are obligated to notify all registered owners and purchasers of the affected cars about the product recall. In this notice, the manufacturer provides detailed information about the problem and explains how and when consumers can get the affected component remedied and how long the repair will take (NHTSA 2024). The time between when a recall gets issued and when consumers are notified can impact firm value as it signals how quickly the company can manage and resolve the problem. We define resolution dormancy as the time between when a recall is officially initiated and when consumers are notified.

Auto manufacturers may need time for resolution dormancy to ensure adequate operational and financial planning. First, companies may struggle managing the operations of a recall. Coordinating with local dealerships for product repairs may pose challenges and potentially require additional resources. Furthermore, obtaining and distributing needed components for product repairs may also require time. Therefore, the need for operational planning may increase the time required before vehicle owners are notified (e.g., He et al. 2020; Hora, Bapuji, and Roth 2011; Wowak et al. 2020). Furthermore, handling operations with a short dormancy period is challenging as it may be difficult for dealers to train the staff about the recall in a limited timeframe. This may potentially impact

how successfully a recall is managed, and therefore influence the firm's cash flow in the long term through loss in reputation and brand value.

Second, shorter resolution dormancy is financially challenging. Investors evaluate all costs and their effects on the recalling firm's cash flow in the short run (Govindaraj, Jaggi, and Lin 2004; Liu, Shankar and Yun 2017; Zheng 2023). Planning for a short resolution dormancy increases direct recall costs in the short term. A longer dormancy period prevents extreme decreases of cash flow, which would signal to investors that the manufacturer would not lose its competitiveness (e.g., still being able to perform marketing campaigns, invest in top talented employees etc.). Investors may appreciate auto manufacturers who recognize the harm and issue a recall quickly (e.g., Eilert et al. 2017). However, once the recall is issued, investors may be concerned with higher direct costs and inefficient use of resources.

According to RBV and stakeholder theory, investors are likely to view longer resolution dormancy as an efficient use of organizational resources. Longer resolution dormancy may signal stakeholders that the company is taking sufficient time to prepare for a recall efficiently. Therefore, investors are likely to evaluate longer resolution dormancy as a strategic approach to managing product recalls. We expect longer resolution dormancy to have a positive impact on firm value.

### *2.2.3 The Moderating Effect of Product CSR*

Product CSR is defined as a company's efforts to design products or services that improve the health and quality of life of consumers while creating new market opportunities through introducing sustainable technologies or processes (CSRhub 2024).

Operational capabilities of a manufacturer play a key role in the success of a company's Product CSR activities. Therefore, stakeholders are more likely to view operational capability and attention to resolve issues related to consumer safety as a strength of companies with strong product CSR engagements (Miller, Eden, and Li 2020). However, investors may expect companies, who are known for strong product CSR, to use their operational strength and competency to resolve a recall faster. Therefore, investors may get disappointed when these manufacturers do not offer a short resolution dormancy. This might also indicate poor operational management of resources as it signals that product CSR did not help these manufacturers enhance their operational capabilities. Thus, we expect product CSR to negatively moderate the relationship between resolution dormancy and firm value.

#### *2.2.4 The Moderating Effect of Philanthropic CSR*

Philanthropic CSR spans across initiatives such as charitable giving, donations of goods, and volunteerism of staff time (CSRHub 2024). This type of CSR is known to build a reservoir of goodwill for stakeholders towards companies engaging in it (Ahluwalia et al. 2000). Companies with a strong record of philanthropic CSR activities often set high ethical standards (Alhouti, Johnson, and Holloway 2016). These philanthropic CSR engagements imply that companies involved may have resource slack (Lantos 2001). Therefore, investors would expect companies to show efficiency in other areas and exhibit increased agility, such as being able to resolve a product recall quickly to protect consumer safety. Therefore, when companies with philanthropic engagements do not have short resolution dormancy, this may signal that they are inefficient with their resources, which

could be viewed negatively by stakeholders. Thus, we expect philanthropic CSR to negatively moderate the relationship between resolution dormancy and firm value.

## **2.3 Methodology**

### *2.3.1 Data*

We use U.S. automobile industry context for several reasons. According to 2020 US Economic Contribution Report, auto manufacturers and their suppliers are America's largest manufacturing sector, responsible for 3% of gross domestic product in the United States. Also, this industry has a high frequency of recalls, which provides an ample number of recall events for analysis. In addition, product recalls in the auto industry are regulated by National Highway Traffic and Safety Administration (NHTSA). Therefore, data on strategic variables are publicly available. For these reasons, the automotive industry has been the context of other studies in the product recall literature.

We compiled the sample for this study from various data sources. First, we start with recall dataset by NHTSA. We only focus on consumer-passenger cars in our research context. Next, we merge recall observations with CSR data at the manufacturer level. CSRhub only provides ratings when sufficient data is collected to assess the firm CSR performance (CSRHub 2024b). Therefore, some CSR data cannot be matched with some recall observations because it is missing due to data unavailability. Lastly, we collected data on firm value (CAR) and control variables from various databases for matched recall-CSR observations. Consistent with prior research exploring investors' reactions to product recalls, the unit of analysis is at the manufacturer level (Chen, Ganesan, and Liu 2009; Eilert et al. 2017; Javadinia, Gill, and Jayachandran 2023).

## 2.3.2 Variables

### 2.3.2.1 Cumulative Abnormal Returns

The dependent variable is the short-term cumulative abnormal returns (CAR) resulting from the auto manufacturer's public product recall announcement computed by the event study methodology (e.g., Fama and French 1993; Sorescu, Warren, and Ertekin 2017). In order account for the possibility of information spillover in the market, we examine cumulative abnormal returns (CAR) for several days around the day of the event (Astvansh and Eshgi 2023; Chen, Ganesan, and Liu 2009; Eilert et al. 2017; Geyskens, Gielens, and Dekimpe 2002; Liu, Shankar, and Yun 2017; Srinivasan and Bharadwaj 2004). Following past literature, we examine alternative windows and choose the most significant CAR in the window as our dependent variable, which is (-2,2) in our case. Following prior studies, our estimation is based on 255 days (day -301 to day -46) (e.g., Astvansh and Eshgi 2023; Cowan and Sergeant 1996; McWilliams and Siegel 1997).

We use the Fama-French four-factor model (Carhart 1997; Fama and French 1993). The effect of the recall announcement is examined by the difference between the return  $R_{it}$  and the expected returns ( $E(R_{it})$ ) for auto manufacturer  $i$  on day  $t$ , which indicates if the product recall announcement had not happened.  $R_{mt}$  indicates the returns of the benchmark market portfolio on day  $t$ .  $SMB_t$  indicates the difference of returns between small capitalization stocks and large capitalization stocks.  $HML_t$  specifies the difference in returns between high and low book-to-market ratio stocks.  $UMD_t$  shows the return momentum.

$$AR_{it} = R_{it} - E(R_{it})$$

$$AR_{it} = R_{it} - (\hat{\alpha} + \hat{\beta} R_{mt} + \hat{\gamma} SMB_t + \hat{\delta} HML_t + \hat{\sigma} UMD_t)$$

$$CAR_{(-t_1, t_2)} = \sum_{t=-t_1}^{t_1} AR_{it}$$

### 2.3.2.2 Resolution Dormancy

It is the number of days between when a manufacturer issues a recall (RCDATE) and the date when the manufacturer notifies the owner that the recall will start (ODATE).

### 2.3.2.3 Corporate Social Responsibility

We obtain CSR data from the CSRHub database. CSRHub relies on a broad variety of data sources: sustainability reports, sustainability indices (e.g., MSCI), media (e.g., Newsweek, Thomson Reuters), sources focusing on a given topic (e.g., Glassdoor). These distinct sources track different groups of companies, because there are industry or country specific sources. CSRHub's ratings are synthesized from 796 sources and summarized into a sub-category score (e.g., product CSR ratings).

CSRHub takes each of their sources and converts it into a rating on a 0 to 100 scale (100 = most positive rating). Then, they normalize it by comparing scores from different data sources for the same company. They weigh each source based on their estimate of its credibility and value and combine all the available data on a company and generate base ratings at the CSR subcategory level (CSRHub 2024). Importantly, CSRHub ensures the representativeness of ratings by not providing a rating for the focal month when enough information cannot be accessed or collected.

#### 2.3.2.4 Philanthropic CSR

Prior month's philanthropic CSR activities reflect a company's citizenship, charitable giving, and volunteerism.

#### 2.3.2.5 Product CSR

Prior month's product CSR activities, which includes creating new market opportunities through new sustainable technologies or processes and produce or market goods and services that enhance the health and quality of life for consumers.

#### 2.3.2.6 Control Variables

We control for several recall characteristics, including problem severity, recall volume and recall strategy as investors also evaluate these aspects when responding to product recall announcements (Chen, Ganesan, and Liu 2009; Eilert et al. 2017; Hsu and Lawrence 2016; Javadinia, Gill, and Jayachandran 2023; Thirumalai and Sinha 2011). Additionally, we control for firm characteristics including reliability, profitability and advertising intensity as those influence investor expectations (Astvansh and Eshghi 2023; Eilert et al. 2017; Pagiavlas et al. 2023). Please see Table 1 for operationalizations of variables.

**Table 1. Variables, Operationalizations and Data Sources**

<i>Measure</i>	<i>Operationalization</i>	<i>Sources</i>	<i>References</i>
<i>Firm Value</i>	FF Four Factor CAR, 5 days around product recall initiation date (-2,2)	CRSP	
<i>Dormancy Time</i>	Natural logarithm of the number of days between the date the NHTSA issued a recall (RCDATE) and the date when the owners are notified (ODATE). Logarithm was taken because the distribution is skewed and peaked (that is, high kurtosis)	NHTSA	This study
<i>Philanthropic CSR</i>	Prior month's philanthropic CSR activities, which includes philanthropy and community development. It reflects a company's citizenship, charitable giving, and volunteerism.	CSRHub	This study
<i>Product CSR</i>	Prior month's product CSR activities, which includes creating new market opportunities through new sustainable technologies or processes and produce or market goods and services that enhance the health and quality of life for consumers. It reflects the integrity of a company's products.	CSRHub	This study
<b>Recall Related Control Variables</b>			
<i>Problem Severity</i>	Principal component score of number of (1) complaints, (2) crashes/fires, (3) injuries, and (4) fatalities. Higher scores indicate more severe problems.	NHTSA	Eilert et al. 2017; Javadinia, Gill, and Jayachandran (2023)
<i>Recall Volume</i>	Natural logarithm of the number of units recalled (field POTAFF in FLAT_RCL.txt).	NHTSA	Chen, Ganesan, and Liu (2009); Eilert et al. (2017); Gao et al. (2015); Hsu and Lawrence (2016); Thirumalai and Sinha (2011)
<i>Recall Strategy</i>	1 = "MFR", if the recall was voluntarily, 0 = "ODI" or "OVSC", if the recall was mandatory (INFLUENCED_BY in FLAT_RCL.txt)	NHTSA	Chen, Ganesan, and Liu (2009); Liu, Shankar, and Yun (2017)
<b>Firm Related Control Variables</b>			
<i>Reliability</i>	Three-year average of problem scores of all models of a brand (1 = "most problems," and 5 = "fewest problems") Higher scores indicate more reliable brands.	Consumer Reports	Eilert et al. (2017); Javadinia, Gill, and Jayachandran (2023)
<i>Firm Profitability</i>	Net income/Total assets.	Compustat	Astvanish and Eshghi (2023); Eilert et al. (2017)
<i>Advertising Intensity</i>	Natural logarithm of advertising expenditures in a focal month.	Ad\$pende	Liu and Shankar (2015); Pagiavlas et al. (2022)

### 2.3.3 Model

The dataset contains manufacturers (i) over time (t). The data from five manufacturers is in a panel format from 2009 to 2019. Panel regression is used to account for heterogeneity across the different brands and their longitudinal development. We use values for CSR performance from previous month (t-1) as investors have time to form and update their expectations from such firms. To account for possible time trends in firm value, we include quarter fixed effects (e.g., Mishra and Modi 2016). We address possible unobserved manufacturer heterogeneity and serial autocorrelation in the panel data by estimating cluster-adjusted robust standard errors at the manufacturer level (e.g., Mizik and Jacobson 2009; Wooldridge 2002).

$$CAR_{(t-2,t)} = \beta_0 + \beta_1 \text{Resolution Dormancy}_{it} + \beta_2 \text{Resolution Dormancy}_{it} * \text{Product CSR}_{i(t-1)} + \beta_3 \text{Resolution Dormancy}_{it} * \text{Philanthropic CSR}_{i(t-1)} + \beta_4 \text{Product CSR}_{i(t-1)} + \beta_5 \text{Philanthropic CSR}_{i(t-1)} + \beta_6 \text{Size}_{it} + \beta_7 \text{Severity}_{it} + \beta_8 \text{Voluntary}_{it} + \beta_9 \text{Reliability}_{it} + \beta_{10} \text{Profitability}_{it} + \beta_{11} \text{Advertising}_{it} + \beta_{12-14} \text{Quarter FE}_t + \varepsilon_{it}$$

Where  $\beta_1$  is resolution dormancy,  $\beta_2$  is the interaction between resolution dormancy and product CSR,  $\beta_3$  is the interaction between resolution dormancy and philanthropic CSR,  $\beta_4$  is the Product CSR,  $\beta_5$  is the Philanthropic CSR,  $\beta_6$  is the size of the recall  $i$  (number of vehicles affected),  $\beta_7$  is problem severity of recall  $i$ ,  $\beta_8$  is whether recall  $i$  was initiated voluntarily or mandatory,  $\beta_9$  is product reliability,  $\beta_{10}$  is the firm profitability and  $\beta_{11}$  is the advertising expenditure. Additionally,  $\beta_{12-14}$  represents quarter fixed effects.

## 2.4 Results

On average, the abnormal returns to product recall announcements for (-2,2) window are negative and statistically significant (standardized cross-sectional t-statistic = -2.38,  $p < .05$ ). Consistent with prior research, this finding shows that on average, investors react unfavorably to product recall announcements. Next, we explore the main effect of resolution dormancy and moderating of philanthropic and product CSR.

The coefficient for the resolution dormancy is positive and significant ( $\beta = .0516$ ,  $p < .05$ ). When an auto manufacturer announces a product recall, investors evaluate both direct and indirect costs of the recall (e.g., Chen, Ganesan, and Liu 2009; Hora, Bapuji, and Roth 2011; Liu, Shankar, and Yun 2017). When a firm has a longer dormancy period, it can better plan how to use resources efficiently (in terms of operations), which may result in a lower decrease in cash flows in comparison to having a shorter resolution dormancy. However, our findings suggest that investors' reactions depend on the manufacturer's prior CSR initiatives.

We show that investors do not react differently to resolution dormancy when the company is engaged in product CSR initiatives ( $\beta = .0001$ ,  $p > .05$ ). We attribute the insignificant effect to confirming expectations of investors. Long resolution dormancy allows for operational efficiency opportunities (He et al. 2020; Hora, Bapuji, and Roth 2011; Wowak et al. 2020). For instance, firms can follow more sustainable processes to supply or plan shipments of the replacement components. As a longer resolution dormancy confirms the expectations of investors, investor reactions remain unchanged towards such firms.

The results suggest that firms with philanthropic CSR negatively moderates resolution dormancy and firm value relationship ( $\beta = -.0011, p < .001$ ). Prior studies suggest type of CSR initiatives matter when stakeholders evaluate companies' behavior (e.g., Peloza and Shang 2011; Peloza 2009). Consistent with our arguments, investors reward resolution dormancy less when a manufacturer is engaged in philanthropic CSR. As investors assume firms with high philanthropic CSR to have more slack resources (Lantos 2001), and therefore expect these firms to show efficiency elsewhere. Failure to show operational efficiency through resolution dormancy violates investors' expectations, which leads them to reward these firms less.

**Table 2. Model Results: CAR (-2,2)**

Variables	Coef.	SE	Sig
Resolution Dormancy	0.0516	0.0195	***
Resolution Dormancy*Product-CSR	0.0001	0.0002	
Resolution Dormancy*Philanthropic-CSR	-0.0011	0.0003	***
Product-CSR	-0.0013	0.0015	
Philanthropic-CSR	0.0058	0.0013	***
<i>Recall Related Controls</i>			
Recall Volume (logged)	-0.0004	0.0003	
Problem Severity	0.0002	0.0011	
Strategy	-0.0035	0.0016	**
Reliability	0.0047	0.0033	
<i>Firm Related Controls</i>			
Firm Profitability	-0.1312	0.0815	
Advertising (logged)	-0.0003	0.0004	
Constant	-0.2395	0.1120	**
Quarter Fixed Effects	YES		
Observations	1196		
Overall r-squared	0.049		

\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

## 2.5 General Discussion

Utilizing data from various sources, we show that resolution dormancy impacts firm value positively in the automobile industry. Using the resource-based view and stakeholder theory, we examine the extent to which philanthropic and product CSR initiatives may enhance or exacerbate resolution dormancy's impact. The findings suggest that within the context of automobile recalls, investors have expectations of how firms should respond to product-harm crises formed by the prior philanthropic CSR initiatives of these firms. Therefore, investors react to resolution dormancy negatively when a firm has a strong track record of philanthropic CSR.

Prior literature mainly focused on pre-recall timeframes. For instance, authors explored the effect of time between investigation start date and recall issue date (e.g., Astvansh and Eshgi 2023; Eilert et al. 2017), defect awareness and recall issue date (e.g., Astvansh, Ball, and Josefy 2022), and product launch date and recall announcement date (Hora, Bapuji, and Roth 2011). Prior studies found that increased time to recall after a regulatory investigation is penalized by the market (e.g., Astvansh and Eshghi 2023; Eilert et al. 2017). We contribute to recall literature by exploring the impact of resolution dormancy which provides critical information about how costly the recall will be from a resource management perspective (operational and financial planning). We find that a higher resolution dormancy has a positive impact on firm value. However, investors' reactions are contingent on the manufacturer's prior CSR initiatives.

Furthermore, this research adds a new perspective to the literature that has examined CSR in the context of crises (e.g., Cheah et al. 2007; Dawar and Lei 2000; Du,

Bhattacharya, and Sen 2007; Klein and Dewar 2004). Our results support prior studies that highlight how various types of CSR affects investor decisions differently (e.g., Mishra and Modi 2016). We find that firms benefit less from a longer resolution dormancy when they have a strong track record of philanthropic CSR activities. This can be explained by stakeholders' expectations from firms with a philanthropic CSR history to divert their slack resources to other channels (e.g., protecting consumer safety with shorter resolution dormancy). Therefore, when manufacturers use a longer resolution dormancy period, they fall short of being as proactive as expected, which leads to disappointment.

We do not find a moderating effect of product CSR on the impact of resolution dormancy on firm value. A possible explanation is that investors interpret long resolution dormancy as resource efficiency (e.g., sustainable processes). In this case, long dormancy period would be congruent with investors' expectations from a firm with prior product CSR initiatives. Congruent actions are less likely to change stakeholder perceptions (Olsen, Slotegraaf, and Chandukala 2014) and therefore, may have a little effect on firm value.

One key implication for managers is that investors react to information related to resolution dormancy, which is available in the recall notice. As investors reward longer resolution dormancy, automotive manufacturers can spread out operational planning and direct costs (e.g., repair of components) of a recall. We caution managers about philanthropic CSR. Even though in general firms are viewed positively for philanthropic CSR engagement (Godfrey 2005), investors still penalize a firm as they are more likely to interpret these investments as poor resource allocation. Therefore, it is important for

managers to explain how long resolution dormancy could be used as an opportunity to protect consumers' wellbeing.

Our findings are limited to product and philanthropic CSR, however there are various types of CSR initiatives a firm could engage in. Future studies could investigate whether other types of CSR influence how investors react to resolution dormancy (e.g., environmental CSR, governance CSR, employee CSR). Understanding different CSR initiatives' impact would help managers to prioritize their CSR investments when they are planning to initiate recalls. Although our study indicates that dormancy period matters for automobile recalls, it would be also helpful to explore the effect of dormancy period on different industries where planning might take less time than auto industry (e.g., consumer goods).

We also do not empirically test why investors react positively to longer dormancy period. Therefore, there is a need to understand the underlying mechanism using experiments (e.g., financial wellbeing, operational efficiency). In this research, we take investors' perspective when interpreting long resolution dormancy, future researchers can also explore how consumers view and respond to resolution dormancy. It would be interesting to explore whether consumers interpret long resolution dormancy as a company's focus to get everything correctly fixed or lack of proactivity by the manufacturer. Furthermore, future research can show whether competitor manufacturers change their recall strategies based on resolution dormancy of a focal manufacturer.

## APPENDIX A. STIMULI AND MEASURES (STUDY 1)

Note: Scenarios are based on a fictitious brand called Centrum Grocery.

### Control

Imagine you are reading the news, and the following headline catches your eye:

#### **Three Dead in Fire at a Centrum Grocery Supplier Factory**

A devastating fire broke out at the factory of a supplier to Centrum Grocery, a popular grocery store chain. The fire resulted in the collapse of the factory building, trapping several workers inside. Despite the rescue teams' best efforts, three workers lost their lives, and 20 workers were badly injured. When asked to comment on the incident, a spokesperson for Centrum Grocery made the following announcement: *“We are very aware of the unfortunate incident that occurred at our supplier's factory. We express our heartfelt sympathies to the families of the workers who lost their lives and those who were injured by the collapse of the building. We will be conducting a thorough investigation of the incident to learn what led to the tragic losses.”*

### Denial of Responsibility

Imagine you are reading the news, and the following headline catches your eye:

### **Three Dead in Fire at a Centrum Grocery Supplier Factory**

A devastating fire broke out at the factory of a supplier to Centrum Grocery, a popular grocery store chain. The fire resulted in the collapse of the factory building, trapping several workers inside. Despite the rescue teams' best efforts, three workers lost their lives, and 20 workers were badly injured. When asked to comment on the incident, a spokesperson for Centrum Grocery made the following announcement: *"We are very aware of the unfortunate incident that occurred at our supplier's factory. We express our heartfelt sympathies to the families of the workers who lost their lives and those who were injured by the collapse of the building. We, however, cannot accept responsibility for the tragic losses."*

## APPENDIX B. STIMULI AND MEASURES (STUDY 2A)

Note: Scenarios are based on a fictitious brand called Centrum Grocery.

### **Introduction:**

Centrum Grocery is a national grocery chain with over a thousand stores in the US. It has conveniently located stores and carries a wide variety of products at different price points. Its stores have a functional layout that is designed to help shoppers get in and out without difficulty. Parking at its stores can be a bit tight during holidays but is sufficient during normal times. Over the years, it has grown steadily by becoming the preferred choice of many shoppers.

### Control

Imagine you are reading the news and the following headline catches your eye:

### **Three Dead in Fire at a Centrum Grocery Supplier Factory**

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A devastating fire broke out at the factory of a supplier to Centrum Grocery, a popular grocery store chain. The fire resulted in the collapse of the factory building, trapping several workers inside. Despite the rescue teams’ best efforts, 3 workers lost their lives and 20 workers were badly injured. When asked to comment on the incident, a spokesperson for Centrum Grocery made the following announcement: *“We are very aware of the unfortunate incident that occurred at our supplier's factory. We express our heartfelt sympathies to the families of the workers who lost their lives and those who were injured by the collapse of the building. We, however, cannot accept responsibility for the tragic losses.”*

## APPENDIX C. STIMULI AND MEASURES (STUDY 2B)

Note: Scenarios are based on a fictitious brand called Centrum Grocery.

### **Introduction:**

Centrum Grocery is a national grocery chain with over a thousand stores in the US. It has conveniently located stores and carries a wide variety of products at different price points. Its stores have a functional layout that is designed to help shoppers get in and out without difficulty. Parking at its stores can be a bit tight during holidays but is sufficient during normal times. Over the years, it has grown steadily by becoming the preferred choice of many shoppers.

Among its offerings, Centrum Grocery markets a line of ready-to-eat meals under its own brand name, "Centrum." These meals are not manufactured by Centrum Grocery; they are sourced from a reputable national manufacturer.

### Control

Imagine you are reading the news and the following headline catches your eye:

#### **E. Coli Found in Centrum Grocery's Ready to Eat Meals**

Reports have emerged of customers falling ill after eating Centrum ready-to-eat meals sold by Centrum Grocery, a popular grocery chain. Of the 23 customers who had to be hospitalized, 3 are in a life-threatening condition. When asked to comment on the incidents, a spokesperson from Centrum Grocery issued the following statement:

*“We are very aware of the unfortunate incidents involving our ready-to-eat meals. We express our heartfelt sympathies to all affected customers, especially those who had to be hospitalized. We will be conducting a thorough investigation to learn what led to these incidents.”*

### Denial of Responsibility

Imagine you are reading the news and the following headline catches your eye:

#### **E. Coli Found in Centrum Grocery’s Ready to Eat Meals**

Reports have emerged of customers falling ill after eating Centrum ready-to-eat meals sold by Centrum Grocery, a popular grocery chain. Of the 23 customers who had to be hospitalized, 3 are in a life-threatening condition. When asked to comment on the incidents, a spokesperson from Centrum Grocery issued the following statement:

*“We are very aware of the unfortunate incidents involving our ready-to-eat meals. We express our heartfelt sympathies to all affected customers, especially those who had to be hospitalized. We, however, cannot accept responsibility for these incidents.”*

## APPENDIX D. STIMULI AND MEASURES (STUDY 3)

Note: Scenarios are based on a fictitious brand called Centrum Grocery.

### **Stimuli - 2 Corporate Social Responsibility (Low versus High) x 2 Brand Strategy (Control versus Denial)**

#### Low Social Behavior

Centrum Grocery is a national grocery chain with over a thousand stores in the US. It has conveniently located stores and carries a wide variety of products at different price points. Its stores have a functional layout that is designed to help shoppers get in and out without difficulty. Parking at its stores can be a bit tight during holidays but is sufficient during normal times. Over the years, it has grown steadily by becoming the preferred choice of many shoppers.

Centrum Grocery has been criticized by many individuals for not being responsible towards its local communities. In a recent study of social responsibility initiatives aimed at benefiting their communities, Centrum Grocery ranked very low—19th out of 20 major retailers in the US. Moreover, several customers have criticized Centrum Grocery for placing profits over the well-being of its communities.

#### High Social Behavior

Centrum Grocery is a national grocery chain with over a thousand stores in the US. It has conveniently located stores and carries a wide variety of products at different

price points. Its stores have a functional layout that is designed to help shoppers get in and out without difficulty. Parking at its stores can be a bit tight during holidays but is sufficient during normal times. Over the years, it has grown steadily by becoming the preferred choice of many shoppers.

Centrum Grocery has been praised by many individuals for being responsible towards its local communities. It has provided scholarships for education, supported local businesses through local sourcing, and actively contributed to local charitable organizations. In a recent study of social responsibility initiatives aimed at benefiting their communities, **Centrum Grocery ranked very high—2nd out of 20 major retailers in the US**. Moreover, several customers have lauded Centrum Grocery for placing the well-being of its communities over profits.

### Control

Imagine you are reading the news, and the following headline catches your eye:

#### **Three Dead in Fire at a Centrum Grocery Supplier Factory**

A devastating fire broke out at the factory of a supplier to Centrum Grocery, a popular grocery store chain. The fire resulted in the collapse of the factory building, trapping several workers inside. Despite the rescue teams' best efforts, three workers lost their lives, and 20 workers were badly injured. When asked to comment on the incident, a spokesperson for Centrum Grocery made the following announcement:

*“We are very aware of the unfortunate incident that occurred at our supplier's factory.*

*We express our heartfelt sympathies to the families of the workers who lost their lives and those who were injured by the collapse of the building. We will be conducting a thorough investigation of the incident to learn what led to the tragic losses.”*

### Denial of Responsibility

Imagine you are reading the news, and the following headline catches your eye:

#### **Three Dead in Fire at a Centrum Grocery Supplier Factory**

A devastating fire broke out at the factory of a supplier to Centrum Grocery, a popular grocery store chain. The fire resulted in the collapse of the factory building, trapping several workers inside. Despite the rescue teams’ best efforts, three workers lost their lives, and 20 workers were badly injured. When asked to comment on the incident, a spokesperson for Centrum Grocery made the following announcement:

*“We are very aware of the unfortunate incident that occurred at our supplier's factory. We express our heartfelt sympathies to the families of the workers who lost their lives and those who were injured by the collapse of the building. Our suppliers are independent companies who run their own operations. Moreover, it is impractical for us to monitor each and every one of our hundreds of suppliers. In light of this, we cannot accept responsibility for the tragic losses.”*

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