

Consumer Response to Corporate Scandal: The Case of Martha Stewart

Sarah Roberto, California State University, Long Beach
Wendy Reiboldt, California State University, Long Beach
David Schult, California State University, Long Beach
Lydia Sondhi, California State University, Long Beach

Introduction and Purpose

The use of celebrities in product promotion is profitable; companies utilize celebrities because consumers tend to buy products from endorsers with whom they identify (Basil, 1996; Ohanian, 1991), especially when the endorser's expertise relates to the product. Celebrity endorsement can directly affect the credibility of a corporation as evidenced in the recent indictment, trial, and conviction of Martha Stewart. Martha Stewart's 2003 indictment on charges of conspiracy, obstruction of justice, and securities fraud, which was linked to the sale of non-company stock, can be classified as an ethical violation. Because the product line and corporation share the name of the founder, the credibility and perceived trustworthiness of both the corporation and the celebrity endorser is vital to Martha Stewart Living Omnimedia (MSLO).

MSLO has many products that are not only endorsed by Martha Stewart but also bear her name; brand association between Martha Stewart (the person) and Martha Stewart (the brand) is extremely high. The purpose of this study was to investigate the impact of the conviction of Martha Stewart. Specifically, the study investigated the following null hypotheses:

H₀1: There was no significant difference in consumers' perception of credibility of Martha Stewart before her trial (retrospectively) versus after her trial;

H₀2: There was no significant difference in the level of post-trial credibility between consumers who intended to purchase Martha Stewart brand products versus those who did not intend to purchase Martha Stewart brand products.

Background

Because specific research on Martha Stewart is non-existent, the literature review addresses corporate and celebrity issues as they relate to credibility and consumer response.

Consumer Identification with Celebrities

Celebrities are an important component in a company's marketing plan. The mere announcement of a celebrity endorsement can raise a company's stock (Agrawal & Kamakura, 1995; Mathur, Mathur, & Rangan, 1997). Realizing this, corporations spend millions of dollars to attract celebrities to endorse their products. In fact, many corporate Chief Executive Officers (CEOs) are used as celebrity endorsers due to their expertise (Ohanian, 1991).

Now an "infamous" celebrity, Martha Stewart has been regarded as America's hostess. Many consumers buy Martha Stewart brand products in hopes of emulating her. When a consumer identifies with a celebrity, the consumer will be more likely to adopt the same attitudes, practices, and brands of the celebrity (Basil, 1996). If consumers attach emotion to a product or to a celebrity endorser, and are satisfied with the result, the consumer will be more likely to be loyal to the company (Yu & Dean, 2001).

Corporate Ethics and Credibility

Corporate ethics have become increasingly apparent in recent years in light of the Enron, WorldCom, and Tyco scandals. Consumers often make purchase decisions based on a company's ethics and behavior. However, the degree to which consumers take ethics into consideration varies by the level of the ethical violation and the type of product being purchased (Auger, Burke, Devinney, & Louviere, 2003). Corporate ethics include the behaviors of the corporate entity as well as celebrity endorsers. Since Martha Stewart, the former CEO of her corporation and the celebrity endorser, was the official representative of her

company at the time of her conviction, her individual actions reflected directly on the corporation.

Corporate credibility also is important to consumers. Consumers are more influenced by corporate credibility than endorser credibility; thus, a credible company image is essential for favorable consumer response (Goldsmith, Lafferty, & Newell, 2000; Lafferty & Goldsmith, 1999).

Consumer Response

Ohanian (1991) studied different aspects of credibility on consumers' purchase intentions. Endorser expertise, or the feeling that the endorser genuinely supports the product, was the most significant indicator of consumer-perceived credibility (Ohanian, 1991). Consumer perception of an event also can be crucial to consumer response. If the blame is clear, the perceived credibility of the corporation can suffer (Louie & Obermiller, 2002). In high-blame negative events in which fault is assigned (as was the case with Martha Stewart), consumers often respond unfavorably to the company and endorser (Louie & Obermiller, 2002).

When forming an opinion about a product, consumers consider both positive and negative information. However, in general, unfavorable information triggers a stronger stimulus than favorable information (Ahluwalia, 2002; Mizerski, 1982). Additionally, if a consumer exhibits little loyalty to a brand, the consumer is more likely to discontinue purchases when faced with negative information (Ahluwalia, Burnkrant, & Unnava, 2000). Conversely, if a consumer exhibits high loyalty to a brand, the consumer may discount negative information (Ahluwalia, Burnkrant, & Unnava, 2000).

Methodology

Selection of Sample

A convenience sample was collected from two large departments at a state university in Southern California. Because there is no way to predict a corporate scandal, the methodology is

limited in terms of data collection timing. In this study, data were collected after Martha Stewart's trial, though questions about consumers' perceptions before the trial were asked. Therefore, the study is retrospective insofar as pre-trial perceptions were measured post-trial.

The key target market for MSLO is women. Therefore, departments with large female enrollments were chosen (Family and Consumer Sciences and Social Work); men, however, were not excluded from the study. Professors teaching undergraduate and graduate classes with large enrollments (30 students or more) were invited to have their classes participate in the study. All professors granting permission for class participation were contacted for scheduling; all of these classes were sampled. Because it was critical that participants be familiar with Martha Stewart, an elimination question asked "How familiar are you with Martha Stewart?" If a respondent answered "not familiar" or did not answer the question, the survey was eliminated (n=13). A total of 186 usable surveys were used for the analysis.

Instrumentation

The survey instrument consisted of three sections: demographics, the Source Credibility Scale, and the intention to purchase section. The demographic portion of the survey was researcher-developed and included basic demographic questions on gender, age, and marital status. Information also was collected on whether the respondent had ever purchased a Martha Stewart brand product, familiarity with the Martha Stewart product line, and awareness of the Martha Stewart court case.

The scale portion of the survey instrument consisted of Ohanian's (1990, 1991) Source Credibility Scale (see Table 1). Ohanian (1990) reports a Cronbach's Alpha reliability measure of 0.82 for the scale. The Source Credibility Scale is a 15-item semantic differential scale in which the respondent circles one word out of a pair that best describes their perception of Martha Stewart both before and after the trial (e.g., subjects were given

Table 1

Source Credibility Scale

1. Attractive	Unattractive
2. Classy	Not Classy
3. Beautiful	Ugly
4. Elegant	Plain
5. Sexy	Not Sexy
6. Dependable	Undependable
7. Honest	Dishonest
8. Reliable	Unreliable
9. Sincere	Insincere
10. Trustworthy	Untrustworthy
11. Expert	Not an Expert
12. Experienced	Inexperienced
13. Knowledgeable	Unknowledgeable
14. Qualified	Unqualified
15. Skilled	Unskilled

Source: Ohanian (1990, 1991)

two copies of the scale, one for pre-trial perception, and one for post-trial perception). Each item in the semantic differential scale was scored "0" when the undesirable trait was circled and "1" when the desirable trait was circled. A total possible score could range from 0-15 both before and after the trial, though the responses to before and after the trial were collected at the same point in time. No range of scores was provided by Ohanian (1990) to indicate low or high credibility. This is primarily because the scale is multi-dimensional, unlike previous credibility measures that are simply dichotomous.

Ohanian (1991) utilized the Source Credibility Scale to study consumer purchase intentions using celebrity endorsers such as John McEnroe (endorsing tennis rackets) and Madonna (endorsing blue jeans). There is no evidence of retrospective use of the credibility scale following a scandal. However, Ohanian (1990) did indicate that it could be used and adapted in a variety

of settings. She mentioned the scale's value in rating political candidates over time, or measuring pre- and post-test perceptions in an experimental study.

The third, and final, section of the survey was researcher-developed and asked respondents about their intention to purchase Martha Stewart brand products following the trial. Respondents who reported that they still intended to purchase these products were assigned a "1" and those who did not intend to purchase these products were assigned a "0."

Table 2

Sample Demographics (N=186)

Variable	n	%
Sex		
Male	27	15
Female	159	85
Age		
18-22	60	32
23-35	107	58
36+	17	9
Marital Status		
Single	146	79
Married	30	16
Divorced	5	3
Separated	2	1
Familiar with Martha Stewart		
Very Familiar	46	25
Familiar	51	27
Somewhat Familiar	89	48
Intend to Purchase a Martha Stewart brand product		
Yes	127	68
No	59	32
Aware of Martha Stewart court case		
Very Aware	33	18
Aware	61	33
Somewhat Aware	89	48
Not Aware	3	2

Data Analysis and Results

Descriptive statistics for the sample are presented in Table 2. Inferential statistics were performed on hypotheses 1 and 2 at a significance level of $p \leq 0.05$. A paired sample t -test was used to analyze hypothesis 1 and compare retrospective pre-trial to post-trial perceptions of Martha Stewart's credibility (see Table 3). This hypothesis was rejected at $p = 0.000$, suggesting that perceptions of credibility had changed after the trial. With maximum credibility being 15, post-trial credibility was lower (6.17) than pre-trial credibility (9.44).

Table 3
Paired Sample t-test Results Investigating Martha Stewart's Level of Credibility Before and After the Trial (retrospective analysis)

Variable	N	Mean	SD	t-value	p
Pre-Trial Credibility	186	9.44	4.24	13.13	0.000*
Post-Trial Credibility	186	6.17	3.59		

* Significant at $p \leq 0.05$

An independent samples t -test was performed to analyze hypothesis 2 and compare the level of post-trial credibility reported by people who intended to purchase Martha Stewart brand products following the trial to those who did not (see Table 4). This hypothesis was rejected at $p = 0.020$. Thus, respondents

Table 4
Independent Samples t-test Results for Post-Trial Level of Credibility Between People Who Intended to Buy and Did Not Intend to Buy Martha Stewart Brand Products

Variable	N	Mean	SD	t-value	p
Intended to Purchase	127	6.61	3.87	-2.35	0.020*
Did Not Intend to Purchase	59	5.20	3.78		

* Significant at $p \leq 0.05$

who indicated that they intended to purchase Martha Stewart brand products exhibited a higher level of post-trial credibility (6.61) than respondents who did not intend to purchase her products (5.20).

Discussion

Consumers' response to corporate scandal, especially in the case of Martha Stewart, has not been widely studied in the consumer field. While our sample size was somewhat limited in terms of selection and size ($n=186$), findings still provide insight into this phenomenon. This study found a significant difference in consumers' perception of Martha Stewart's credibility before her trial (retrospectively) versus after her trial. Results indicate the level of credibility was significantly higher before her trial. These results support an earlier study by Louie and Obermiller (2002), who found that the perception of an event - in this case Martha Stewart's criminal trial and conviction - was related to the response of the consumer.

Additional findings indicated that there was a significant difference in the level of post-trial credibility between people who intended to buy Martha Stewart brand products versus people who indicated they did not. Results showed that the level of post-trial credibility for consumers who intended to buy Martha Stewart brand products was higher than the level of post-trial credibility for consumers who did not intend to buy them. These results also support past research, which relates corporate credibility directly to the purchase intentions of consumers (Ahluwalia, Burnkrant, & Unnava, 2000; Goldberg & Hartwick, 1990; Lafferty, Goldsmith, & Newell, 2002). If a credible and trustworthy person endorses a brand, consumers are more likely to associate credibility with the product (Basil, 1996; Ohanian, 1991). Consumers in this study identified credibility as a factor in purchase decisions by exhibiting a positive relationship between credibility and purchase intentions.

MSLO has been continually reinventing itself since the trial. While the corporation experienced a steady decline in sales, television programming, and subscriptions during the trial of Martha Stewart, it has since reported steady growth in product development, media projects, and publication efforts (MSLO, 2007). Since Martha Stewart's release from prison in March 2005, stock values for the company have increased. In addition, a new magazine, *Everyday Food*, has been launched, which was named "Launch of the Year" by Advertising Age. Also, a new daily television program, MARTHA, was recently unveiled. Exclusive agreements have been signed with Macy's (home merchandise), Kodak (photo products), EK Success, and LTD and GTCR Golder Rauner (craft products). To date, MSLO continues to experience financial growth and makes regular announcements about new partnerships, publications, and merchandising endeavors (MSLO, 2007).

Implications for Consumer Education

Consumer educators are interested in providing the best and most accurate information to students (e.g., consumers). With the recent barrage of corporate and celebrity endorser misdoings, it is important that students consider issues related to ethics and credibility when making purchase decisions. Consumers seek reasonable prices and high quality goods and services. However, consumers also have expectations about corporate and endorser behavior. When a corporation or endorser behaves badly, the company image is affected. How consumers and corporations react has important implications in the marketplace. A media frenzy following a scandal can contribute toward a negative corporate image, and consumers may react negatively. However, if handled well, corporations can use this exposure to their advantage by issuing statements about forthcoming changes and forward-thinking, optimistic future projections.

It also is important that students understand how buying intentions and actual purchase decisions can be affected by a

corporate scandal. If product quality and price are not affected (as in the case of Martha Stewart), does the scandal actually have a direct impact on consumers' intentions and behaviors? And how does it impact their decisions? In the case of Martha Stewart, both her personal and corporate images were tarnished. Furthermore, as this study has shown, her post-trial credibility was lower than her pre-trial credibility. This finding suggests that there was some level of assigned blame, and this likely carried over into the market place (Louie & Obermiller, 2002).

We know from previous research that consumers are aware of scandal, and this recognition can affect endorser credibility (Auger, Burke, Devinney, & Louviere 2003; Goldsmith, Lafferty, & Newell, 2000; Lafferty & Goldsmith, 1999). However, consumers who hold a more positive image of (and perhaps stronger feelings of loyalty to) the tarnished endorser and corporation may move beyond the credibility factor and maintain purchase intentions toward related products (Auger, Burke, Devinney, & Louviere 2003).

Consumer educators can use the findings from this study to enhance class lectures. Activities surrounding celebrity endorsers and their behaviors and how, or if, the behaviors affect their endorsements can be shared. For example, bringing in relevant newspaper articles regarding celebrity behavior can lead to discussions about student reactions to the behaviors and resulting purchase intentions toward the endorsed products. Another exercise might entail leafing through a favorite magazine to identify products that are celebrity endorsed and how consumers (students) feel about those products and the celebrities endorsing those products.

There is no shortage of scandals involving celebrities, from Kobe Bryant and Janet Jackson to, most recently, Paris Hilton. All have lost lucrative endorsements as a result of their "questionable" behavior and judgment. Students' views of these celebrities and their behavior can stimulate class discussions. Do celebrities really help sell products when they are not directly involved in their use or development? Do consumers discern

celebrity expertise in relation to the endorsed product? Does celebrity endorsement behavior matter to consumers? What happens to companies and shareholders when the name of a celebrity endorser is tarnished? These and other topics are useful and timely for consumer education classes.

Being an educated consumer about a product, corporation, or celebrity endorser is fundamental to a solid consumer education. It is even more essential in cases of scandal, an undeniable reality that consumers face in the marketplace. Understanding how consumers respond following corporate scandal is an interesting piece of the consumer behavior puzzle, and one that has been addressed in this study.

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Sarah Roberto, is Graduate Student, Department of Family and Consumer Sciences, California State University, Long Beach, 1250 Bellflower Blvd., Long Beach, CA 90840; (562)985-4484; E-mail: sroberto@csulb.edu

Wendy Reiboldt, is Professor and Acting Department Chair, Department of Family and Consumer Sciences, California State University, Long Beach, 1250 Bellflower Blvd., Long Beach, CA 90840; (562)985-8250; E-mail: reiboldt@csulb.edu

David Schult, is Lecturer, Department of Family and Consumer Sciences, California State University, Long Beach, 1250 Bellflower Blvd., Long Beach, CA 90840; (562) 985-7490; E-mail: dlschult@csulb.edu

Lydia Sondhi, is Associate Professor, Department of Family and Consumer Sciences, California State University, Long Beach, 1250 Bellflower Blvd., Long Beach, CA 90840; (562) 985-4370; E-mail: lsondhi@csulb.edu