

The impact of retailers' bankruptcy filing on consumer perceptions and behaviors

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Abstract:

Purpose – This study aims to examine the impact of retailers' bankruptcy filings on consumers' perception of risk, perceived quality, consumer trust and purchase intentions, as well as the moderating effect of brand reputation and brand price level on the impact of retailers' bankruptcy filings.

Design/methodology/approach – This experiment used a 2 x 2 x 2 fractional factorial design. Of the 180 questionnaires collected through the Qualtrics survey platform, 165 responses were considered valid and used in the study.

Findings – The results of this study showed that bankruptcy filing can decrease consumers' intent to purchase from the company. The results also revealed a significant positive relationship between brand reputation, trust and purchase intention.

Originality/value – To the best of the authors' knowledge, this study is the first empirical investigation of the negative implications of corporate bankruptcy on consumer behavior in the retail sector. Therefore, this study can contribute to a better understanding of how bankruptcy filings by apparel retailers may affect consumer perception and purchase behavior.

Keywords: Bankruptcy | Financial performance | Apparel retailers | Corporate brand reputation | Perceived risk

Article:

Background and purposes

A company's financial performance is a subjective indication of the efficiency with which it uses assets from its primary business model and generates revenues (Lin et al., 2020). Excellent financial performance indicates a stable, growing company. A company's financial performance is influenced by not only its managers' competence but also the fluid external economic environment. When a company is unable to pay its debts, it is considered insolvent and

may file for bankruptcy. Bankruptcy filing is the formal process of declaring an inability to repay outstanding debts. It is a legal process that can be complex but may also offer a fresh start for struggling businesses. Corporate Bankruptcy Reorganization, also known as Chapter 11 bankruptcy, is a formal process that allows debtors and creditors to resolve financial issues through a reorganization plan. The goal is to create a viable economic entity by restructuring the debtor's debt structure. A Chapter 11 filing means that the company may undergo reorganization and continue to operate. Because bankruptcy filings are public records often reported in the media, this legal phenomenon may have potential market repercussions and affect its stakeholders, especially customers' purchase intentions (Williams and Naumann, 2011).

The US retail industry has been suffering from substantial stress over the past decade, leading to thousands of store closures, dozens of high-profile bankruptcies and hundreds of mall closures (Chatterjee et al., 2021; Childs et al., 2020; Mao, 2022). For several years, a long list of apparel retailers, including Bed Bath & Beyond, Express, J.Crew and JCPenney, made headlines when they filed for Chapter 11 Bankruptcy for their financial troubles (CBInsights, 2023). Chapter 11 bankruptcy enables retailers to seek protection from their creditors and remain in business while executing a reorganization plan (Thomas, 2020). Although these retailers may be able to remain open and serve their customers following a bankruptcy filing, the filing may affect investors' confidence and adversely impact consumers' perceptions of their brands and purchase intentions (Mainardes et al., 2020; Tong and Su, 2022).

Filing for bankruptcy is often one of the most daunting crises facing a company. According to previous research, consumer perceptions of a company, such as trust, perceived quality and risk of purchase, can be affected by the financial situation of the company from which they have already purchased or will purchase products and services in the future (Mainardes et al., 2020). When a company is in bankruptcy, consumers often perceive risks associated with doing business with that company. These perceived risks can significantly impact customer behavior, from reducing their willingness to purchase to altering their overall trust in the brand. Prior research has suggested that product/brand price plays a complex role in consumer decision-making, influencing not only perceptions of quality but also the perceived sacrifice and financial risk involved in a purchase (Agarwal and Teas, 2001). Sacrifice means the future cost of the product or service if it does not function as well as expected. Higher prices imply higher monetary sacrifice and financial risk (Chen et al., 2005). Therefore, the more expensive a product or service offered by a company filed for bankruptcy, the greater the financial loss consumers would face if it did not meet expectations. On the other hand, brand name and company reputation have been suggested as helpful risk-reduction strategies, increasing consumer quality perception and motivating them to adopt a company's products (Kim et al., 2009; Akdeniz et al., 2013). Thus, it may play a value-preserving role in times of a negative event and help mitigate the adverse effects of a crisis (Pfarrer et al., 2010; Jones et al., 2000). Thus, both brand price and corporate brand reputation could also moderate the impact of company bankruptcy on consumer perceptions and behaviors (Tong and Su, 2022).

Although customers are one of the most critical stakeholder groups because they create revenue streams, most previous research on corporate financial performance has focused on other stakeholder groups and studies of customers have been much less common. Thus, this study aims to explore the potential detrimental effect of corporate bankruptcy on consumers. There were two primary objectives of the study:

1. Examine the impact of retailers' bankruptcy filings on consumers' perception of risk, perceived quality, consumer trust and purchase intentions; and
2. Examine the moderating effect of brand reputation and brand price level on the impact of retailers' bankruptcy filings.

Literature review and hypothesis development

Theoretical framework

The signaling theory emerged from the study of information economics under conditions where buyers and sellers possess asymmetric information in the context of a market interaction (Spencer, 1974). It explores how one party (the "signaler") conveys information about itself to another party (the "receiver") to reduce information asymmetry. There is a general consensus that a company's reputation is an important signal that can reduce a customer's risk and motivate them to adopt the product a company offers (Fombrun and Shanley, 1990; Spencer, 1974). In the context of a company's financial performance, signaling theory is often used to understand how companies communicate their financial health and future prospects to investors, stakeholders and the market at large. Ross (1977) stated that an organization's stakeholders receive positive signals when the company's financial well-being is in good shape. Conversely, when a company experiences financial hardship, investors and customers receive negative signals due to bad news. Strategic partners such as suppliers may not be willing to invest less in specific relationships (Kale and Shahrur, 2007), and even employees may feel affected by the treatment received (Bae et al., 2011) due to financial pressure. Similarly, we could argue that when a firm files for bankruptcy, buyers avoid doing business with companies that violate these agreements. For example, General Motors and Chrysler lost numerous customers when they went bankrupt in 2009 (Goolsbee and Krueger, 2015).

Because signaling theory is a widely accepted theoretical framework to comprehensively examine the relationship between corporate financial performance, moderating variables and potential outcome variables (Yuniningsih et al., 2018; Basoglu and Hess, 2014). So, its application enhances the robustness and credibility of our research design. Grounded in the signaling theory, the conceptual model shown in Figure 1 was developed to show the proposed relationships between the variables included in this study.

Corporate financial performance

One of the leading indicators of a company's health is its financial performance. Financial performance measures how well a company generates revenue and manages its shareholders' and stakeholders' assets, liabilities and financial interests. According to Musyoki and Kadubo (2012). A company's financial performance is measured by its net income and operating cash flow, which measures its ability to generate new resources from its day-to-day operations over a given period.

According to previous research, factors such as brand trust, reputation, perceived quality and risk of purchase are affected by consumers' perception of the financial condition of a company from which they have previously purchased or will purchase products or services in the future (Mainardes et al., 2020). In contrast, information about a company's financial difficulties (e.g. bankruptcy filings) may have a negative impact on consumers' perceptions. In the event of a

retailer filing for bankruptcy, the negative financial information can negatively affect the retailer's reputation as well as negatively affect consumers' evaluations of its products and services. A bankruptcy filing could also make it difficult for consumers to recover money or services owed to them by the retailer, which could lead to a greater perception of risk on the part of consumers.

Information about a company's financial difficulties can have negative connotations in consumers' imaginations; external factors associated with the company, such as reputation and price level, could moderate the effect of the company's financial situation (Younus et al., 2015). Considering the possible influences of the company's financial situation on consumers' perceptions and purchase intention, we propose the following hypotheses:

H1. Retailers' bankruptcy filing increases (a) perceived risk but decreases (b) perceived quality, (c) brand trust and (d) purchase intention.

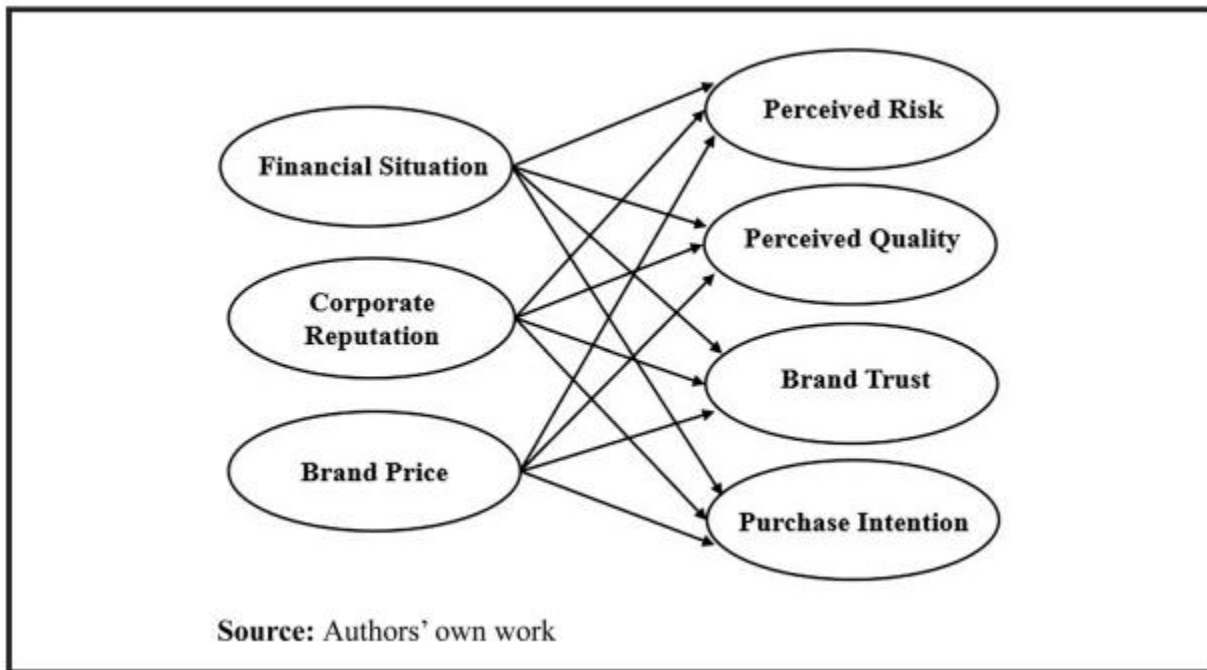


Figure 1. The conceptual model

Corporate brand reputation

An organization's reputation is generally defined as the perception, opinions and attitudes of multiple stakeholders, such as employees, customers and other community members (Hatch and Schultz, 2001). This impression may result in a positive or negative assessment of the company and its products/services (Burke et al., 2018; Eberle et al., 2016). It is shaped by various factors, including the company's products or services, customer service, marketing and social media presence. A positive corporate brand reputation has been widely acknowledged as one of the most important intangible assets driving a company's success (Fisher-Buttinger and Vallaster, 2011; Gibson et al., 2006). According to previous studies, a good corporate brand reputation for customers has a signaling effect regarding the quality and reliability of the products and services, which influences stakeholders' behavioral intentions, such as a higher

purchase intention or a reduction of risk in the purchase decision (Baumgartner et al., 2020). Earlier studies have reported that a good reputation signals quality and sound company behavior toward market transactions. It is also helpful in reducing customer uncertainty (Walsh et al., 2009). A positive company reputation has also been found to enhance consumers' intentions to purchase, attitudes toward the company and its products and loyalty to the brand (Brown, 1997; Akdeniz et al., 2013; Doney and Cannon, 1997; Raithel and Schwaiger, 2015). Evidence has suggested that organizations with a positive performance history (a good corporate reputation) will find it easier to maintain a positive image during a crisis and can play a value-preserving role in a crisis (Coombs and Holladay, 2002; Jones et al., 2000; Pfarrer et al., 2010).

Corporate brand reputation is a multidimensional construct, and one of its dimensions is financial performance, which is customers' perception of the company regarding competence, solidity and profitability (Agarwal et al., 2015). It measures customers' expectations that the company responsibly uses financial resources and that investing in the company would involve little risk. However, regarding the exact relationship between corporate brand reputation and financial performance, prior studies suggest that it is not always clear which begets which, but it is tough to have one without the other'. A firm's identity and reputation represent a competitive advantage and can positively impact its financial performance (Walsh et al., 2009). Corporate brand reputation can significantly impact transaction costs and customer outcome variables, such as consumer trust, retention and loyalty (Walsh and Beatty, 2007), suggesting that the company's financial performance is primarily a result of customers liking the company and its products. On the other hand, as an essential dimension of corporate brand reputation, a company's financial performance (financial reputation) is pivotal in shaping its overall reputation (Eberl and Schwaiger, 2005; Loock and Phillips, 2020). A higher performance leads to a good corporate reputation, which could further enhance a firm's likelihood of performing well in the future.

Wang et al. (2006) noted that corporate brand reputation may interact with other variables to enhance performance. However, even though corporate brand reputation has been shown to influence consumers' attitudes and the success of companies, there has been little research on its moderating effect, which assesses the interaction between corporate brand reputation and other variables (Schwaiger, 2004; Wang et al., 2006). Therefore, this study examined the moderating effect of corporate brand reputation when a company is in financial distress:

H2. Corporate brand reputation moderates the relationship between retailers' bankruptcy filing and perceived risk, perceived quality, brand trust and purchase intention, such that the relationship will be weaker for retailers with a good reputation than for retailers with a bad reputation.

Brand price

Price is the amount of money charged to obtain a product or service. Alternatively, price can be defined as the amount the consumer needs to exchange to obtain a product or service (Kotler and Armstrong, 2010). Price plays a vital role in the consumer's final purchase decision.

Wangenheim and Bayon (2007) □ and Ralston (2003) asserted that considering price perception as an extrinsic cue represents one of the most critical pieces of information customers can use when evaluating products and making purchases. When consumers evaluate product alternatives, price plays two distinct roles: as an indicator of sacrifice and as a source of information. According to classical economic theory, the sacrifice effect of price represents the

consumer's assessment of how much they must sacrifice to satisfy their consumption needs. Consequently, the price can reduce purchase probabilities, generating disutility (Johansson and Erickson, 1985). Prior research suggests a negative relationship between a product's price and a consumer's perception of the performance risk associated with purchasing that product. Grewal and Marmorstein (1994) further supported the idea that if the message is framed negatively or the source is not credible, price has a more significant influence on consumers' perceptions of performance risk.

On the other hand, how consumers perceive the price of a product can affect their evaluations of its value and quality. In general, consumers infer quality information from price, such that higher costs indicate higher quality and thereby increase perceived utility (and vice versa), leading to a favorable price response to demand, although this may not apply in all cases (Setiawan and Achyar, 2012). Previous research results also showed that price perception has a significant positive relationship with customer trust (Benhardy et al., 2020; Sihite et al., 2016). Considering the dual role of price in consumers' evaluations of product alternatives, we believe it is worth examining the mediating influence of brand price level for retailers at different price levels facing financial distress:

H3a. Brand price moderates the relationship between retailers' bankruptcy filing, perceived risk and purchase intention, which will be weaker for low-priced retailers than for high-priced retailers.

H3b. Brand price moderates the relationship between retailers' bankruptcy filing, perceived quality and brand trust, which will be weaker for high-priced retailers than for low-priced retailers.

Methodology

Study design

This study aims to identify consumers' perceptions of financial situation in two different contexts: one in which the company is characterized as having a stable financial situation and the other in which it is in financial distress. Our experiment used a 2 x 2 x 2 fractional factorial design. Eight scenarios were developed to manipulate three independent variables (see Table 1). Specifically, every version of the company profile contained information about the company's financial condition (financially stable or filed for bankruptcy under Chapter 11), its reputation (good or poor) and its price level (high or low).

Measures

Product stimuli. We used a scenario-based experimental survey to control participants' biases regarding prior experience, involvement and rationalization (Grewal et al., 2004). As discussed earlier, bankruptcy is increasingly common in the retail industry (CBInsights, 2023). Several high profile clothing retailers, including JCPenney, J. Crew and Express, have filed for bankruptcy in the last five years. Thus, apparel retailers were selected as the product category for the experiment. Participants were informed that Brand X is an American fashion retailer of apparel, shoes and accessories for men and women. It operates both retail stores and an online

business. Figure 2 provides an example of the simulation scenarios. Subjects were randomly assigned to one of the eight experimental conditions.

Independent variables. The corporate financial situation was manipulated at two levels: one in which Brand X is characterized as being in a stable financial situation (good financial situation) and another in which Brand X has recently filed for bankruptcy to deal with unmanageable debts (poor financial situation). Corporate brand reputation was manipulated to distinguish between poor and good reputations. According to previous studies, customer satisfaction plays a crucial role in a company’s reputation, which largely depends on customer satisfaction at times of market turmoil (Ali, 2022; Khan et al., 2022). Thus, to manipulate corporate reputation in this study, half of the participants received a description of Brand X, recognized for its high satisfaction rating (4.5/5 stars). The other half received a description of Brand X as having a poor reputation with a customer satisfaction rating of 1.8/5 stars. Brand price was manipulated at two levels: low (jacket price range from \$40 to \$150) and high (jacket price range from \$300 to \$2,000).

Table 1	Fractional factorial design
Attributes	Levels
1. Financial situation	1. <i>Good</i> : financially stable 2. <i>Poor</i> : recently filed for Chapter 11 Bankruptcy
2. Corporate reputation	1. <i>Good</i> : has a good customer satisfaction (4.5/5 stars) 2. <i>Poor</i> : has a poor customer satisfaction score (1.8/5 stars)
3. Brand price	1. <i>High</i> : a premium fashion brand (jacket prices range from \$300 to \$2,000) 2. <i>Low</i> : an affordable fashion brand (jacket prices range from \$40 to \$150)

Source: Authors’ own work

Dependent variables. The four questions on perceived risks come from research by Laroche et al. (2003) and Stone and Grønhaug (1993). Yoo et al. (2000) and Sweeney and Soutar (2001) served as the sources of the four questions for measuring the perceived quality by consumers. Five questions on consumer trust in a company originate from Delgado-Ballester et al. (2014). Finally, we use three questions by Dodds et al. (1991) to measure the consumer’s intention to purchase a product or service from a particular company. We adopted the five-point Likert scale as answers, ranging from “strongly disagree” (1) to “strongly agree” (5).

Manipulation checks. To ensure that participants understood and identified the research setting and perceived stimuli differently, manipulation checks were conducted at the end of the study. The manipulation check for the three independent variables asked respondents whether they agreed with the following three statements, “Brand X is financially stable” (financial situation), “Brand X has a good reputation among its customer base” (brand reputation) and “Brand X is a low-priced apparel brand” (price level).

Sample selection and data collection

A structured online questionnaire was developed to collect data for the current study. We used a sample of college student participants for two reasons. First, young consumers are a very important market group in the clothing market (Schneider and Lee, 2022). Their influence on

trends, purchasing power and potential for long-term loyalty make them an essential focus for apparel retailers aiming for sustained growth and relevance. Second, given this study's exploratory nature, using a convenience student sample can also be a cost-effective way to conduct preliminary research before extending the research to a more diverse sample (Sexton, 2022). Students enrolled in two large public universities in the USA were recruited to participate in the study. Through the Qualtrics survey platform, 180 participants completed an online survey. Participants were randomly assigned to one of eight versions of the ads. Participants were asked to review the assigned advertisement carefully as a first step. Participants were instructed to complete an attached questionnaire after exposure to the advertisement, which collected information on dependent measures, manipulation checks and standard demographic information.

Figure 2. An example of simulation scenarios

Brand X Profile 5

Brand X is an American fashion retailer of apparel, shoes, and accessories for men and women. As of 2020, the company operates 296 retail stores, 65 factory outlet stores, and its online business.

Financial Situation: Brand X recently filed for Chapter 11 Bankruptcy to deal with unmanageable debts. Chapter 11 bankruptcy allows Brand X to *remain in operation while executing a reorganization plan*, which includes reducing costs and closing struggling stores.

Brand Reputation: Brand X had a customer satisfaction rating of 4.5/5 stars, indicating that most customers are generally satisfied with their purchases with Brand X.

Type of Brand: Brand X is a premium fashion brand. Brand X jacket prices range from \$300 to \$2,000.

Source: Authors' own work

Results and discussion

The sample

Of the 180 questionnaires collected, 165 responses were considered valid and used in the study. The participants comprised 72.6% females and 27.4% males; the majority (90.9%) were aged 18–24 and 8.5% were aged between 25 and 34. Most respondents were highly educated, with 7.9% holding a college or graduate degree and 82.1% studying at the college level. In total, 60.6% of the respondents were Caucasian, 23% were African American and 6.4% represented other ethnic groups (e.g. Hispanic or Asian).

Manipulations

The manipulation check data showed that the intended manipulation of the financial situation, corporate reputation and brand price level was successful. Specifically, 95% of the subjects correctly answered the manipulation check for the financial situation, 97% correctly answered the manipulation check for corporate reputation and 92% correctly answered the manipulation check for brand price.

Reliability and validity of measures

First, exploratory factor analysis was performed on the 16 items, using a varimax rotation to measure the four dependent variables. The exploratory factor analysis revealed four distinct factors among the items. The values of Cronbach's alpha for "perceived risk," "perceived quality," "consumer trust" and purchase intention" were 0.88, 0.87, 0.89 and 0.93, respectively. Thus, they were accepted as being reliable for the research.

Next, convergent and discriminant validity of the four dependent variables was assessed using a confirmatory factor analysis (CFA). Meeting recommended values for goodness-of-fit statistics in the measurement model ($X^2/df = 1.65$; GFI = 0.93; AGFI = 0.88; CFI = 0.92; RMR = 0.04 and RMSEA = 0.05) is a positive sign for both convergent and discriminant validity (Anderson and Gerbing, 1988). Conducting chi-square (X^2) difference tests is a common approach to assess discriminant validity in CFA (Anderson and Gerbing, 1988). The X^2 difference tests in this study confirmed that the constrained model fits the data significantly worse than the unconstrained model ($p < 0.001$). Thus, we supported discriminant validity (Bagozzi and Phillips, 1982).

Hypotheses tests

To test the hypotheses, we conducted a multivariate analysis of variance (MANOVA) on four dependent variables. The results are summarized in Table 2.

The impact of bankruptcy filing. The results show that financial circumstances have a statistically significant main effect on purchase intention, supporting the assertion that consumers' intentions to purchase from a company that has filed for bankruptcy can be decreased by the filing (*H1d*). This result confirms that the company's unfavorable financial condition (e.g. bankruptcy) could decrease consumers' willingness to buy the bankrupt firm's products (Antill and Hunter, 2023). However, our findings show that a firm's bankruptcy filing does not significantly increase consumers' perceived risk, which leads to the rejection of *H1a*. Similarly, we found no significant difference in the perception of quality and brand trust in both contexts of the retailer's financial situation, implying the rejection of *H1b* and *H1c*.

The mediating effect of corporate reputation and brand price level

Results obtained for *H2* and *H3* show that corporate brand reputation and price level do not significantly mediate the relationship between bankruptcy filing and consumers' perceptions and purchase intention toward that retailer. This suggests that a retailer with a better reputation is not necessarily better equipped to withstand the adverse effects of the company's financial crisis and bankruptcy does not affect retailers at different price levels differently.

The impact of corporate reputation

Also, MANOVA findings indicate a significant positive relationship between brand reputation, brand trust and purchase intention, suggesting that a positive reputation associated with a retailer can contribute to the development of customer trust and increase the likelihood that consumers will purchase from that retailer (Dodds et al., 1991; Grewal et al., 1998). Besides, there is a significant two-way interaction between brand reputation and brand price level for

purchase intention. The subsequent analysis and simple effects tests indicate that college-aged consumers are more willing to purchase products from a retailer with a good reputation and selling apparel products at affordable prices.

Variable	MANOVA results		Perceived risk		Perceived quality		Brand trust		Purchase intention	
	Wilks' lambda	F	Mean square	F	Mean square	F	Mean square	F	Mean square	F
Financial situation (A)	0.93	3.05*	0.66	0.03	0.10	0.01	6.77	0.46	99.14	11.96***
Corporate reputation (B)	0.59	26.72***	14.80	0.76	33.25	1.93	417	28.53***	745.01	89.88***
Brand price (C)	0.99	0.43	17.94	0.92	20.87	1.21	8.56	0.59	5.26	0.63
A x B	0.98	0.98	0.94	0.05	10.23	0.59	15.17	1.04	0.60	0.07
A x C	0.96	1.36	29.00	1.49	0.01	0.00	8.30	0.57	0.03	0.00
B x C	0.90	4.20**	1.88	0.10	25.53	1.48	11.53	0.79	100.82	12.16***
A x B x C	0.99	0.44	5.40	0.28	3.39	0.20	18.65	1.28	1.09	0.13

Notes $p \leq 0.05$; $p < 0.01$; $p < 0.001$

Source: Authors' own work

Discussion and managerial implications

Today, corporate financial crises can lead to operational disruption, negative publicity and loss of customers and sales, indicating that developing and implementing effective crisis management response strategies could be critical to the survival of an organization. The possible influences of the financial situation of a company are examined mainly in the literature in finance, with few studies to be found on the effects of a company's indebted situation on its customers and marketing efforts (Malshe and Agarwal, 2015; Rollins et al., 2014). Consumers are considered to be one of the most important stakeholders of a business because they are the ones who buy the company's products and services (Stravinskiene_ et al., 2021). Thus, this research aims to fill that gap and examine the influence of corporate bankruptcy filing on consumers' perceptions and behaviors regarding the company in financial distress. Business bankruptcies have dramatically increased in the past few years and the US retail industry has been hurt especially hard (Daniels, 2023). Our study is the first empirical investigation of the negative implications of corporate bankruptcy on consumer behavior in the retail sector. Therefore, this study can contribute to a better understanding of how bankruptcy filings by apparel retailers may affect consumer perception and purchase behavior. In the same vein, a better understanding of the effect of a retailer's financial situation on its customers can help inform managers and other stakeholders so that they can develop better marketing strategies to mitigate the detrimental effects of bankruptcy filings on consumers.

Theoretically, this study advances the negativity bias and category diagnosticity theories in the context of retail bankruptcy by providing evidence of the effects of negative information on consumers' evaluating mechanisms, perceptions and subsequent purchase decisions. Regarding the relationship between corporate reputation and a firm's financial performance, most researchers focused on the cause-and-effect relationship between them. This study is the

first to explore the moderating influence of corporate reputation on the impact of a firm's financial situation on consumers.

Our results show that an unfavorable financial situation of a retailer does not generally harm consumer perceptions of the company, such as perceived quality, risk and consumer trust. However, a retailer's financial situation can affect customer buying behaviors. More specifically, the results indicate that disclosing the firm's financial distress can decrease consumers' willingness or inclination to buy a product or service from the company. This decline could be caused by consumers' concerns about the possible loss of future interactions with the firms. This is in line with the idea that consumers often base their assessment of a company's ability to deliver products or services to their expected standards; that is, in the case of a company experiencing financial difficulties, consumers may presume that the company's ability has been undermined by its need to reduce costs. If consumers switch away from a retailer because of its bankruptcy status, it will make it harder for the retailer to recover from bankruptcy. This could explain why many firms that emerge from bankruptcy perform poorly and subsequently file for bankruptcy (Hotchkiss, 1995). Thus, the company should carefully manage an unfavorable financial situation to avoid damaging established purchase intent.

Having effective communication can help a company overcome a financial crisis by restoring the consumer's desire to purchase (Greyser, 2009; Mainardes et al., 2020). To avoid a permanent loss of customers for a bankrupt firm, marketing managers need to be strategic in communication with consumers and associated advertising. Although managers might not want to explicitly mention the bankruptcy (to ensure that unaware consumers remain unaware) (Antill and Hunter, 2023), they should also be honest about the company's financial challenges and maintain an optimistic tone about the future (Coombs, 2015; Greyser, 2009). Based on previous research, consumers formed more positive impressions of organizations that accepted responsibility for crises than organizations that did not (Lee, 2005; Coombs, 2004). The bankrupt firm should focus its communication on assuring customers that it is committed to maintaining the quality of its products and customer support, outlining the steps taken to address the financial issues and preparing responses to likely questions and concerns customers may have.

Our findings suggest that the retailer's financial situation may not negatively affect consumers' perceptions of the retailer (such as perceived risk, quality level and trust in the company). These results differed from what the literature predicts: an unfavorable financial situation could significantly increase the perceived risk of purchasing a product or service from that same company and decrease their perceived quality level and confidence in the company (Khan et al., 2015). Although these results are surprising, they can be explained by the fact that consumers' perceptions of a company are developed mainly based on their interactions and experiences with the company and some external influences (e.g. word of mouth and reviews) (Ashley and Tuten, 2015). Thus, in the absence of new concrete evidence of changes in the quality of the company's products and services, isolated news of financial distress alone would not have a significant impact on a customer's opinion of the company's products or their confidence in the brand (Mainardes et al., 2020). Another explanation is that store closures and bankruptcy filings have been common occurrences in the US retail industry in the past few years so that consumers may attribute a retailer's bankruptcy to unfavorable market conditions (such as economic downturns and changes in consumer preferences). Because these external factors are beyond the company's control, consumers are unlikely to hold the organization accountable for its financial crisis and form negative perceptions of the company (De Blasio and Veale, 2009; Coombs, 2004). This is good news for an apparel retailer filing for bankruptcy. After filing for

bankruptcy, companies face significant pressure to reduce costs and streamline operations to regain financial stability. Considering it is vital to maintain positive consumer perceptions to overcome the crisis, these findings will be useful in motivating managers to prioritize their marketing efforts to ensure that their products and services meet or exceed customer expectations, provide prompt and helpful customer service, invest in marketing strategies to address any negative perceptions caused by a bankruptcy filing, actively engage with customers and implement loyalty programs and other initiatives to retain existing customers.

The results showed that corporate brand reputation does not moderate the relationship between retailers' bankruptcy filing and consumers' perceptions of the company and purchase intentions, which is not what we expected. Negativity bias and category diagnosticity theory can be used to explain this result. People place different weights on different pieces of information when evaluating a situation based on the negativity bias and diagnosticity theory and people tend to give more weight to negative experiences or information than positive ones (Rozin and Royzman, 2001; Skowronski and Carlston, 1989). Prior studies have suggested that negative information (e.g. bankruptcy filing) is considered more useful or diagnostic by consumers for decision-making purposes and is consequently given greater weight than positive information (e.g. a good corporate reputation) (Lee et al., 2008).

On the other hand, our findings confirm that a positive reputation associated with a retailer can increase consumer trust and purchase intentions, even during financial difficulty. As mentioned earlier, corporate brand reputation is a multifaceted construct and Dollinger et al. (1997) identified three main dimensions of corporate reputation: managerial reputation, financial reputation and product reputation. Each of these dimensions represents a different aspect of corporate reputation and impacts various stakeholders differently. Prior research also indicates that different corporate reputation dimensions influence consumer trust and behaviors differently (Stravinskiene_ et al., 2021). Therefore, even if the company's negative financial performance (bankruptcy) could have negatively affected customers' purchase intention and perceived overall reputation, the brand manager of a retailer that has a good reputation should also focus on strengthening the other aspects of corporate reputation that are highly valued by its target audience, such as reasonable prices and quality products and services to reap the benefits of a good corporate reputation and successfully recovered after filing for bankruptcy.

Limitations and future research

Even though this study's findings have significant implications, some important limitations should be considered when interpreting its results. First, the study used a college student sample for the experiment because young consumers are a very important market group in the clothing market. However, because our findings are based on a convenience sample of college students, this may impact the findings' generalizability. Future studies should investigate whether the findings of this study can be generalized to other segments of consumers in the older age group. Second, due to the increasing prevalence of bankruptcy in the apparel retail industry, apparel retailers were chosen as the product category for the study. It is recommended that future research apply this framework to other retail sectors since they differ in terms of products, services, target customers and business models. Third, this study examined if a company's reputation can mediate the negative impact of its financial distress. Future research could examine how a company's bankruptcy filing could influence its reputation.

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