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Effectiveness of corporate responses to brand crises: The role of crisis type and response strategies

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ABSTRACT

Brand crises are adverse events that threaten brand reputations. Research indicates that corporate responses to crises play a role in restoring brand equity. However, there is confusion as to the best type of response. On the one hand, there is a strong advocacy for a singular type of response strategy, corrective action, regardless of the crisis type, while on the other, there is support for a contingency-based view suggesting that the relative efficacy of responses depends on other factors. We contribute to this contingency-based view by comparing the efficacy of three major response strategies (denial, reduction-of-offensiveness and corrective action) in restoring post-crisis brand confidence and choice likelihood. We find that the relative effectiveness of response strategies depends on the nature of the brand crisis. Consequently, a "one type fits all" strategy for post-crisis responses can be suboptimal. We discuss the implications of our findings and provide directions for future research.

1. Introduction

Brands are key assets of market-oriented firms and companies continually strive to improve and protect brand equity or value. Unfortunately for owners and managers of brands, brand-related adverse events (what we refer to as *brand crises*) are common and typically highly publicized. Such crises can harm a brand's equity through a weakening of brand confidence and a reduced likelihood of brand consideration and choice. Academic interest in consumer-related consequences of brand crises is rising, robustly documenting their negative effects (e.g., Ahluwalia et al., 2000; Dawar and Pillutla, 2000; Dawar and Lei, 2009; Huber et al., 2010; Roehm and Tybout, 2006; Cleeren et al., 2008). While it is important to research consequences of brand crises, it is equally important to realize that *how firms respond* eventually determines the extent to which consumer confidence in the brand involved is restored (Pearson and Clair, 1998). Understandably, firms desire a cost effective response, while ensuring maximal restoration of consumer confidence.

Intuitively, it appears that assuming responsibility for a crisis and committing to remedial measures is uniquely the best strategy and indeed this might be recommended based on case studies (e.g., Johnson, 1993; Snyder and Foster, 1983) and systematic empirical studies (Bradford and Garrett, 1995; Dean, 2004). However, there is evidence of a contingency-based view that effectiveness of a response may depend on other factors including consumers' expectations of a firm's response (Dawar and Pillutla, 2000) and commitment to the brand (Ahluwalia et al., 2000). We contribute to this contingency-based view by demonstrating that the relative effectiveness of response strategies depends on the nature of the crisis. Specifically, we show that corrective action is not necessarily the best response for all types of crises. In addition to contributing to this contingency-based view, this is of practical importance. Corrective action is likely the most expensive response and if a firm can find a less expensive but equally effective approach, undue costs are avoided.

The rest of the manuscript proceeds as follows. First, we present our conceptual framework and hypotheses. Then, we test our predictions in an experiment using actual consumers, discuss our results, and offer directions for future research.

2. Conceptual framework

A firm can respond to a brand crisis in a variety of ways. In this section, we develop a conceptual framework. First, we discuss two broad categories of crises affecting brands. Then, we review three response strategies and offer testable propositions related to their effectiveness.

2.1. Brand crises and the impact on brands

Brand crises are unexpected events that threaten a brand's perceived ability to deliver expected benefits thereby weakening brand equity (Ahluwalia et al., 2000; Dawar and Pillutla, 2000; Dawar and Lei, 2009; Pullig et al., 2006; Roehm and Tybout, 2006). Based on recent research (Pullig et al., 2006), we conceptualize brand crises as

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being of two broad types: 1) *performance-related* or 2) *values-related*. Performance-related crises commonly involve defective products and primarily reduce a brand's perceived ability to deliver functional benefits (Dawar and Pillutla, 2000; Pullig et al., 2006; Roehm and Brady, 2007). Detection of lead in Mattel toys is an example of this crisis type. A values-related crisis does not directly involve the product, but involves social or ethical issues surrounding the values espoused by the brand. Martha Stewart's legal woes, Texaco executives' racially insensitive remarks, and Nike's alleged use of child labor are examples. This crisis type does not involve specific product attributes that deliver functional benefits but calls into question the brand's ability to deliver symbolic and psychological benefits (e.g., Pullig et al., 2006). Next, we discuss important brand-related outcomes that these crises might affect.

A brand's equity, the overall value of a brand, is largely a function of consumers' confidence in the brand's ability to fulfill expected benefits and their willingness to consider the brand over competing brands (e.g., Aaker, 1996; Keller, 1993, 2005; Netemeyer et al., 2004). Information about a brand crisis and response thereto likely affect these important dimensions of the brand's equity. Subject to this general expectation, the specific outcomes affected differ slightly across crisis types.

Consumers can potentially derive functional and symbolic benefits from a brand (Keller, 1993; Park et al., 1986). Performance-related crises largely affect confidence related to functional benefits and values-related crises affect confidence related to symbolic benefits, while both affect common outcomes such as overall brand attitude or brand choice (Pullig et al., 2006). Consequently, we study the effect of crisis and post-crisis response on two sets of brand-related perceptions, with some overlap, for each crisis type.

2.2. Corporate responses to brand crises

One can conceptualize corporate responses to brand crises at different levels of abstraction (Benoit, 1997) making it difficult to construct a standardized response typology. Indeed, existing empirical research uses disparate bases for categorization making it difficult to compare results. For instance, Dawar and Pillutla (2000) conceptualize responses in terms of ambiguity whereas Ahluwalia et al. (2000) categorize a response based on whether it counter argued the allegation of brand crisis or whether it argued the value of the brand crisis' account as being diagnostic of the brand's true merit. Bradford and Garrett (1995) and Dean (2004) use yet other bases for classification. Based in communication theory, Benoit (1997) proposes a typology of post-crisis responses that, we believe, is at an appropriate level of abstraction for managers to select from. Thus, responses can range from flat-out denial where the firm denies the occurrence of an event or their involvement therein to complete remediation where they promise remedial and preventive measures. Dawar and Pillutla (2000) conceptualize similarly; however, they do not consider an extensive variety of intermediate responses. Benoit's (1997) typology is useful for two major reasons. First, it consists of what might be called "pure types" that managers can easily select from or combine in some fashion. Second, the response types used in past empirical work map onto this typology, although it might be difficult to compare them to one another. For these reasons, we examine three response strategies from Benoit's typology.

Benoit proposes four broad response types, some with subtypes (denial—two subtypes; evasion of responsibility—three subtypes; reducing offensiveness of event—6 subtypes; corrective action; mortification). For parsimony, we focus on three strategies from Benoit's extensive typology: *denial (subtype: simple denial)*, *reduction-of-offensiveness (subtype: minimization)*, and *corrective action*.

Denial challenges the verity of a negative event or the assumption that the firm or brand concerned caused it (Aaker, 1991; Benoit, 1997). Audi and Nestle are relevant examples (Hartley, 1989). In 1978, CBS' "60 Minutes" accused Audi of manufacturing an automobile model with sudden acceleration problems. Audi denied that the problem existed. In 1975, media alleged that Nestle's instant baby formulas caused infant deaths in third world countries. Nestle denied this allegation, citing causes not related to the company for the deaths (Hartley, 1989).

Firms can reduce a crisis' offensiveness by de-emphasizing consequent damage. For example, Exxon officials downplayed environmental damage from the Valdez incident, citing limited animal casualty (Mathews and Peterson, 1989). Although one can reduce offensiveness in other ways, we do not consider those possibilities (see Benoit, 1997 for details).

In corrective action, a firm accepts responsibility and promises remedial and possibly preventive actions. AT&T's reaction to a breakdown in long distance service is an example. AT&T announced plans to compensate customers, invest in facilities, and adopt practices for higher service reliability (Benoit and Brinson, 1994). Next, we develop our hypotheses regarding relative effectiveness of the response types.

3. Hypotheses development

We propose that brand crisis type affects the relative effectiveness of the three response strategies. Specifically, we posit that regardless of crisis type denial is the least effective response. For a *performance-related crisis*, corrective action is the most effective response. However, for a *values-related crisis*, corrective action is not better than the intermediate response of reduction-of-offensiveness. We base our rationale on the key differences between the crises types and among the three response strategies.

3.1. Key differences between crisis types

As our pilot study demonstrates, a performance-based crisis impacts expected benefits related to brand functionality, whereas a values-based crisis impacts the brand's expected symbolic and psychological benefits. This distinction is important because research indicates that negative information related to functional benefits more strongly influences satisfaction and choice likelihood.

Swann and Combs (1976) put product benefits into two categories, with implications for consumer satisfaction. Thus, benefits are instrumental (more functional in nature) or expressive (more symbolic in nature) and are hierarchical in that a product should adequately provide instrumental benefits for satisfaction to occur. Expressive benefits also enhance satisfaction, but their absence does not necessarily cause dissatisfaction. Other researchers have proposed a similar hierarchy. For instance, Kahn and Meyer (1991) identify "utility-preserving" attributes that create core performance and "utility enhancing" attributes that are not integral to core performance. Their results corroborate this view; during product evaluation consumers emphasize the absence of utility-preserving attributes (e.g., basic quality of a stereo's sound) over absence of utility-enhancing attributes (e.g., sleek design of the stereo). Mittal et al. (1998; 1999) extend this work by demonstrating that poor performance on a utility-preserving attribute (e.g., a doctor's diagnosis) is more detrimental to satisfaction than poor performance on a utility-enhancing attribute (e.g., a doctor's sense of humor). In their studies, uncertainty regarding core functional attributes negatively affects brand choice. Uncertainty regarding utility-enhancing attributes is not as detrimental to brand choice. Overall, this body of research indicates that functional benefits are more important to brand satisfaction than symbolic benefits.

Most brand equity frameworks support this view. For example, Keller (2005) describes core brand performance as the heart of a brand's equity. Symbolic and psychological benefits are important, but are more useful for positioning advantages or differentiation. On the