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The role of a favorable pre-crisis reputation in protecting organizations during crises

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ABSTRACT

This study investigates the degree to which a favorable (vs. an unfavorable) pre-crisis reputation shields organizations from reputational loss due to crises. The results indicate that organizations with a favorable pre-crisis reputation suffer less reputational loss from a crisis than organizations with an unfavorable pre-crisis reputation. The explanation for this effect is that consumers are reluctant to change their initial attitude toward an organization and therefore attribute less responsibility for a crisis to organizations with a favorable pre-crisis reputation. Finally, the findings show that the positive impact of a favorable pre-crisis reputation not only protects organizations against the harms of a crisis event, but against subsequent negative publicity and external allegations as well.

1. Introduction

A crisis, an unpredictable event with an enormous impact on the operation of an organization, can lead to negative organizational perceptions among consumers and thus negative outcomes for the organization (Coombs, 2012). A crucial negative outcome of organizational crises is reputation loss (Coombs, 2007; Dutta & Pullig, 2011; Falkheimer & Heide, 2006). To restore this reputational damage due to a crisis an organization should apply a proper crisis response strategy (e.g., apology) (Dutta & Pullig, 2011; Yuksel & Mryteza, 2009). The amount of initial reputation loss depends, however, on consumers' pre-crisis perceptions of the organization. For example, BP's reputation suffered severely after the explosion of the Deepwater Horizon in 2010, which killed eleven workers and resulted in a tremendous disaster for the environment. "*The aura of negativity*", as stated by Muralidharan, Dillistone, and Shin (2011) (p. 227), surrounding big oil companies might have made the corporation more vulnerable to reputation damage evoked by the crisis. A favorable pre-crisis reputation may, however, work as a shield that protects the organization from potential reputational damage (Coombs & Holladay, 2006).

The aim of the present paper is to investigate this proposition by testing the positive shielding effect of pre-crisis reputation in an adequate manner. Previous findings concerning the impact of pre-crisis reputation on post-crisis reputation (e.g., Coombs & Holladay, 2001) show that organizations with a favorable reputation prior to a crisis retain a better reputation after a crisis in comparison with organizations that have an unfavorable pre-crisis reputation. However, this finding does not necessarily imply that an organization with a favorable pre-crisis reputation suffers less reputational damage than an

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organization with an unfavorable pre-crisis reputation. Possibly, organizations with a favorable pre-crisis reputation only have a better reputation after the crisis because they have a lot more reputational capital to spend to begin with (Coombs & Holladay, 2006).

This study experimentally examines consumers' evaluation of an organization in crisis by comparing the impact of a fictitious crisis on two European retailers differing in reputation. The findings from this research contribute to the field of crisis communication in three respects. First, the study tries to show that a favorable pre-crisis reputation shields an organization from reputational damage following a crisis by – in contrast to previous studies – operationalizing reputation loss using a pre- versus post-crisis reputation measure. This measure allows us to examine reputation loss and not merely a difference in post-crisis reputation between two companies, which could be explained by differences in pre-crisis reputation. Second, the present research examines *why* a favorable pre-crisis reputation serves as a shield against reputational damage. In particular, the findings show that a favorable reputation leads to lower attributions of organizational responsibility for the crisis. Third, in the process of testing the shielding function of favorable organizational reputations, this study shows that favorable reputations not only serve to mitigate the impact of a crisis itself but of negative publicity in light of those crisis events as well.

2. Theoretical framework and hypotheses

2.1. The impact of prior reputation on reputation loss due to a crisis

In times of organizational crisis, consumers are likely to assess the organization's responsibility for the events based on three factors (Coombs, 2007). First, they consider the initial crisis responsibility. This initial responsibility is based on an assessment of the crisis type and how this is framed by for instance the media (i.e. victim crisis, accidental crisis, preventable crisis). Second, consumers take into account the crisis history of the organization. Has the organization been confronted with a similar crisis before? A third factor that is reflected upon by consumers when attributing responsibility is the pre-crisis organizational reputation (Coombs, 2007; Klein & Dawar, 2004). This is also referred to as prior relational reputation (Coombs, 2007), relationship history or performance history (Coombs & Holladay, 2001; Sheldon & Sallot, 2009). Pre-crisis reputation is considered more important for the reputation of organizations in crisis than crisis history (Coombs & Holladay, 2001; Sheldon & Sallot, 2009). The impact of pre-crisis reputation is examined in this study.

Psychological research indicates that people's evaluations of specific attributes of a person or an object often assimilate to their global evaluations about this person or object and calls this "the halo effect" (Thorndike, 1920). Coombs and Holladay (2006) argue that this mechanism can apply to organizations in crisis too. A favorable pre-crisis reputation can offer a protective shield against reputational crisis damage. Expectancy confirmation theory, which originates in the context of individuals' beliefs about social issues, offers an explanation for this assumption (Coombs & Holladay, 2006; Edwards & Smith, 1996). When people receive information that does not conform to their expectations, they experience cognitive dissonance. In order to reduce this cognitive dissonance, people tend to interpret any inconsistent information in a way that makes that information become consistent to their prior expectations (Edwards & Smith, 1996; Traut-Mattausch, Schulz-Hardt, Greitemeyer, & Frey, 2004).

Consumers may similarly try to cope with cognitive dissonance resulting from crisis information about organizations they feel positive about (Perloff, 2010). In particular, consumers holding a favorable attitude toward an organization in crisis may have a tendency to focus on the positive aspects of the organization and ignore the negative crisis information (Coombs & Holladay, 2006). In doing so, they can resolve their cognitive dissonance (Festinger, 1957). This style of information processing not only has the potential to prevent reputational damage due to crises, but may even lead stakeholders to dismiss the crisis up to a certain degree and retain their initial positive evaluation of that organization (Coombs & Holladay, 2001, 2006). Consequently, an organization with a favorable pre-crisis reputation would suffer less reputational loss than an organization with an unfavorable pre-crisis reputation.

Prior studies have illustrated that a favorable pre-crisis reputation can offer organizations a protective shield during crises by testing if an organization with a more favorable pre-crisis reputation retains a better reputation after a crisis than an organization with an unfavorable pre-crisis reputation. Research on politicians' crisis communication may not have found a beneficial effect of positive performance history on post-crisis reputation, which was measured through an estimation of credibility, it did result in a more positive evaluation of the politician's character traits (Sheldon & Sallot, 2009). Coombs and Holladay (2006) found that there can be times when a favorable pre-crisis reputation protects an organization from reputational threats. In addition, after a crisis situation, consumers are more likely to purchase products or services from organizations with a favorable pre-crisis reputation than from those with an unfavorable pre-crisis reputation (Lyon & Cameron, 2004). The positive impact of a favorable pre-crisis reputation as opposed to an unfavorable pre-crisis reputation on both post-crisis attitude toward the company and purchase intention was found in an experimental study using real corporate crises (Turk, Jin, Stewart, Kim, & Hipple, 2012).

Even though these results are in accordance with the expectancy confirmation theory, they are susceptible to alternative explanations. Prior findings may simply indicate that organizations with a favorable pre-crisis reputation only have a better reputation after the crisis because they have a lot more reputational capital to spend to begin with (Coombs & Holladay, 2006). So, even if the reputation of organizations that consumers feel positive about would suffer as much as that of organizations that consumers dislike, the former would still have a better reputation following the crisis than the latter. However, such a