LUISS Guido Carli

LIBERA UNIVERSITÀ INTERNAZIONALE DEGLI STUDI SOCIALI

Department of Business and Management - Chair of Marketing Metrics

Corporate Crises and Negative Publicity: Which Defensive Strategy is more Effective?

Supervisor

Prof. *Michele Costabile*

Candidate

Giuseppe Pasqualucci
Student No. 693931

Co-Supervisor

Prof. *Piermario Tedeschi*

ACADEMIC YEAR 2018/2019

Table of Contents

Introduction

Despite all the possible precautions that firms could have implemented, sometimes it happens to fail. Companies failings can lead to serious crises that, together with the negative publicity related, threaten the so hard to build relationship with customers and consequently the own business survival. Thus, it is essential for companies to be prepared when the worst really does happen. In order to restore pre-crisis business levels, they must carry out the strategy that best suits a defensive action. This study has a major goal to suggest which strategy to implement in different kinds of crises. A meticulous literature review shows the existence of two major corporates' failings and crises macro-categories. The first concerning product characteristics and performances, such as for product-harm crises. The second is directly related to the companies' moral behaviour as an organization. Then, it has been measured the effectiveness of "active" marketing strategies (Price reduction, Communication) compared to the firms' "passive" reaction hypothesis, during both these types of crisis. Considering the inaccessibility of secondary data needed, it would have been impossible to examine the financial aspect of the phenomenon. Thus, in order to measure the effectiveness of both marketing instruments, customers retention metric has been considered. Through the application of an innovative method, it has been conducted an experiment with a between-subject design on a convenience sample of Italian customers (N=298). Specifically, respondents were asked about their repurchase intentions, after being exposed to one of the two possible crises (Product-related, Company-related), through fictional negative articles concerning a real company/brand and after being stimulated by one of the three possible firms' responses (Price reduction, Communication, No action). Moreover, a quite robust prediction model has been developed, considering specific customers' characteristics. Customers behavioural intentions during crises were indeed regressed by both customers' involvement with the brand and with the information received, as for the blame attributed to the focal company. The aforementioned interaction effect, provided by the 6 possible conditions, was also included in the model. Results showed that for product-related negative publicity, the marketing strategy that best suits a defence is communication. This latter predicts higher retention levels than price reduction options, that are still more suitable than a passive reaction. Conversely, with regarding to company-related negative publicity, it has been deepened the predominance of price reduction strategy. Once again, the alternative strategy is anyway more efficient than a defensive blackout. Finally, results show that customers' characteristics are other good predictors for customers repurchase intentions. Customers who exhibited higher pre-crisis level of involvement for a specific brand seems to have also higher intentions to repurchase products of the same one, during crisis. By contrast, after receiving

negative information, a higher level of involvement with the contents provided predicts lower levels of retention. The same seems to be true about blame attributed to the focal firm. This study contributes to research on corporate crises and negative publicity, enhancing previous theories and identifying new ones. A prediction model for marketing effectiveness during crises was indeed developed with a never considered before metric. Besides, these results provide enough evidence for internal validity, proposing useful insights for future researchers, as suitable managerial recommendations.

Chapter 1 – Negative Publicity

Negative publicity is a very widespread reality that manifests itself in various forms and intensities. A first definition is given by Park and colleagues, who have defined it as the diffusion of negative information about an individual (1986). Today, information tools are driven by the most advanced technologies and media are successful in reaching people in every corner of the world. From the controversy over palm oil scandal that has confronted numerous companies in the food sector in recent years to the scandal of CO2 emissions from the *Volkswagen group* that subsequently affected the entire automotive sector, there is no shortage of daily reports of negative news in the business world. Both negligent and conscientious companies are affected by this information flow concerning their failings. In this scenario, the best strategies turn into risk management and prevention (Shrivastava, 1995). Quality controls, crush tests and lab testing are all examples of how a company seeks to minimize the risk of committing failings and avoid the damage that might result from them. But, as far as these works could be considered accurate, there will never be absolute guarantees of the expected results. Starting from this assumption, it is easy to explain the high prevalence of corporate failings. *Negative publicity*, along with the potential crises it can bring about, has indeed come to represent an ever-present threat for companies in the contemporary era. Despite the high frequency of negative information about companies' behaviour, the weight of the effects they generate is less obvious and rather undervalued (Heerde, 2007), contrary to what one might think. This phenomenon, like any other flow of information, influences the formation of opinions in the minds of observers. From the point of view of a company, this can indeed be highly significant, since peoples' opinions may determine the success, and indeed the failure, of their business (Fombrun, 1996). Despite the efficiency of marketing instruments, an unfavourable opinion on the part of consumers can indeed discourage the efforts to reach them. Everyday consumers are "bombarded" with conflicting information about companies and their activities (Dawar & Pillutla, 2000). This explains why the management of the brands and the

impression that consumers have of a company are now part of every corporate strategy. The aim is to maximize the positive opinions observers have of the company in order to establish a good relationship (Park, 1986). Yet, also because of the large amount of fake news in the information world, establishing a positive relationship with a consumer has become a very difficult task. Considering the countless alternatives on the market, maintaining this relationship is even more difficult (Fombrun, 1996). After all, as Warren Buffet once said: "It takes 20 years to build a reputation and five minutes to ruin it". Negative information can, therefore, represent a significant threat to a business, demolishing a company's reputation and ruining its relationship with its customers. Thus, when firms do not succeed to prevent them from these crises, they must change their strategies to restore reputation and marketing effectiveness to pre-crisis levels.

The aim of this research is to understand which marketing instruments best suit a defensive strategy against negative publicity in order to retain customers. In fact, the main goal is providing companies inferences to save the aforementioned so hard to build relationship with their customers. In this first chapter, the concept of *negative publicity* and the importance of the topic for business will be deepened. Starting from studying the origins of this phenomenon, the different forms of corporate failings that are publicized will be described in detail.

Before going into the subject in-depth, it is appropriate to define how corporate failings, from which negative publicity comes from, do not only manifest themselves in various forms but also differ for the causes from which they derive. For example, the excessively high level of dioxin emissions due to the use of cars produced by an automotive company, which has unknowingly carried out the necessary checks incorrectly, can from a social perspective be considered as a "human error". As such, although punishable, the conduct followed by the aforementioned company can be defined as morally acceptable. Quite a different matter arises when knowingly adding a potentially carcinogenic ingredient to an energy drink, without warning of the potential dangers. In the second case, it was a deliberate decision to expose consumers to the risk of suffering potential harm. A slightly different example, yet nonetheless suitable in perfectly illustrating the concept of "risk", is that of a bank that "bets" the savings of its customers through investments that are more challenging than those originally communicated to the same customers. This phenomenon describes an attitude that is not only manifestly errant and immoral, but also completely illegal (White, McKenzie, & Cole, 3 November 2008). This distinction is necessary because the purpose of this research is not to provide ways out to those who knowingly perform immoral acts. On the contrary, the aim is to propose pragmatic solutions to companies who, despite the necessary controls and due precautions, are forced to face crises due to legitimate evaluation failings. Previous literature has

already shown how attribution of blame by the public has a markedly higher intensity when the bad faith of the subjects involved is demonstrated (Lange & Washburn, 2012). However, the attempt to safeguard the interests of these subjects could in some way be seen as unethical to. Instead, the cases taken into consideration will be those in which, despite the best intentions of the protagonists, there has been a high attribution of intent and social responsibility. The attribution of responsibility. in fact, arises precisely from the assumption that they have acted negligently, without taking into account their true intentions (Lange & Washburn, 2012). Though considered negligent, there is no evidence of the bad faith presented before. Therefore, there is no reason to omit similar cases from the research.

The *negative publicity* is defined as the diffusion of news about a product, service or individual (regards also organizations) potentially harmful, through one or more of the following means: *media* and *word-of-mouth* (Reidenbach, Festervand, & Macwilliam, 1987). The first one represents entities, for which activities have the objective of make the news public, also known as *mass media*. The Public news coverage should elicit the interest of manager as researchers, since media point the attention of society and influence what observers perceive as important (Fombrun, 1996).

Figure 1.1: Facebook Scandal on The New York Times

Source: https://www.nytimes.com/2018/03/19

Fig. 1.1 shows the title of the article that represents the biggest media scandal for *Facebook*. In March of 2018, The *New York Times* reported that *Global Science Research*, a research firm, had harvested personal data from millions of social network users in 2013, without their explicit consent. In particular, information like name, birthday and location of 87 million people were gathered, even if only 30.000 were the users of their app. This was possible because of a previous

version of Facebook's privacy policy that provides app access to information about users' friends. The consequences for the firm were very serious. (Granville, 2018)

**Figure 1.2: Facebook Share after the scandal**

As it is shown by fig. 1.2, *Facebook* share price fell intensely from 19 to 26 March 2018 in the wake of the scandal. Even though the infringement wasn't committed directly by the company, *Facebook* managements' negligence was so grave that *Mark Zuckerberg* was summoned by *Congress* in the *US.* to give answers (Granville, 2018). It was the beginning of the biggest crisis faced by the firm until today.

The work of the mass media can take different forms: paper, broadcast and digital media. Until thirty years ago, news was spread only through newspapers, radio or television. With the evolution of the internet, today there are several *news sites* of different natures on the network. Thanks to progress made in the digital field, even the newspapers have had the opportunity to spread the news on the web, increasing their audience exponentially. Anyway, the information means in paper form are still considered the most reliable source of information. In part, this is a consequence of the phenomenon of *fake news*, associated with the world of digital information.

Figure 1.3: Concern about fake news on internet (2019)
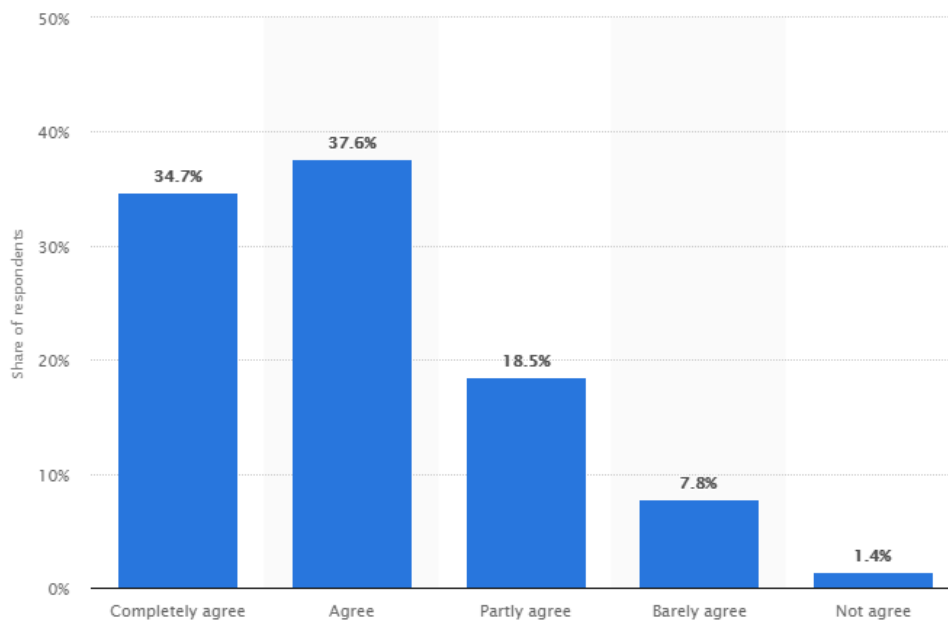
Fig. 1.3 comes out from research on how Internet news is perceived as *fake news* in Italy (Statista, 2019). In particular, respondents were asked: "Do you agree that it is hard to distinguish real facts from online *fake news*?" Only 10% of the respondents said they were able to make this distinction, trusting what they read on the network. *Fake news* is a fundamental part of the problem related to negative publicity. Though, in a completely incorrect way, companies leverage on them to reduce the *brand equity* of their competitors. Moreover, this phenomenon contributes to make harder for building strong relationships with customers, who are increasingly skeptical, as stated before.

Indeed, why choosing news to be published, mass media prefers bad news? The mass media, like any other type of company, have the purpose of obtaining revenues to carry on their business. Therefore, their main goal is to satisfy the needs of their customers, which in this specific case is represented by the audience. In an experiment conducted by Marc Trussler and Stuart Soroka (2014) it has been shown how the observers focus unconsciously on negative news. Starting from this assumption it is easy to understand how media prefer negative publicity to increase their audience. Moreover, actual studies demonstrated that the media tendency is to exaggerate bad news (Pinker, 2018), to obtain a major return in terms of revenues according to the mechanism cited before. However, media do not take into account the distortion effect obtained on the perception of firms' observers, increasing the negative publicity. Firms are therefore obligated to pay the consequences.

The other propagation mean of negative publicity is *word-of-mouth*. When consumers are not satisfied with the product or service purchased, they can share their impressions with others. Over the verbal communication, nowadays several online-review mechanisms exist making quickly public personal experiences (i.e. App rating on the App Store or Google play). This contributes to make it the most powerful and useful mean of communication in case of positive feedback, while dangerous for negative feedback (Reidenbach, Festervand, & Macwilliam, 1987). Moreover, word-of-mouth is fed with the enormous evolution of social media. Through social activities, in fact, not only firms' promotional ads are shared, but also the exchange of information and opinions linked to the word-of-mouth.

Figure 1.4: Internet and Social Media Users (2019)

Source: ad hoc creation based on a graph found at: https://wearesocial.com/blog/2019/04

In fig. 1.4 it is possible to understand the phenomenon. About 3.028 billion people, which is 40% of the world population, use the social network and are potentially exposed to *negative publicity*. This publicity is not only linked to the arguments about products and services. Social media are now one of the biggest platforms to debate sustainability and social responsibilities topics. The firm's behavior is here discussed from the users influenced one from the other.

Considering the various examples provided by this paragraph, it would be easy to understand how hard could be to analyze the word-of-mouth phenomenon. In fact, taking into account the limited resources available for this research, only media coverage has been analyzed. In particular, there will be used newspaper article because of their credibility considering fake news awareness. In the following paragraphs, the various groups of corporate failings from which negative publicity comes from will be illustrated. They will be categorized into two different major clusters, with a provision of the most descriptive examples.

## 1.1 Externalities and Corporate Social Irresponsibility

The first corporate failings group concerns all the activities that peoples perceive as companies' bad behaviour, that are summarized by the *Corporate Social Irresponsibility (CSI)*. It is defined as the opposite of the well-known *Corporate Social Responsibility (CSR)*, but to better understand the importance of this phenomenon, it would be useful to start from its origins.

In a constant and dynamic relationship of interaction with the external environment, the managerial choices of a single company can significantly influence the latter, giving life to what is defined as *externalities*. Externalities represent the impact, both negative and positive, of the activities of a subject on another not concerned with the same activity (Marshall, 1920) In the case of positive externality, it is enough to think of a private university, which through its degree courses provides not only benefits those who have paid the fee (students) but also the entire community, as it contributes to the collective cultural growth of the country. On the other side, there are negative externalities. A case in point is the pollution caused by the combustion of coal during the production processes in a factory. In this case, the community decides to sanction the company to repair environmental damage that affects air quality. Precisely because of the negative effect in terms of cost, due to the compensation that characterizes the negative externalities, such cases represent a relevant object of study. However, how might one establish the extent to which such compensation can be considered fair? Firms' observers may believe that the compensation paid by the company is not proportional to the cost linked to the damage. Assuming that the subjects evaluate the situation based on their own subjective understanding and view of reality (Bitektine, 2011), it should be kept in mind that some observers could attribute a greater value to air quality. Furthermore, the perception of fairness in compensation would also include the level of responsibility attributed to the company in question (Lange & Washburn, 2012). As a result, the cost of the damage suffered would increase because the same damage would be perceived as "an evil that could have been avoided". In this scenario, when the public attributes responsibility for social damage to a company the reputation of the latter changes drastically (Fombrun, 1996). The organization will indeed be seen as a bad actor in society, due to its negligence (Nossiter, 2010). It is precisely from this social attribution of responsibility that the opposite concepts of *Corporate Social Responsibility (CSR)* and *Irresponsibility (CSI)* arise.

Today, it is difficult not to have heard of *Corporate Social Responsibility*. It implies an obligation "to conduct the affairs of the enterprise to maintain an equitable and harmonious balance among stockholders, employees, customers, and the public at large" (Frederick, 2006). *CSR* activities have long been a subject of interest for management, attracted by the greater value that

these can give to an organization. With the increasing influence exerted by companies on not only economic but also social, political and environmental aspects of society, *CSR* has become a topic of intense study even by academics, sociologists and psychologists (Jones, Bowd, & Tench, 2009). In fact, as we have already stated, the nature of this phenomenon implies the involvement of all stakeholders and therefore represents a collective interest. The socially useful activities promoted by the companies thus translate into a higher value that benefits both the world at large and the companies themselves, as it has been described for positive externalities. From a donation to a non-profit association, which aims to fight hunger in the world, an economic return for the donor company in terms of image and notoriety can arise. The attribution of merit for *CSR* by consumers has been shown to greatly enhance brand image and evaluation, as well as the willingness to purchase (Klein, 2004).

1.5: CSR Return on equity
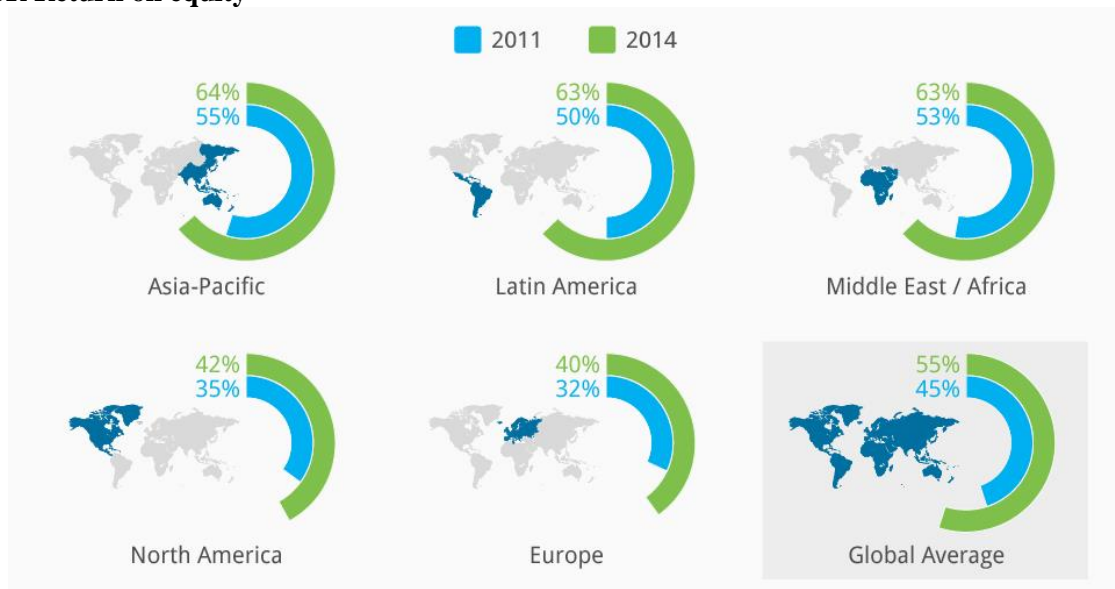
Source: Nielsen and Statista (https://www.statista.com/chart/2401)

Fig. 1.5 shows the extent to which consumers are willing to pay for sustainability. Data are obtained from an analysis performed by *Statista* in partnership with *Nielsen*. This research has been conducted on a sample of approximately 30.000 consumers in 60 countries. Results demonstrate that in the majority of countries, respondents are willing to pay more for goods manufactured by socially responsible companies. Moreover, according to these data, more than 50% of global consumers are willing to pay for sustainable products and services. Another relevant insight is that the willingness to pay for sustainability is intended to grow in the years ahead. This is due to the fact that people are increasingly becoming more conscious and sensitized about sustainability issues.

CSR activities can be linked to four main areas of interest: environmental sustainability, philanthropy, corporate governance, labour practices, and economic responsibility. The first category concerns a large number of activities. From the efforts made to manage climate change in the long term, to the plastic that pollutes the oceans, companies are constantly engaged in doing their part. Philanthropy has a more direct imprint, as the companies give up part of their economic wealth in favour of causes of collective interest, such as for example, charitable donations or those to foundations for medical-scientific research. Corporate governance and labour encompass all the activities of internal organizational sustainability. In particular, the relationships of equity between the members of an organization have become fundamental, starting with equal opportunities right up to wage policies. The last category concerns the preventive practices implemented so that the business does not impact the surrounding environment. Economic responsibility dictates that the goal of a company to make a profit is not achieved at any cost and without taking into account the consequences for other stakeholders. A harmful product must not be marketed; intellectual property must be respected, and competition accompanied by robust regulation.

Table 1.6: CSR-CSI Positioning

CSI	CSR
Environmental degradation and pollution are inevitable and little if anything can or should be done	Environmental degradation and pollution are not inevitable, should not be tolerated and it is important to raise awareness and commit to action
Employees are a resource to be exploited	Employees are a resource to be valued
Minimal community consultation and involvement	Maximise opportunities for community consultation and involvement
Failure to comply, or reluctant and only basic compliance with legislation pertaining to CSR	Compliance with, as well as policy and practical actions that go beyond the minimum legislative requirements for CSR
Ethical issues, if relevant at all are on the periphery of organisational working	Ethical issues are central to and at the heart of organisational working
Social exclusion is an inevitable by product of the operation of the market	Social inclusion helps to correct market inefficiencies
New technologies should be developed and introduced to the market	New technologies should be developed, tested, evaluated and if harmless introduced to the market
Governance of companies is best left to shareholders and management	Governance of companies involves shareholders, managers and a wide range of stakeholders including unions, works councils etc
Work with suppliers and customers on an unfair basis	Work fairly with suppliers and customers

Source: (Jones, Bowd, & Tench, 2009)

On the other side, *CSI* is considered the antagonist of *CSR*, said differently its "alter ego". Tab. 1.6 makes it possible to better realize why it is so important to understand what CSR means for this research. In fact, it confronts the two concepts and illustrates them as two sides of the sustainability issue. For every *CSR* action, there is an equivalent "reaction" of *CSI* positioned in the mind of the firm's observers. This is the first major difference that characterizes the two-opposite phenomenon. While *CSR* provides for the pro-activity of a company in the risk management and prevention actions discussed in the first paragraphs, *CSI* is conceived as a mere consequence caused

by the absence or failing of the other. For this reason, *CSI* is also known as negative *CSR*. This does not mean that the two cannot coexist. Most of the time a company has strengths, which can diminish if not managed properly; and weak points that can be improved (Jones, Bowd, & Tench, 2009).

Moreover, it should be noted that being based on subjective understanding and view, some judgements of the company may have greater relevance than others for the consumers. It would, therefore, be interesting to understand which are the factors that influence a consumer's interpretation when considering a responsible or negligent organization. Furthermore, although it has already been shown that, as with externalities, irresponsible activities have a markedly higher importance in the attribution process by consumers, the literature is focused on the study of behaviours considered morally responsible (Lange & Washburn, 2012). That's why CSI activities represent the first study area of this research, covering company-related negative publicity issues linked to moral aspects.

1.2 Product Harm-Crisis and Recalls

The other great trend in corporate failings is that linked to *product harm-crisis*. This phenomenon refers to situations in which a product is found to be defective or potentially risky to the safety of the user (Dawar & Pillutla, 2000). Although product harm-crises are considered by many as a subgroup of the *CSI*, they represent a series of situations too vast not to be considered as a stand-alone problem and therefore analysed separately (Aaker, 1996). In fact, there are many examples that have attracted the interest of researchers. The case of *Kraft Food* was a major object of study in numerous scientific papers given the relevant repercussions linked to the episode. In 1996, *Kraft Food,* the largest peanut butter producer in Australia, was accused of marketing two products in particular, *Eta* and *Kraft*, which were linked to more than 100 cases of salmonella poisoning. The effects of the accusation were devastating. *Kraft Food*, then market leader, was excluded from the shelves of large retailers for more than five months due to the misconduct associated with it. Only later was it discovered that the bacterial contamination was limited to a single series of products using peanuts not sourced by *Kraft* but supplied to the group by an external producer and partner. The episode just described represents an illuminating example of how very often companies, despite the necessary precautions, make mistakes that can be disastrous and sometimes even fatal. In fact, as in the case of *Kraft Food*, despite good faith, observers may nevertheless still form severe judgements regarding those who cause harm, even if indirectly. In this case, perceiving the protagonist as negligent, consumers drastically changed their opinion of the brand and consequently their purchasing behaviour. The factor to most alarm the management was

the market share of the two products in question, *Eta* and *Kraft*, which were 13% and 42% respectively, when subsequently dropped to zero following the crisis (Sydney Morning Herald, 1996b). This is only one of the negative consequences that may be associated with a company scandal, and the topic will be discussed in more detail in the other chapters.

Very often, another phenomenon of particular interest arises from *product harm-crises*: *product recalls*. When a certain product appears to be defective or harmful to consumers, the manufacturer often decides to withdraw some or all of its models from the market to reduce the likelihood of a possible crisis arising. Such a strategy adopted by the management has basically two main objectives. First, the purpose is to limit costs. When a product is defective, high costs are registered both in terms of customer service and compensation, as well as for brand equity. In the case of physical or material damage caused, the cost items mentioned become greater and these are added to the potential legal expenses incurred in the event of civil actions. The second goal concerns safeguarding the company's reputation. The aim is to limit the attribution of corporate negligence by observers through an act of reactivity. On the other hand, from the moment a *product recall* is communicated, the company in question makes its responsibility explicit (Heerde, 2007). The attribution of corporate negligence, although mitigated, thus becomes an absolute certainty. Examples that can fairly be defined as current are those of *product recalls* initiated by *Samsung* and *Audi*. These two companies, although belonging to two completely different sectors, found themselves facing the same identical problem with their products. In both cases, the recall was due to a very dangerous defect related to the batteries used by their technologies. More precisely, the risk concerns the safety associated with the use of the products. In the case of *Samsung*, in 2016 the South Korean giant received numerous complaints from customers regarding the smartphone known as *Note 7*. Users have literally seen their devices catch fire during charging. The problem was caused by the battery overheating when on charge and which had escaped quality control. There were 35 cases in which the malfunction was reported, a rather high number considering the extent of the potential damage as might be the case in a more widespread fire. However, this number does not seem so great, at first sight, when compared to the number of smartphones withdrawn from the market, with about 2.5 million devices voluntarily replaced (Murphy, 2016). As far as *Audi* is concerned, the problem emerged in June this year regarding *full-electric cars*, a currently rather delicate issue that affects the entire automotive sector. Again, at the heart of the matter was battery malfunction. In particular, from five tests conducted on the *E-Tron model*, it turned out there was an even less significant possibility that individual battery cells could spark a fire. Even though no cases of fire or accident have been reported, the automaker has voluntarily withdrawn about 540 vehicles from the US market (approximately half of the vehicles sold since its

launch in April) as a preventive measure (O'Kane, 2019). As is evident, even if the two companies had to contend with an unexpected identical problem that lead to a *recall*, the timeliness in the implementation of the latter played a fundamental role in differentiating the results obtained. Being able to identify in time the defect related to its product, *Audi* was able to avoid the replacement costs, reimbursement on accessories, as well as the "apology coupons" part of the promotional strategy implemented by *Samsung*.

From the example just described, another uncomfortable reality is seen to arise. With the advance of progress and therefore of technology, products and services are becoming increasingly complex, as are the production processes from which they derive. In this scenario, it seems obvious to expect that *products harm-crises* and *recalls* will be more and more frequent. (Dawar & Pillutla, 2000).

Figure 1.7: Number of recalls notifications (2012-17)
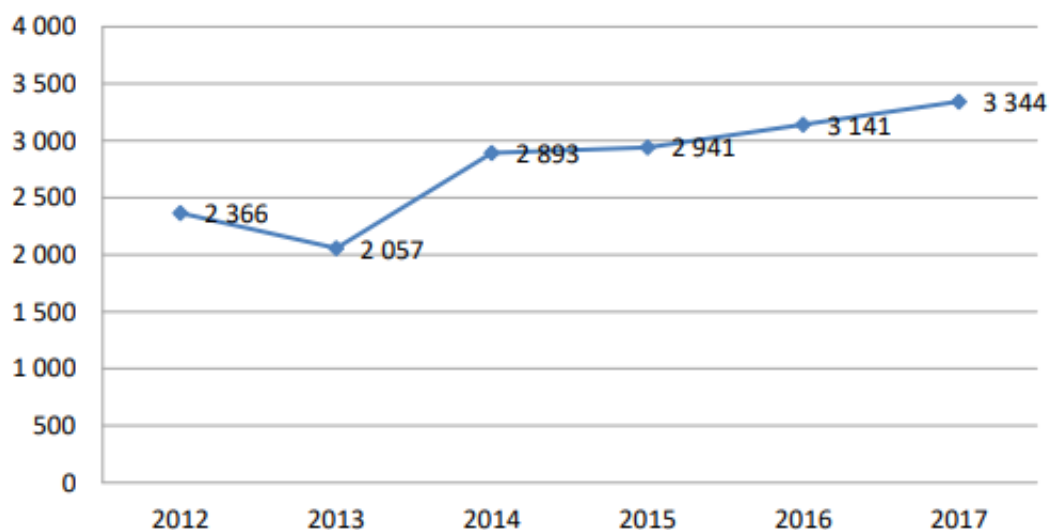
Source: OECD GlobalRecalls portal, at: https://globalrecalls.oecd.org

Fig. 1.7 shows an evident increase in recalls notified to *OECD Global Recalls Portal*, from 2.366 in 2012 to 3.344 in 2017. It should be accounted that the real increase effect is diminished. In fact, only product recalls notified to the portal by the different jurisdictions have been taken into consideration. The intensification, which amounts to 43%, is partly due to safety regulations, which are ever more stringent and particularistic. In addition, those normative are rather heterogeneous between countries. The same product with identical characteristics may be compulsorily withdrawn from the market in some countries and continue to be available in others. However, the continuous dimming of this diversity will contribute to increase the recalls recorded and the companies facing difficulties.

Summarizing, it has been described how little evaluation errors could turn into consequences not that little. The negative publicity concerning companies' failings shows a great impact on business as it has been described in the multiple examples of this chapter. In particular, the reputation that should retain customers seems to be the most affected factor. It has been found two major clusters of failings that will be studied in this research. The first one related to companies' moral behaviour, the second related to their products. The effect of these two types of crises on customers' retention will be analysed, also considering the different relationships that customers have with companies. Hence, their intentions will be monitored and compared considering the implementation of different responses from firms. The deep explanation of the study context provided in this chapter will be useful to better understand the importance of the topic for economic theory and practice.

Chapter 2 – Theoretical Framework

The aim of this work is to treat several aspects of a corporate crisis for which it is expected to generate negative publicity, assessing possible strategies to restore the market competitiveness to his pre-crisis levels. In particular, it will be described the effects of two kind of corporate crises: a product-related crisis and a company-related crisis. An initial research will be conducted to assess the differential effect of the two different crises on customer retention, measuring different attitude changes in purchase decisions. Then, there will be the core part of the research related to the understanding of the effect of different categories of marketing strategies as a defense against the negative publicity effect that came from these crises. The last part instead, is to check the effect of these events toward different kinds of customers, considering several of their characteristics. In fact, there will be considered the effect of the involvement with the brand, the involvement with the information received and the effect of the blame attribution to the firm.

The aim of this work is to try to fill the gap into the literature, after discussing it, considering the way in which the analysis is conducted, and parameters are chosen. In fact, it has been observed that in the current literature, sometimes has been treated the role of the negative publicity in affecting consumer attitude (Lange & Washburn, 2012; Ahluwalia, 2000; Cleeren, 2013), some others have been talked about the marketing effectiveness in the case of product-harm crisis (Heerde, 2007; Reidenbach, Festervand, & Macwilliam, 1987). In some different studies, it has been discussed the comparison of different marketing tools and their effectiveness (Cleeren, 2013; Shu He, 2017). In this context, the main objective is to synthesize all these aspects and to put the attention on different degrees of marketing effectiveness for different strategies, in the presence

of different sources of negative publicity. There will be tried to answer questions like: does a price strategy work better in the case of a product-harm crisis than in case of a company-related crisis?

In order to answer these kinds of question, it is necessary to start the dissertation by the analysis of previous literature about the topic. Starting from considering previous contribution about negative publicity and the two-particular type of crises discussed (2.1), there will be presented the results obtained by other researches about the role of marketing defensive strategies (2.2). Finally, researches concerning customer response attitude to the aforementioned negative information will be disserted (2.3).

2.1 Corporate Crises and Negative Publicity

Negative publicity has emerged in the last decades as a major element of companies' business challenges, given the diffusion of mass media and other new communication tools, like social networks. It amplifies the diffusion of every kind of information and publicity about a brand and exposes a company to huge business risks after the advent of corporate scandals and failings. Negative publicity can have lots of different consequences both in the short and long run. The drop in the sales, in the revenue, and in the equity price, are only some of these consequences. The loss of prestige and the reduction in consumer loyalty can have also worse effects in the long run. Furthermore, negative information cannot be taken secrets for very long (Ward, 2006).

Significant contributions are given by Bacus and Bacus (1997), Fombrun (1996) that are mainly focused on defining the costs associated with the loss of reputation introduced in the first chapter. Other researchers, as Baumeister and colleagues (2001), Kanouse and Hanson (1972) put the attention on the asymmetry that affects the nature of a publicity: a negative publicity is assumed to be much more informative than a positive publicity, and its effects are also more persistent, causing some serious long-lasting effects for companies involved. It is estimated that one negative information can neutralize the effect of five positive information about a brand. Fiske and Taylor (1998), also evaluate changes in consumer behavior in response to negative publicity, assessing that it is more extreme than the behavior of customers after a positive publicity.

Moreover, if negative publicity is related to moral aspects, its negative impact is greater than if the publicity and information are about technical aspects of the production or the product itself (Skowronski, 1987). So, moral aspects result to influence consumer decisions to purchase more than others. Pulling et colleagues (2006) categorized negative publicity in two types: value related and performance related. Performance-related negative publicity is given by the diffusion of information about specific brand attributes that calls into question a brand's ability to provide functional benefits

(Pullig, 2006). This arises when a technical problem in the production or in the industrial project verifies. This usually leads to a product-harm crisis or a service-failure crisis. A value crisis emerges when some social or moral aspect is involved, as racial discrimination, child labor or environmental issues. Furthermore, the impact of a crisis or another depends strongly on the type of company: the spread of negative information is potentially much more dangerous for a bank than for a sales company (Bitektine, 2011). Has been also asserted by Stockmeyer (1996) that crises related to environmental, social, product-harm, and service failure, have the largest impact on consumer's attitude and intention to purchase, which in turn translates into a reduction in future market power and revenue.

In this research, two are the main crisis categories in which failings generate negative publicity. The first type of crisis taken into account is the company-related one, strongly linked to the Corporate Social Irresponsibility phenomenon, defined as a bad behavior for which a particular firm is directly accountable that has a negative effect on society, as we introduced in the previous chapter. In the last decades, great attention has been devoted by market to Corporate Social Responsibility issues, and stakeholder interest, so that consumers don't take into account only product-related characteristics in the choice to buy a good or another, but give attention also at the way in which firms behave, and their respect of social and moral norms. We referred to the innovative work of Lange and Washburn (2012), considering firm moral characteristics, that put greater attention on Corporate Social Irresponsibility instead of Responsibility. The authors developed a framework to define all the elements that can characterize a company-related crisis. This rises by the need to understand the causes of such a problem and the conditions at which it happens. In fact, a company involved in a scandal regarding its behavior is affected by strong sales losses, loss of credibility in the short run but also in the long run. It can have serious problems in attracting customers, but also investors. Usually, after a scandal also financial effects arises, such a reduction in the equity value, by the reduced expectations about sales and future revenues. The main episode that the researchers take into account are those of oil extraction by Royal Dutch Shell which caused huge environmental disaster in the Delta of Niger (Nossiter, 2010)

Mitroff has categorized several sources of Company-related crises, that it is possible to summarize in the following list (2004):

- Economic-related
- Informational-related
- Physical-related
- Human resources-related
- Reputation-related

- Psychopathic acts-related
- Natural disasters

In the first class, there can be all the elements of a production-related crisis, as labor difficulties, decline in stock price, mistakes in the production process, which can become product-harm crises. In the second class, Mitroff includes loss of confidential information, loss of consumers' records, etc. in the third category are collected loss or damage of tangible assets, product failures, mistakes in the quality control procedure. Human resources related are those related to the loss of key personnel, corporate accidents, and also corporate violence. Reputation related are those related to gossip, scandals, and reputation in general. Psycho-related are considered product tampering, terrorism, criminal acts. The last one is resumed in fire, flood, pollution, earthquakes, etc. (2004).

In this framework, Corporate Social Responsibility culture is viewed as a precautionary measure. Bhattacharya and Sen (2003), stressed the role of CSR, because of the social role the firm recovers in the society. Social perception of a firm is considered an asset that also influences the market power and capitalization. It enhances also consumer-company identification. Then, an additional crucial point about CSR is that it can be an important source in the management of a corporate crisis because it can mitigate the reaction of the stakeholders, also reducing the amount and the size of negative publicity. It is very important to consider that CSI arises from the absence of CSR proactivity.

Product-related crises are another of the possible diseases that can affect a company, and it is related not only to the direct effects of the crisis onto the firms' business objectives but also mainly to the indirect effects of the negative publicity that arises with that. As a consequence of this negative publicity, there can be a further loss in sales, an increase in sensitiveness to competitive activities with consequent loss of market share, a decrease in the efficacy of the marketing mix, a damage for the whole product category. One of the most famous case is that of the Ford Pinto, that was accounted to cause hundreds of deaths, and was for this reason called "deathtrap" and the worst car ever made (Dowie, 1967).

A principal work, to which these effects are referred, is that of Van Herde, Helsen and Dekimpe (2007), evaluating the impact of the crisis of Kraft peanut butter. This crisis was about the diffusion of almost 100 cases of salmonella poisoning in Australia in 1996, with the subsequent consequences. The researchers evaluated the effect of this product-crisis by using weekly advertising and store scanning for a year before the crises and two years after, in order to compute the effect of the negative publicity on the sales on one hand, and the cross-brand marketing

effectiveness on the other hand. The main effect to take into account is the strong reduction in sales, and it is of immediate impact. But an additional important effect is about the long-run effect of the crises on the effectiveness of the marketing strategy. They found that the advertising sensitivity of costumers is strongly reduced, while the price strategy performs well to restore the pre-crisis conditions. If the company has a multi-brand structure, also other brands can be involved in the reduction of sales.

Markus and colleagues (1987) studied the financial implication of a product recall and its subsequent negative publicity, and they found that the decrease of the stock market price is not only the reflection on the decrease in stockholders' expectations but is also driven by financial evaluations.

Burton and Young (1996) evaluated with an AIDS demand model, the effect of the great media coverage of BSE of the consumption of beef and other kind of meat in Great Britain, and they found interesting results about the short and long-run effect of the mass media communication. These were a huge drop in beef consumption in 1990 and also a long-run effect of beef market share reduction of 4,5 % by 1993.

Additionally, part of the literature is focused on defining the optimal instruments to avoid a crisis and also the possible strategies that can be settled in order to overcome the negative publicity related to it. Davidson and Warrell (1992) found that product recalls are associated with an abnormal reduction in revenue and caused a strong loss of reputation which has long-lasting effects. In particular, these negative effects are more pronounced when the product recall is imposed, in the customer perception. Furthermore, they find that the market loss is greater when the product is substitute with another.

Other important elements in the literature above are the contributions of Mitroff (2004), Rupp and Taylor (2002), Weinberger and colleagues (1993). This part of the literature is mainly descriptive and is based on the study of particular similar crises and the possible suggestions to overcome them.

2.2 Marketing Strategies and Effectiveness

Marketing effectiveness measuring is a very significant element of this research. Indeed, marketing strategy represents the most relevant step to manage the crisis and to try to restore the pre-crisis situation. In particular, marketing strategy can be defined as a combination of several marketing tools that can be applied in order to recover market competitiveness after a crisis or to foster it as a business target. This analysis is particularly relevant after considering negative

publicity, because of the drop-in marketing tools' effectiveness, which can be more or less pronounced after an adverse event. In real cases, several instruments have been often used but two of them are particularly relevant: price strategy and communication strategy. The first one consists in a change in price for a specific product or brand category, which can lead sometimes to a price decrease, and other times to a price increase. The reasons for the two approaches are different, but also the circumstances that favor one price strategy or another diverge. The other strategy is based on communication expenditures, that can be related or not with the crisis itself. It is important to underline that these are not the unique instruments that can be helpful in overcoming a corporate crisis. Beyond the quantitative point of view of the defensive procedure, there is also a qualitative perspective: the same policy can be implemented in several ways depending on the ability and intuitions of the management. For example, the two tools analyzed in this study don't exclude each other. Thus, a good strategy can involve both of them in a more expensive but effective mix.

The previous work is based on a literature that provides a first categorization of marketing strategies in two large groups: offensive and defensive ones. This literature arises firstly from the work of Porter (1985). Other contributions are those of Fornell and Wernerfelt (1987) and Bridges and Freytag (2009). According to them, offensive strategy is mainly concerned with attracting new consumers both from competing firms and increasing market size. It is also considered offensive, a strategy for which aim is increasing the purchasing frequency of current customers. Among these strategies, there are for example new product development, brand management, and promotional sales. For defensive marketing strategies, there are some relevant dissimilarities concerning literature contributions. A field of research starting from Fornell and Wernerfelt (1988) attributes to defensive strategy the meaning of retaining current consumers through reinforcing relationships with them and discouraging dissatisfied consumers in becoming switchers. Another part of the literature by Hauser and Shugan (1983), attributes to the defensive strategy the meaning of reacting against the offensive strategy of the competitors, considering the two sides of the same matter.

A crucial contribution to defensive strategies literature is the one of Zhao, Zhao and Helsen (2011), that analyzed the Australian Kraft peanut butter case in a different way with respect to other researchers (Heerde, 2007; Klein, 2004). They found that communication registered a huge drop in its efficacy after the product-related crisis. Consumers were much less sensitive toward communication after the shock. The investigators showed that the drop in advertisement effectiveness was 45 % during the crisis, relatively to pre-crisis levels, and more than 80 % after the "storm". The main reason for this outcome has been found in the reduced credibility of the brand due to the negative publicity effect, and the reduced confidence that the consumers applied to the

real revealing power of publicity about the product quality. This perspective has been partially disregarded by the work of van Heerde and colleagues (2007), who emphasized the role of the heterogeneity into the outcome of a communication strategy. In fact, they found that this result depends upon the characteristics of the brand. In the aforementioned case of Kraft, for example, the advertising sensitivity was dropped strongly only for the peanut butter brand, while the other brand of Kraft Company looked to be much sensitive to advertising. The same is not true for Eta, who was specialized in peanut butter production, for whom the advertising strategy after the crisis was completely useless. Furthermore, they found that the product crisis represents a great opportunity for competitors to increase their market share due to the implementation of price strategy and communication strategy. This represents a relevant threat for firms that are already in bad run since fight back these attacks is really no easy matter. Nevertheless, they also suggest alternative ways to approach crises. The first advice is to avoid the crisis by investing in precautionary measures since restoring the pre-crisis conditions can be much costlier than avoiding it. The second one is mainly focused on price reduction strategy and new product development. Communication strategy seems to have a very significant effect, but mainly when it is combined with other strategies.

Snow and Benford (1998), Wood and Mitchell (1981) evaluate the sensitivity of customers to firm's communication after a scandal. They find that for larger firms the negative publicity has worse effects but that they can recover more of the pre-crisis power through an effective communication strategy, also because individuals look to put great attention to this evidence.

Other researchers suggest being prepared to apologize. In fact, this does not amount to an admission of guilt but will demonstrate that companies take their responsibilities seriously. It can also defuse a situation before it gets out of hand. Bridgestone, for instance, dropped its advertising budget to run a print communication campaign promoting tire safety and performance after their tire recall period (Advertising Age, 2000), pointing out their efforts in improving products' quality. Another example is the one of General Motors, who ran a major "road to redemption" campaign claiming that the company was "building the best cars and trucks in our history" after years of tragic quality complications and product recalls (New York Times, 2004).

Cleeren, Heerde and Colleagues (2013) analyzed 60 cases of product-related crises and found that communication is a very impactful strategy to overcome negative publicity, and the way in which it is conducted is very important. In fact, the increasing attention generated by bad publicity can be a double-edged sword, making communication be more persistent in the consumer mind. Furthermore, this strategy resulted to have not only a positive effect on implied companies but also for their competitors. The reason is given by the presence of externalities of

communication, that permit to transform a negative situation in opportunity. Anyway, Cleeren has shown that the magnitude of the negative publicity has a stronger impact on the effectiveness of the communication strategy. When the negative publicity has done with high frequency, the marketing effectiveness drops (2013).

Berger, Sorensen and Rasmussen (2010) found that publicity is always publicity, even if it is negative since it permits a huge increase in brand awareness at no additional costs. This implies that communication strategy is very effective for firms implied in the crisis. This aspect is also greater for firms not implied in the product-related crisis, but that belonging to the same category. The advertising effectiveness, for example, can be even seven times larger than before the crises.

Dawar and Pillutla (2000), stressed the role of equity in explaining the effect of the strategy. The impact of the crisis up to the equity price results to be strongly negatively correlated with the marketing effectiveness of the communication strategy. An additional source of heterogeneity in the management of the crisis is due to the acknowledgement blame for the crises: when it is the case, communication strategy is much less effective.

He, Rui and Whinston (2017), analyzed a specific form of communication that is the use of social media marketing, for overcoming a crisis. They took into account the role of social media communications in the airlines' sector after the crash of Germanwings Flight 9525. In particular, they found two countervailing effects for the non-focal firms, which are those belonging to the category, but that weren't directly hit by the crisis. While on one hand the non-focal firms are considered involved in the crisis as belonging to the same category, losing in this way credibility and consumers' loyalty, on the other hand, they have the opportunity to capture part of the consumers who run off by the focal firm. Furthermore, two kinds of strategies are considered, offensive and defensive communication strategies. They have shown that on average, focal firms increased their defensive strategy and decreased the offensive one because of the presence of the competition effect, which countervailed the spillover effect.

The other element of the strategy is a price change. Zhao and colleagues (2011), in a different analysis, found that after the peanut butter crisis of Kraft and Eta, consumers became less price-sensitive, because of the fact that they put much more attention to product quality after the shock. Van Heerde (2007) instead, found differences between the reaction of consumers to price changes in the case of Kraft relatively to the case of Eta. In the first case, price strategy didn't have an effect just after the crisis but had an important role in restoring the market power sometime after. In the case of Eta, price strategy was found to be truly effective before and also after the crisis. For Kraft, which is a multi-brand company, the price strategy has been very useful mainly to promote

all the other brands after the shock. Moreover, price decrease seems to be even less effective if the negative publicity is related to an unproven assumption.

Blame acknowledgement is another important element of the analysis done by Cleeren, van Heerde and Dekimpe (2013). They focused on different elements in order to enforce the contribution to marketing effectiveness literature. They check the efficacy of pricing-based strategy, both before and after the crisis. The effectiveness was measured by the change in consumer responses to the same strategy, before and after the shock. They found very complex results, that constitute a cornerstone of managerial strategy in real-business crisis: decreasing price is a good strategy only in specific conditions, given by the presence of blame acknowledgement. Conversely, price reduction is often a good strategy for the other firms belonging to the category. Finally, price decrease seems to be more effective in restoring business efficiency if the crisis is connected to events not directly related ached by customers.

2.3 Customers Characteristics and Behaviour

Customers' characteristics are a fundamental element for understanding the real impact of a crisis, therefore must be considered also as relevant variables in our analysis. Previous literature showed how several customer categories react in different ways facing negative information about firms (Park, 1986). In fact, their attitude is directly influenced by their individual perspective and their purchase behavior could change depending on many subjective attitude factors (Bhattacharya, 2003).

One of the most important characteristics is consumer loyalty. Loyalty is defined by Lastonivcka and Gardner (1978) as an "emotional or psychological attachment to a brand". An important research concerning this topic is that of Ahluwalia, Burnkrant and Unnava (2000), which is aimed at computing the effect of the negative publicity on the customer attitude versus a brand. In particular, they found that loyalty has a significative role in attenuating the effect of negative publicity. Moreover, they found a strong negativity effect, which translates into a quadruple reduction of a negative publicity influence with respect to positive publicity one. In particular, loyal customers were much more active in counterarguing against negative information. This was translated into a much lower reduction in attitude and positive behavioral intention with respect to less loyal customers.

There are also other works that take into account the role of consumer heterogeneity in the study of marketing tools efficacy. Ahluwalia, Burnkrant and Unnava (2000) studied the role of loyalty as a moderator on impression formation after crises. The reaction to negative information is

different for two groups of customers: the negativity effect is not present in the same proportion in the two sets, being much more pronounced for a low-loyalty group. This result is obtained through the different reaction of loyal customers whom counterarguments were more distinct. This result, together with that obtained in their second experiment, suggested that a single strategy proposed by other studies, as for example that of Johnson (1993), may not be equally effective in combating the negative information effects for people with different degree of brand loyalty. The results obtained by the authors are also related to the work of Kardes (1988): the main intuition behind this contribution is linked to strategies in which is provided additional information to customers. Since loyal customers engage in strong counterargument for bad information, a communication strategy that counterargue the negative publicity could just replicate the spontaneous process of these people. While instead information based on the crisis diagnostic would provide them with information not considered before. For less loyal consumers the reverse is true since they are more focused on the diagnostic of information but are much less involved in counter argumentation effort. Thus, the same strategy results to be different for the two types of customers.

What emerged in the latest work about loyalty, has been replicated focusing on understanding the moderating role of involvement, that is one of the most important loyalty component, by De Matos and Veiga (2005). They took the definition of involvement by Petty and Cacioppo (1981), intended as the personal relevance given to an object or brand, to study its effect during a crisis. They found that product image is more affected when the informative shock is related to the product and its attributes, and also that is very hard to reconcile the pre-crisis situation, even when pricing strategies are proposed. In fact, they show that after the crisis there is a strong reduction in attitude, which is also given by behavioral intention. Involvement can be categorized into two distinct classes, enduring involvement related to personal interests of consumers and situational involvement that is influenced by extrinsic factors that arise during purchase decisions. Enduring involvement can be toward a product or a brand while situational involvement is toward the information itself. Information involvement can be caught by the degree of importance that consumers attribute to the news and the credibility of the source of the information. Anyway, involvement has shown to be an important element in attenuating the effect of negative publicity: high-involvement consumers registered a lower reduction in attitude than low-involvement consumers.

A great problem underlined by Lange and Washburn (2012), is the psychological and subjective aspect of customers' responsibility attribution to a firm for a specific behavior. In fact, in the attribution of fault, a lot of subjective factors are involved, as the perception of the violation,

that can be not only a legal violation but also moral. It arises that the perception of a moral crime is strongly linked to the cultural environment in which the negative publicity is diffused. Obviously, the blame attribution similarly depends upon the type and the frequency of communication with it related.

Essential contributions are those of Kelley and Michela (1980.), Martinko (2004), Lord and Smith (1983). These theories tried to approach such an argument taking into account the subjective part of the attribution process, which is determined by individual attention and interpretation. They control for the presence of different factors. The first one is the identification of an undesirable event, as for example the death, or hurt of a person. In particular, the attribution regards the feeling of empathy toward someone that is recognized as a victim. Health damages are not only involved directly but also indirectly when for example the damage is about the environment, and consequently the health. The second element is about the direct responsibility of a company of an undesired effect. The third element is the affected party non-complicity. If for example a car crash was caused by driver bad behavior or was caused by external factors as a systematic production deficiency of the car that made the drive unsafe. That is why negligence attribution has a core role in impression theory.

2.4 Conceptual Model

Lacks in previous researches represent the objective of this research. As resulted from the literature review, many are the unexplored research fields that can be exploited. But, considering the limited resources available in this study, it has been decided to focus on only some of these aspects. The Conceptual Model in Fig. 2.1 is useful to summarize the phenomenon that it is expected to address and verify.

Figure 2.1: Conceptual Model
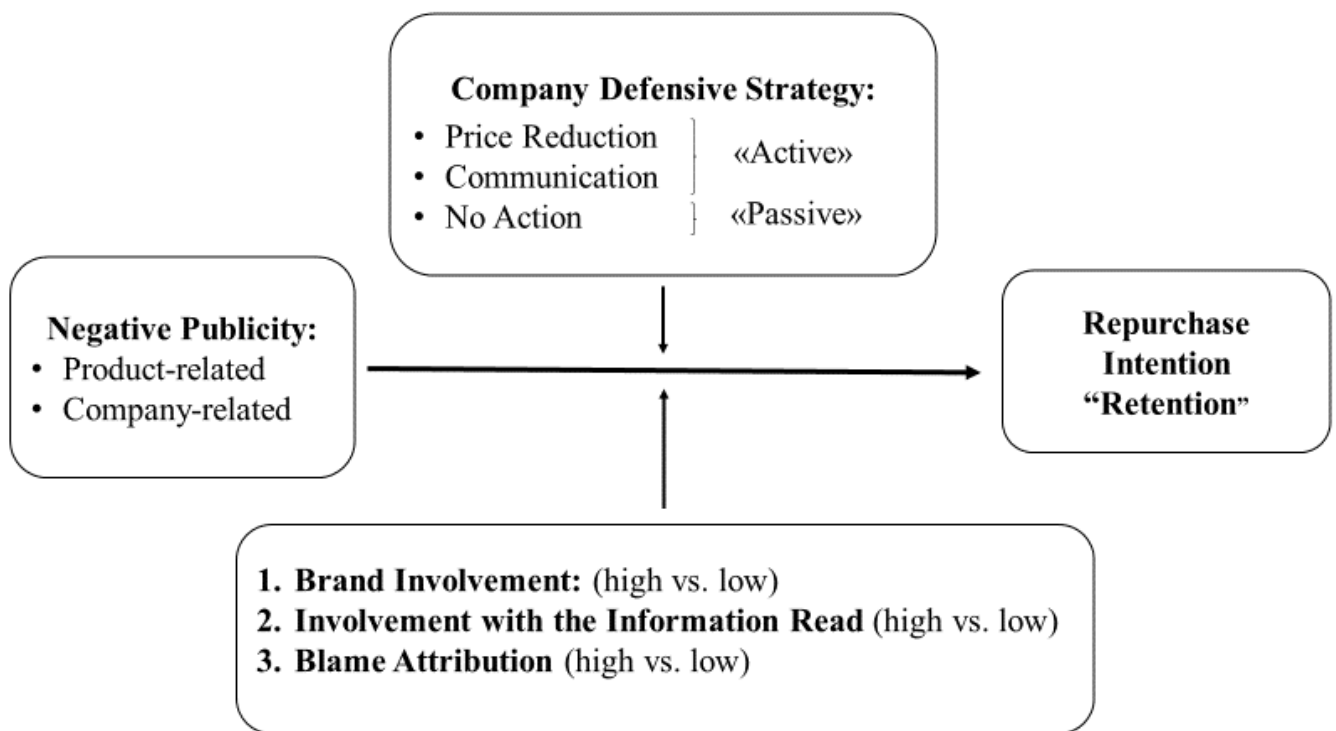
Previous literature showed the importance of considering the great impact that corporate crises can have on the business. Negative publicity can be linked to different types of crises. Nevertheless, no one has demonstrated how these different sources of negative information can directly influence consumers' behavior. That's why in this research, it has been chosen to focus on two main corporate crisis categories as an adaptation of the two clusters of negative information created by Pulling and colleagues (2006). The first one is related to the organizations' behavior and it is been called *Company-related*. This category represents all the situations in which firms do not satisfy customers' moral expectations. The second one is directly linked to product features and functionalities and it is called *Product-related*. Part of the previous literature considers product-related crisis as part of the CSI macro category, but there will be supported Aaker, who showed how they represent a series of situations too vast not to be considered as a stand-alone problem and therefore analysed separately (1996). Behavioural intentions will be analysed measuring the overall purchase intention. In particular, this variable must be specifically read and valued as Retention Metric. In fact, since it is even more difficult to attract new customers in crisis conditions (Heerde, 2007), there will be recorded and studied the *Repurchase Intention* of actual customers for a specific brand.

The first part of the research is mainly inspired by the results obtained by Skowronsky (1987) and Lange with Washburn (2012). They showed that if negative publicity is related to moral

aspects, its negative impact is greater than if the publicity and information are about technical aspects of the product itself. Starting from this perspective, it has been hypothesized that moral aspects result to influence customers' intent to repurchase more than others.

H_1: Company-related negative publicity has a stronger negative effect on Repurchase Intention than Product-related negative publicity.

As it has assessed in previous literature, many could be the strategies useful in order to restore pre-crisis conditions. But only two of them seem to be significantly efficient and therefore analysed in this research: *Price strategies* and *Communication strategies* (Cleeren, 2013). These can both be implemented in opposite ways, suited by an offensive or defensive connotate (Bridges E, 2009). Offensive actions are useful in order to increase customer acquisition, the latter is implemented to retain relationships with actual customers. Since the aim of the study is to measure the effectiveness of marketing instruments through customer retention, only *Defensive Marketing Strategies* will be considered. Aforementioned strategies will be compared with the passive reaction represented by *No Action* raised against negative publicity. That implies the absence of any kind of response to negative publicity from the firm.

Specifically, Marketing Effectiveness measures will be achieved comparing the *Repurchase Intention* levels reached with both "active" Defensive Strategies *(Price Reduction* and *Communication*) with the firms' passive reaction (*No Action*). Considering the literature review concerning marketing effectiveness stating that it would be difficult for "heats" to go off without action, it has been assumed that the introduction of an active strategy, will provide retention increase (Pulling, 2000).

H_2: Retention depends on the type of response (strategy) adopted by the focal firm. Specifically, repurchase intentions are higher when the company adopts a communication or a price reduction strategy then when it does not provide any kind of response (No Action).

Nevertheless, the main study will be focused on the effectiveness of different strategies used by a company facing the different crises. According to Fombrun (1996), De Matos and Vega (2005), Heerde and colleagues (2007) Shu He (2017), it has been hypothesized that communication strategies are more effective in performance crises than in moral-related crisis. Since it has been demonstrated that in product-harm crises customers are less price-sensitive. Moreover, in this condition customers perceive products involved as lower-quality products (Weinberger, 1993); thus,

a price decrease will confirm their perception and expectation, discouraging the repurchase intentions. The reverse will be verified for negative publicity linked to CSI. According to Shrivastava (1995), Bridges (2009), Lange and Washburn (2012), this condition does not have a direct physical impact on customers' zone; thus it will be coherent to push on self-appeal strategies directly rewarding actual customers and potential ones. Moreover, it will not have too much sense to emphasize the negative event providing more related information and coverage with a communication strategy (Ahluwalia, 2000; Kardes, 1988; Johnson, 1993).

> *H_3: the effect that negative publicity (product-related vs. company-related) has on consumers repurchase intention is moderated by the type of defensive strategy adopted by the company as a response to the crisis. Specifically, in case of a product-related crisis repurchase intentions are higher when the company adopts a communication strategy than when it adopts a price strategy; in case of a company-related crisis, repurchase intentions are higher when the company adopts a price strategy than when it adopts a communication strategy.*

Finally, the purchase behaviour is influenced by also other factors, not concerning directly the crisis itself, but linked to specific customers' characteristics. These are really important for the topic since they cannot be controlled by the focal company facing the crisis but can be measured to make better decisions. The most important characteristic to analyse is Customer Loyalty whose importance has been discussed by many researches (Ahluwalia, 2000; Park, 1986; Lord, 1983). In particular, Brand Involvement has been chosen as a measure for Customer Loyalty since Petty and Cacioppo demonstrate that it is one of its most explicative components (1981). Then, there will be well-thought-out how different kinds of information are processed by customers in their purchase decision, considering a second time the involvement. This time the measure refers to *Involvement with the Information Read* (De Matos & Veiga, 2005; Pulling, 2000). Also, customers' *Blame Attribution* to the company will be taken into consideration (Kelley, 1980.; Pulling, 2000).

Chapter 3 – Empirical Analysis

In this chapter, there will be explained all the considerations that brought to the empirical analysis deemed most appropriate for this research. The aim is to assess the model, previously developed through the dissertation of the actual literature, and to test the hypothesis which has been formulated. Firstly, there will be introduced the research methodology adopted for the study (3.1). Then, there will be deeply described the method used to collect data needed (3.2) and how they have been measured in order to analyse the theoretical constructs presented in the prior chapter (3.3). Finally, obtained results will be presented (3.4), in order to discuss them providing managerial implications, such as helpful inferences for potential future researches, in the next chapters.

3.1 Methodology

To evaluate the model, it has been chosen to conduct a social experiment (Ahluwalia, 2000), studying firstly peoples' behavioural intentions, then their subjective characteristics, in a specific context. In fact, in order to measure customer retention during crises, the repurchase intentions of actual customers were considered as mentioned before. Even though analysing real-life performance measures could have provided greater external validity of the insights (Heerde, 2007), it would have been impossible to obtain accurate secondary data needed for the purpose. That is why there were manipulated hypothetical corporate crises and defensive strategies, instead of gauging the effect of actual real crises/strategy combinations. To achieve this, it was used a between-subject experimental design, manipulating all the conditions being examined, as Klein and Dawar did for their different CSI scenarios (2004). The purpose was to infer definite causality between the variables being considered.

The study was conducted with a convenience sample of Italian customers, easily accessible during the data collection process, for a specific real brand. Participants were randomly assigned to one of the 6 possible different groups for which has been described as many dissimilar fictional scenarios. Specifically, this had led to these conditions:

- *Product-related* crisis with a *Price reduction* strategy
- *Product-related* crisis with a *Communication* strategy
- *Product-related* crisis with *No action* from the firm
- *Company-related* crisis with a *Price reduction* strategy
- *Company-related* crisis with a *Communication* strategy
- *Company-related* crisis with *No action* from the firm

Each participant was then asked to answer a set of questions composing a questionnaire, that will be better described in the next paragraph. After all the adjustments needed, included the manipulation check, the final sample was composed by a total of 294 respondents. Table 3.1 describes the number of respondents considering all groups separately.

Table 3.1

GROUPS/CONDITIONS		N° RESPONDENTS	
Product–related	No action	50	149
	Price reduction strategy	50	
	Communication strategy	49	
Company–related	No action	49	145
	Price reduction strategy	48	
	Communication strategy	48	

The sample was equally distributed regarding gender differences: 47% was composed of males and 53% by females. The average age was 35 (SD= 13.17). Such sharper differences were found relative to instruction degrees: more than a samples' half was composed of masters' degree graduates (54%); bachelors' degree graduates and secondary school owners were respectively 28% and 17%. Only 1% ended their education with primary school.

The company chosen as research subject was *Apple*, and his *iPhone* as product, for several reasons. First of all, for larger firms negative publicity has worse effects on business (Snow, 1998; Wood, 1981), therefore it was expected to obtain more useful inferences, considering the company size cluster most interested in the topic. Secondly, since it was measured retention metric as an effectiveness indicator, only actual customers for a specific brand could be included in the sample analyzed, therefore it was the most affordable option. In fact, it was so much easier to reach Apple customers because the company had (and actually has) one of the greatest market share in the product category (smartphone) for the Italian market (StatCounter, 2019). Moreover, defensive strategies should be globally more effective for big-size companies (Snow, 1998).

3.2 Data collection: The Survey

Data was obtained using an e-survey (web-based) distributed through social networks (Facebook, WhatsApp, etc.) and private emails. This method best-suited research requirements because there was no intention to control or impose limits concerning demographic differences as gender, age, education or location (region). The first three elements were indeed only recorded at the end of the questionnaire, to better describe the samples 'characteristics in the research, as exposed in the previous paragraph. Moreover, considering the limited resources available for this research, it constitutes the less expensive format in terms of time and cost.

Firstly, respondents were asked about their smartphone. Precisely, it was asked whether they own an iPhone or another cell phone brand. Only iPhone owners could take part in the questionnaire, becoming participants of the experiment. Surveys ended for the others. In this way, it was possible to record only actual customers' answers, in order to measure retention. Only 353 of the total 688 respondents were iPhone owners and therefore included in the sample for the analysis.

Before introducing the negative publicity exposure, questions concerning customers' involvement with the aforementioned brand were presented in order to not influence their pre-crisis attitudes. (see Appendix 1)

To introduce the negative information, a fictional entry title from a local newspaper was showed together with a short description of the content information. "Il Sole24Ore" was chosen for the experiment, since research studies described it as the most trusted local periodical for Italian people, considering digital news (Reuters Institute, 2019). Participants read: *"This is a real article from Il Sole24Ore, written by one of his most famous journalists, Luigi Biagio, and published on the 27 of August 2019"*. The intent was to make the news more credible as possible, in order to make respondents perceive it as real. Respondents assigned to Product-related crisis received a description of iPhones' potential harmfulness. It was an adaptation of a real article by "IlMattino" newspaper about Apple and Samsung smartphones (Ferraro, 2019). Respondent assigned to Company-related crisis received a different, but similar description concerning both environmental harms caused by Apples' factories and diseases suffered by workers in the same factories. This time the description was an adapted merger of two famous scandals: the first concerning many cases of sick factory workers for Samsung from 2007 to 2018 (BBC News, 2018); the second related to Royal Dutch Shell (Nossiter) which caused huge environmental disaster in the Delta of Niger in 2010. (see Appendix 2)

To the two "No action" groups there was guaranteed and underlined the firms' passive reaction. The aim was to make sure that participants were bearing in mind that the companies did not start any kind of correcting or promotional initiative facing the hypothetical scandal. (see Appendix 3)

The price reduction stimulus was the same for both the two groups, without accounting for the type of negative information exposure, since it concerned only the product itself. Respondents were informed about a fictional 30% permanent discount on all Apples' devices, provided on their official website. The discount percentage was the same adopted by Samsung during the product harm-crisis, related to their *Note7* batteries, faced by the company in 2016 (The Verve).

Once again, the communication strategy stimulus did not account for the different types of information, being the same for the last two groups. It was introduced as a PR (Public Relation) initiative for which the company exposes an apology letter, signed by his CEO, on the official website. The letter was an adaptation of the one written by *YH Eom*, Samsung President and CEO, for UK customers, during the same *Note7* crisis in the 2016 (Samsung). Noticeably, the letter was slightly differentiated for the two groups, considering the different kinds of events for which apologies were offered. (see Appendix 3.1 & 3.2)

After negative information exposure and companies' response stimulus, participants were asked about their global involvement with the information provided by news release, and the specific degree to which they blame the company in regard to the same event. (see Appendix 4)

Finally, following the recommendation of Perdue and Summers (1986), who focused their work on checking manipulations in marketing experiments, the final section of the questionnaire evaluated the participants' interpretation of the stimulus provided. In fact, a dichotomous question was introduced, asking respondents if the information referred to a product or to the company as an organization (see Appendix 5). To ensure manipulation reliability, incoherent respondents were just eliminated from the original sample. Thus, it is explained why the final sample was composed of only 294 of the initial 353 iPhone owners.

After demographic questions (see Appendix 6), all the participants were informed about the fictionality of the surveys' contents (including the article, the journalist, the strategies), completely created for scientific purposes, at the end. Obviously, all the contents/questions were showed in the Italian language, considering the samples' homogenous nationality.

3.3 Measures: Item Scales

Before going on to test the research hypotheses established in the second chapter, there will be discussed preliminary analyses that were carried out on all sets of item scales used to measure the many constructs. Constructs presented in the conceptual model were all based on a stable pre-tested and validated multi-item scale structure. In fact, each of them was composed of 3 items measured with a 7-point scale. To ensure that each set of items measures the same concept, it was necessary to test their reliability in terms of internal consistency. A Cronbach alpha test was conducted, considering a challenging threshold value of 0.8 to suggest an acceptable reliability for scales included in the analysis. The choice was motivated since scales previously tested and validated in the literature were used for the study. Thus, the risks of obtaining an unsatisfactory result were relatively low. Expectations have indeed been confirmed, as all the alpha coefficients (α) were overall higher than 0.85. Thus, robust reliability was confirmed. Once verified that each item measured the same construct, final single variables were generated.

To measure the dependent variable *Repurchase Intention* (α=0.96), it was used three 7-point scales (1=very low, 7=very high), as an adaptation of the items developed by Dodds and colleagues (1991) in their work about products evaluations. Scales used were: "*My willingness to buy another iPhone is:*" (α=0.95); "*The likelihood of purchasing another iPhone is:*" (α=0.91); "*The probability that I would consider buying another iPhone is:*" (α=0.96).

To measure the *Brand Involvement* (α=0.91) construct, it was used 7-points Likert scales (1=completely disagree, 7=completely agree) adapted from the research conducted by Stockmeyer (1996). Respondents were asked by the author about the importance and interest attributed to a product from a specific brand. As for the previous literature, these items were used in the study as an overall measure for involvement with the product/brand considered and a simplified indicator for Brand loyalty. Scales were: "*I consider the iPhone an important product.*" (α=0.87); "*I am interested in iPhones.*" (α=0.87); "*The iPhone means a lot to me.*" (α=0.90).

Finally, both *Involvement with the Information Read* (α=0.96) and *Blame Attribution* (α=0.95) constructs were measured with scales tested and validated by Pulling (2000), who measured Adidas customers' brand evaluation, during the exposure to negative events. Once again, there were 3 items for each construct, all defined by a 7-point Likert scale (1=completely disagree, 7=completely agree). Scales used for the former construct were: "*The information contained in the news release is very important to me.*" (α=0.96); "*For me, the information contained in the news release really matters.*" (α=0.95); "*The information contained in the news release means a lot to me.*" (α=0.96). Scales used for the latter were: "*Apple was totally responsible for the negative event*

described in the news release." (α=0.95)*; "The negative event described in the news release was all Apples' fault."* (α=0.94); *"Apple is to blame for the negative event described in the news release."* (α=0.95).

3.4 Results

A two-way ANOVA was run on the sample of 294 iPhone owners, with a 2x3 between-subject design, to test hypotheses determined in the second chapter. Specifically, it was examined the effect of different appeals of negative publicity (*Company-related*, *Product-related*) and strategies adopted by firms (*Price reduction*, *Communication*, *No action*) on customers' *Repurchase Intentions*. The model fitted good [$F_{(5.288)}=63.03$, $p<0.05$] showing the presence of significant mean differences in *Repurchase Intentions* due to independent variables considered. Nevertheless, differences were not explained by all these latter. Results did not show significance for the direct effect of different types of *Negative Publicity* [$F_{(1,288)}=0.02$, $p>0.05$], thus the first hypothesis was not confirmed. By contrast, most of the variance analysed through the model was explained by the significant direct effect of different *Defensive Strategies* adopted by firms facing undifferentiated *Negative Publicity* [$F_{(2.288)}=137.42$, $p<0.05$]. This result was expected since also the *No Action* groups were included in the model. In fact, the second hypothesis developed was clearly supported by the evidence. The most interesting result was obtained from the interaction effect, the main subject of the study. Indeed, there was a significant interaction between the type of *Negative Publicity* and the *Strategies* implemented on customers' *Repurchase Intentions* [$F_{(5.288)}=20.53$, $p<0.05$]. Looking at margins it was possible to see how the dependent variable was influenced by all the possible combinations. Chart 3.1 shows a disordinal interaction with crossover effect of the aforementioned independent variables on the *Repurchase Intention*.

Chart 3.1: Negative publicity type and Defensive Strategy interaction on Repurchase Intention
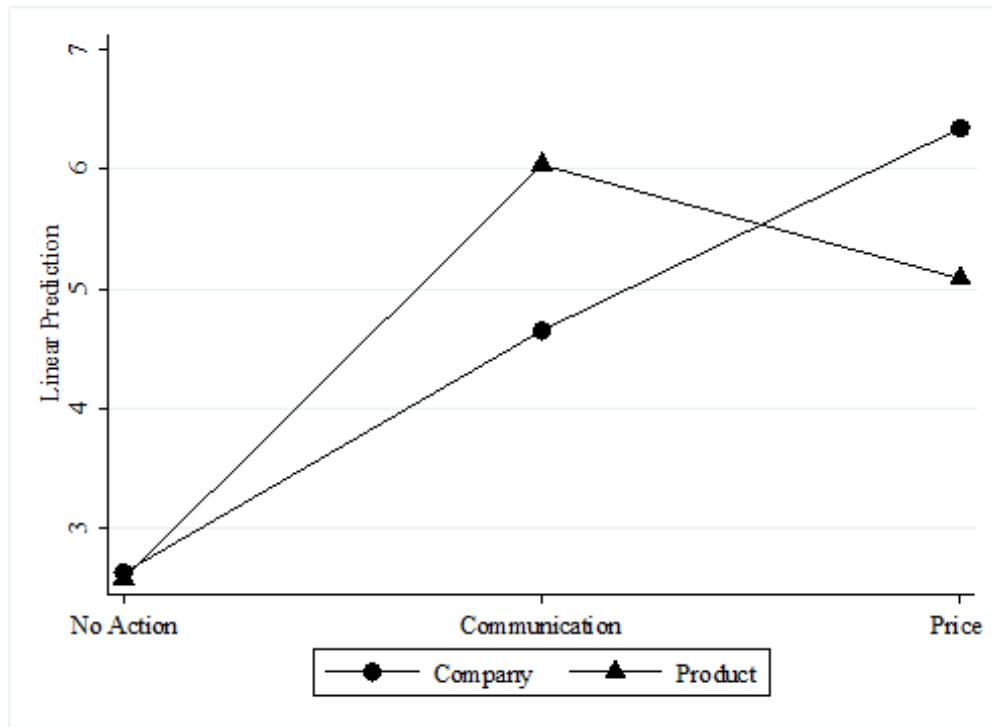
Specifically, difference in Repurchase Intention between *Product-related* and *Company-related* crises changes with Strategies: The highest recorded difference is for *Communication* ($\Delta=1.38$, $M_{product}=6.03$ vs $M_{company}=4.65$, $p<0.05$); then there was the difference for *Price reduction* ($\Delta=1.26$, $M_{product}=5.08$ vs $M_{company}=6.34$, $p<0.05$); there was almost no difference for *No action* ($\Delta=0.05$, $M_{product}=2.58$ vs $M_{company}=2.63$, $p>0.05$). Considering *Product-related* negative publicity the highest mean for *Purchase Intentions* was given by the *Communication* Strategy ($M=6.03$), followed by *Price reduction* strategy ($M=5.08$), which still showed differences in respect to the passive reaction "*No action*" ($M=2.58$). For what concerns *Company-related* negative publicity, the highest margin was given by *Price reduction* strategy ($M6.34$). A minor effect was obtained for the *Communication* strategy ($M=4.65$), once again higher than the passive reaction ($M=2.63$). Thus, the third and main hypothesis was supported by results. Lastly, it was obtained an impressive, even if still improvable, variance explanatory power of the overall model, meaning reliable external validity ($R^2=0.52$, Adj-$R^2=0.51$).

The second target was to build a multiple regression model, analysing the same sample, able to predict how *Repurchase Intention* is influenced by customers' specific characteristics. Thus, the dependent variable was regressed by both customers' *involvement* with the *brand* and *information received*, as for the *blame* attributed to the focal firm, all considered as covariates. Moreover, it was also included the interaction effect, as a discrete factor, to examine how the aforementioned characteristics play a role with each conditions' combination. Once again, it was obtained a good

model fit [F(8.285)=78.99, P<0.05]. This time, with an even greater variance explanatory power (R^2=0.6892), even after adjusting the model for the number of regressors included (Adj-R^2=0.6805). The *Company-Related/No action* combination was considered as models' intercept (α=3.21**). Customers' characteristics showed all significant influence on *Repurchase Intentions*. The main effect was given by the *Involvement with the brand* (beta=|0.26**|) that positively influenced the dependent variable (t=7.33, p<0.05/2, β=0.31**), followed firstly by the *Blame attribution* (beta=|-0.20**|) for which a negative influence was recorded (t= -3.80, p<0.05/2, β= -0.20**), then by *Involvement with the information* received (beta=|-0.12**|), that also negatively influenced the Repurchase Intention (t= -2.48, p<0.05/2, β= - 0.13**). Results obtained for the interaction effect reconfirmed ANOVA outcomes. Compared to *Company-Related/No action* all the other combinations had a significant positive influence, excluding the other one passive reaction: *Product-related/No action* (t=0.31, p>0.05/2). Specifically, the greatest increase (beta=|0.45**|) is obtained in the case of a *Price reduction* strategy adopted by a firm facing *Company-related* negative publicity (t=9.85, p<0.05, β=2.53**). Then, there were the other combinations in this descendent order: *Product-related/Communication* (t=8.46, p<0.05/2, β=2.17**, beta=|0.39**|), *Product-related/Price* (t=7.54, p<0.05/2, β=1.81**, beta=|0.33**|), *Company related/Communication* (t=6.41, p<0.05/2, β=1.54**, beta=|0.27**|).

No multicollinearity between predictors emerged from regression diagnostics since analysis showed a VIF level lower than 10 for all of them. The normality assumption was also verified and confirmed as shown by chart 3.2 and 3.3.
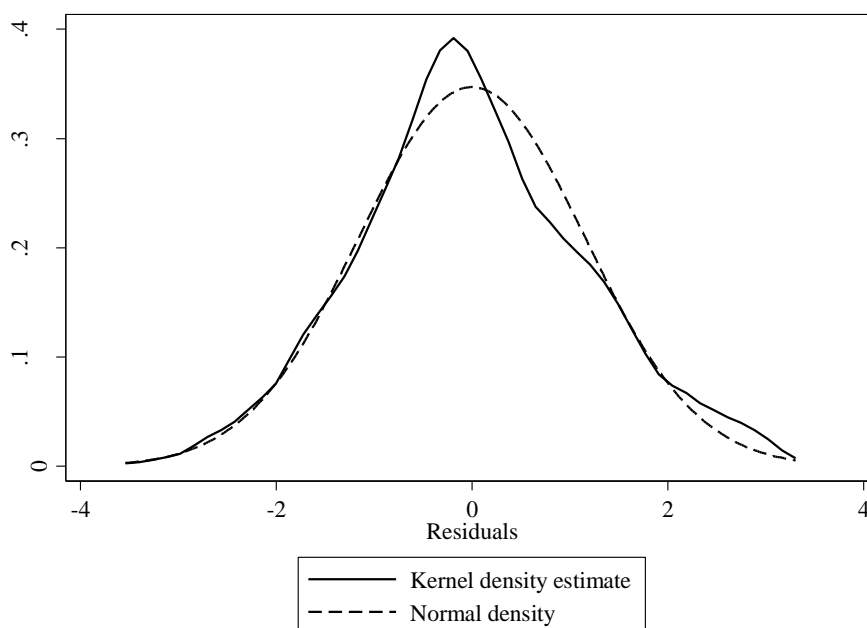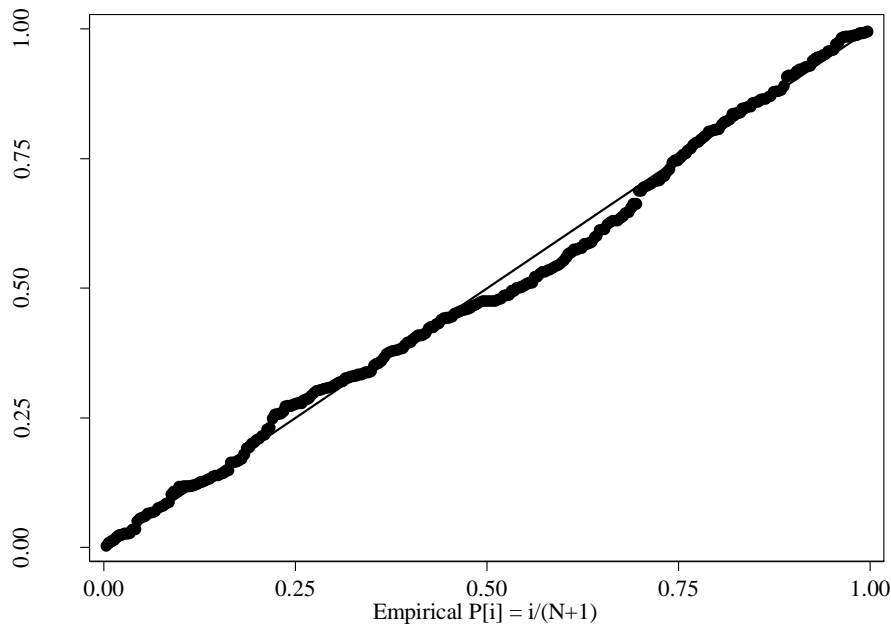
Chart 3.2

Chart 3.3

Moreover, a Breusch Pagan test was run to test homoscedasticity. Nevertheless, with "borderline" results the hypothesis of homogenous variance had to be refused (p=0.049<0.05), implying heteroscedasticity. Probably, this was due to potential subpopulations contained in the sample, considering specific characteristics and factors which were not manipulated in the study. Thus, even if the regression was quite robust considering normality, it was also needy for improvements, considering the variance heterogeneity.

General Discussion

It has been found that repurchase intention during corporate crises is predicted by several factors. First, the marketing strategies adopted by focal firms seem to play the most relevant role. In fact, it has been shown how the implementation of an "active" defensive strategy is mandatory in order to retain actual customers. By contrast, the type of negative publicity that reaches customers does not seem to have any relevance in their purchase decisions, if it is considered as a stand-alone indicator. Nevertheless, the most interesting result that has been obtained regards customers' behavioural intentions when both the type of negative publicity and the type of defensive strategy adopted are considered. For what concern product-related negative publicity, the marketing strategy that best suit a defence is communication. This latter predicts higher retention levels than the price reduction option, which is still more suitable than a passive reaction. Conversely, with regarding to company-related negative publicity, it has been deepened the higher effectiveness of a price reduction strategy. Once again, the alternative strategy is anyway more efficient than a defensive

blackout. Finally, results show that customers' characteristics are other good predictors for customers' repurchase intentions. Customers who showed higher pre-crisis level of involvement for a specific brand seems to have also higher intentions to repurchase products of the same one, during crisis. By contrast, after receiving negative information, a higher level of involvement with the contents provided predicts lower levels of retention. The same seems to be true about blame attributed to the focal firm for the negative events and information described in the news releases. Indeed, higher blame attribution levels predict lower repurchase intentions.

The first theoretical contribution to previous literature is given by the alternative way of measuring marketing effectiveness. Therefore, while previous researchers measured the effectiveness "globally", without considering the net contribution of the different marketing instruments (Heerde, 2007; Cleeren, Dekimpe, & Helsen, 2008; Cleeren K. v., 2013), in this research, it has been differentiated for two specific marketing strategies. Moreover, marketing effectiveness was not measured in financial terms, indeed following previous researches, focused on other study subjects (Pulling, 2000), it has been chosen to measure it accounting the social impact that makes customers still repurchasing from a brand. Results confirmed antecedents' thoughts about the needs for an "active" strategy in crisis circumstances, even with this metric choice. Finally, related to these scholars' matter, it has been introduced another differentiation related to the type of crisis generating negative publicity, never considered in this context. Nevertheless, the study showed results that contrast with the previous research stream. It has been demonstrated by antecedents that peoples are more sensitive to negative information related to moral aspects, such as CSI cases, than ones related to technical issues, such as product-harm crises (Skowronski, 1987; Lange & Washburn, 2012). Nevertheless, it has not been funding enough evidence to agree with these theories analysing customers behavioural intentions. Probably this disconfirmation was due to the low consistency of contents information showed to respondents in the study. As an ad hoc adaptation of a real circumstance, it is possible that some bias could be related to the credibility of the message perceived by participants. Some of them could have been less actually involved with the event described. Nevertheless, the introduction of a fictional event that was supposed to be perceived as real is another innovation provided by this study. Previous research indeed just tried to expose consumers to hypothetic conditions in lab experiments, stating the fictionality of the event, as for the brand, from the beginning (Ahluwalia, 2000; Dawar & Pillutla, 2000; De Matos & Veiga, 2005). The most innovative contribution is the examination of the aforementioned interaction effect. The crossover interaction between the type of negative publicity and the firms' response showed great evidence to enforce previous literature. Communication supremacy in product-related crisis

complete prior theories witch stated lower price elasticity, even considering the whole product category (Shu He, 2017; Fombrun, 1996; Heerde, 2007) and confirming that apologies do not amount to admissions of guilt (Advertising Age, 2000). For what concerns the company-related negative publicity, price reductions best works, appealing to customers' direct needs. It is indeed clear that people not directly involved with negative information provided are still price-sensitive (Shrivastava, 1995; Bridges E, 2009; Lange & Washburn, 2012). Conversely, communication strategies related to CSI seem to emphasize the negative events publicized, as predicted (Ahluwalia, 2000; Johnson, 1993). It indeed provides the lowest effectiveness. Finally, the study provided insights confirming the statements about customers' subjective characteristics. Results obtained for the brand involvement showed how higher levels of brand loyalty can influence customers' impression formation, making them providing counter argumentation to the negative information received and resisting the shocks (Ahluwalia, 2000; Park, 1986; Lord, 1983). By contrast, customers actually involved with this information, or blaming firms for them, seems to show less resistance as stated in events evaluation studies (Kelley, 1980.; Pulling, 2000).

Managerial Implications

The first obvious suggestion for companies is to avoid these types of crisis. It has been already deepened how crises and related negative publicity could seriously harm firms' survival. The best strategy indeed is to implement very cautious business processes with enough checks and balances. Quality controls and lab testing would be useful in order to avoid products' crises that endanger customers' health and well-being. On the other side, CSR investments will have a double jeopardy effect on crises related to the organizations. Firstly, they will provide lower level of CSI, since they are two sides of the same silver coin. Then, previous CSR activities should mitigate post-crisis negative effects. The second-best suggestion, not surprisingly, is indeed to provide the most suitable defensive reaction when, despite all precautions, a corporate crisis arises. It has been demonstrated that it would be difficult for "heats" to gone off without action. Thus, "active" strategies are mandatory in order to diminish crisis-related risks. In product-related crises, customers receiving negative information will perceive lower quality from products involved. That is why, in this context, firms must focus on communicating tangibles guarantee of products' quality and safety. Apologies will not be alleged as an admission of guilt and showing active commitment to the problem will demonstrate how seriously they take their responsibilities. Thus, this will be the best way to win back customers' trust. By contrast, even if a price reduction or a permanent discount could retain more price-sensitive customers, it will for sure enhance low-quality attribution,

confirming other ones' initial perception and criticism. Companies should even try to increase prices, decreasing in part customer retention, with the purpose of preserving short-run revenues. This strategy perfectly suits the automotive industry, as it happens. Facing the actuals great recalls fashionable for full-electric cars, firms should communicate their commitment to customers' satisfaction. Providing effective customer service will indeed better please customer needs and improve overall advocacy, considering the very low price-elasticity recorded in the ultra-premium segment. The opposite phenomenon occurs with company-related negative publicity. As for what happened for Barilla facing the palm oil scandal, companies communicating their own corrective initiatives sometimes could more involve customers with negative information. In fact, customers that initially perceive negative information as less important could then become scared by firms' related reaction. By contrast, it will be difficult for the same customers to link a product or service price reduction to specific companies' moral aspects. Thus, customers less involved with the information, or more price-sensitive, will turn their interest to the offers' benefits, leaving aside blame attributed to the firm or stopping negative impressions formation. In company-related crises, sometimes also the communication strategy can work. The same aforementioned palm-oil scandal was in fact exploited by Ferrero pushing on customers' involvement with the Nutella brand. In that case, peoples' positive reactions played a key role in "saving" brands' reputation. As mentioned before companies must indeed keep track of effective customers' brand loyalty since, in times of need, it will become the strongest and cheapest form of advocacy. Obviously, it is recommended to record these tools' effectiveness in sales and financial terms, recording costs, volumes and revenues with a time-based approach. In this way, it will be possible to improve the marketing mix and implement corrective actions post-crisis. Moreover, managers must bear in mind that these strategies will be an efficient soothing in short-terms, but they cannot recover pre-crisis business levels alone in the long-run.

Limitations and Future Researches

The first limitation underlined in this research is the external validity extent. As mentioned before, analysing real-life performance measures could have provided greater external validity of the insights. Nevertheless, with this innovative approach, it has been chosen to provide evidence sufficient to support specific causalities. The internal validity provided by the prediction model will be indeed useful for future researches in order to conduct preliminary evaluations of both laboratory and real events analyses. Moreover, considering the social impact measured through customers' behavioural intentions as a marketing effectiveness metrics, it has not been possible to measure the

real financial impact provided by the different strategies/crises' combinations. Strategies costs were not accounted, as it happened. It will be interesting to study also the effect related to a conjoint implementation of both strategies. His effectiveness could be measured comparing it to the single strategies' retention levels. Another one aspect that limits the external validity of the research is linked to the conditions' arrangements that could have caused response bias. Since both negative information and strategy were only an adaptation of real crises, respondents may have self-reported higher repurchase intentions due to the scenarios' low perceived credibility, even though everything possible has be done in order to avoid this response bias. Thus, it would have been useful to measure at least the message trustworthiness and clean data from skeptic responses. To posterity, it is suggested to even pre-test scenarios' credibility improving results reliability. Other limitations are linked to contextual aspects. Firstly, it has been chosen to consider a big-size company, since this cluster is the most impacted by negative information flows. Different results could be obtained for medium or small-sized firms. The product category seems to be quite limitative to. It has been chosen to examine a very specific product-category belonging to the high-tech market. Future researches could repeat the experiment considering different products or markets. Finally, the latest limitations are due to the sample characteristics. A convenience sample of Italian customers has been used because of the restricted available resources. Different regions could indeed provide very divergent attitudes and behaviours due to dissimilar demographics' physiognomies. Moreover, the heteroscedasticity resulted from the regression, suggest the potential presence of sub-population contained in the sample. Thus, the prediction model could be improved by future researches, analysing possible different characteristics and clustering the population.

Appendix

1) Questionnaire (1st part):

Possiedi un iPhone escluso (telefono aziendale)?	
· SI	· NO

Quanto sei d'accordo con le seguenti affermazioni?						
Considero l'iPhone un prodotto importante						
Molto in disaccordo ·	2 ·	3 ·	4 ·	5 ·	6 ·	Molto d'accordo ·
Provo interesse per gli iPhone						
Molto in disaccordo ·	2 ·	3 ·	4 ·	5 ·	6 ·	Molto d'accordo ·
L'iPhone significa molto per me						
Molto in disaccordo ·	2 ·	3 ·	4 ·	5 ·	6 ·	Molto d'accordo ·

2) Articles:

a) Product-related

≡ Q 24 **Tecnologia** Prodotti

Temi Caldi Crisi di governo Mercati Tutor Alitalia Pensioni

27 agosto 2019 — SERVIZIO LE INDISCREZIONI

Apple — Huawei — Samsung

Apple sotto accusa: «I suoi iPhone favoriscono lo sviluppo di patologie tumorali»

di Biagio Luigi

Description:

"L'articolo descrive come grazie a strumenti di analisi più all'avanguardia sia stato scoperto, da un ente governativo esterno, che i livelli di radiazioni emessi dagli iPhone sono superiori ai limiti consentiti dalla legge. Tali radiazioni possono causare maggiore predisposizione a gravi patologie come la sclerosi multipla, l'Alzheimer, il tumore al seno, la leucemia ed il tumore al cervello."

Description:

"L'articolo descrive come grazie a strumenti di analisi più all'avanguardia sia stato scoperto, da un ente governativo esterno, che i macchinari utilizzati nelle fabbriche per il processo di produzione di chip della Apple emettono livelli di diossina superiori a quelli consentiti dalla legge. Tali emissioni sono sufficientemente elevate da causare un danno all'intero ecosistema globale. Inoltre, sono stati registrati numerosi casi di cancro, aborti spontanei e malattie congenite tra gli operai dell'azienda, maggiormente esposti alla contaminazione."

3) Strategies:

a) No Action

"Come avrai modo di verificare una volta terminata l'intervista, la Apple non ha espresso alcuna forma di risposta (scuse o contro argomentazioni) riguardo l'accaduto."

a) Price Reduction

"Oggi i prezzi di tutti gli iPhone sono diminuiti del 30%, come avrai modo di verificare sul sito ufficiale della Apple una volta terminata l'intervista":

- *iPhone XS a partire da 679€ invece di 969€*
- *iPhone XS a partire da 679€ invece di 969€*

c.1) Product-related / Communication

Come avrai modo di verificare una volta terminata l'intervista, oggi sul sito della Apple è stato pubblicato il seguente annuncio:

"Ai nostri gentili clienti,

Alla Apple, lavoriamo ogni giorno per offrire tecnologie innovative che arricchiscano la vita delle persone contribuendo alla sicurezza di quest'ultime. Di recente, abbiamo mancato di questa promessa.

Abbiamo già avviato indagini con esperti di terze parti indipendenti per rivisitare con attenzione ogni aspetto del dispositivo, inclusi batteria, hardware e processo di produzione. Una volta disponibili, condivideremo in modo trasparente i nostri risultati, offrendo a tutti massimo supporto ed assistenza.

A nome di tutti i nostri dipendenti, noi ci scusiamo.

Siamo grati del vostro supporto, vi ascolteremo, impareremo da quanto accaduto e ci impegneremo per riconquistare la vostra fiducia.

Sinceramente,
Tim Cook

Presidente e CEO – Apple Inc."

c.2) Company-related / Communication

Come avrai modo di verificare una volta terminata l'intervista, oggi sul sito della Apple è stato pubblicato il seguente annuncio:

"Ai nostri gentili clienti,

Alla Apple, lavoriamo ogni giorno per offrire tecnologie innovative che arricchiscano la vita delle persone contribuendo alla sicurezza di quest'ultime. Di recente, abbiamo mancato di questa promessa.

Abbiamo già avviato indagini con esperti di terze parti indipendenti per rivisitare con attenzione ogni aspetto del processo di produzione. Una volta disponibili, condivideremo in modo trasparente i nostri risultati.

A nome di tutti i nostri dipendenti, noi ci scusiamo.

Siamo grati del vostro supporto, vi ascolteremo, impareremo da quanto accaduto e ci impegneremo per riconquistare la vostra fiducia.

Sinceramente,
Tim Cook

Presidente e CEO – Apple Inc."

4) Questionnaire (2ⁿᵈ part):

Quanto consideri vere le seguenti affermazioni?
Comprerò un altro iPhone
Poco   2   3   4   5   6   Tanto   .   .   .   .
È probabile che io acquisti un altro iPhone
Poco   2   3   4   5   6   Tanto   .   .   .   .
È probabile che prenda in cosiderazione l'acquisto di un altro iPhone
Poco   2   3   4   5   6   Tanto   .   .   .   .

Quanto sei d'accordo con le seguenti affermazioni?
Le informazioni contenute nell'articolo sono molto importanti per me
Molto in disaccordo   2   3   4   5   6   Molto d'accordo   .   .   .   .
Per me, le informazioni contenute nell'articolo contano molto
Molto in disaccordo   2   3   4   5   6   Molto d'accordo   .   .   .   .
Le informazioni contenute nell'articolo significano tanto per me
Molto in disaccordo   2   3   4   5   6   Molto d'accordo   .   .   .   .

Quanto sei d'accordo con le seguenti affermazioni?						
La APPLE è totalmente responsabile dell'evento descritto nell'articolo						
Molto in disaccordo	2	3	4	5	6	Molto d'accordo
.	.	.	.	.	.	.
L'evento descritto nell'articolo è causato dalla APPLE						
Molto in disaccordo	2	3	4	5	6	Molto d'accordo
.	.	.	.	.	.	.
La APPLE è da incolpare per l'evento descritto nell'articolo						
Molto in disaccordo	2	3	4	5	6	Molto d'accordo
.	.	.	.	.	.	.

5) Manipulation Check:

Le informazioni contenute nell'articolo riguardano:	
Prodotti della APPLE	Fabbriche di chip della APPLE
.	.

6) Demographic Questions:

Sei?	
Donna	Uomo
.	.
Quanti anni hai?	
Istruzione:	
· licenza media · diploma · laurea di primo livello (3 anni) · laurea di secondo livello / magistrale	

References

Aaker, D. (1996). Building strong brands. *Simon & Schuster*.

Advertising Age. (2000, September 18). Firestone woes create opportunity.

Ahluwalia, R. R. (2000, May). Consumer response to negative publicity: The moderating role of commitment. *J. Marketing Res.*(37), 203–214.

Baucus, M. S. (1997). Paying the piper: An empirical examination of longer-term financial consequences of illegal corporate behavior. *Academy of Management Journal*(40), 129–151.

Baumeister, R. F. (2001). Bad is stronger than good. *Review of General Psychology*(5), 323–370.

BBC News. (2018, November 23). Samsung apologises to sick factory workers. *BBC News*. https://www.bbc.com/news/technology-46315739

Berger, J. S. (2010). Positive effects of negative publicity: When negative reviews increase sales. *Marketing Science*(29), 815—827.

Bhattacharya, C. B. (2003). Consumer-Company Identification: A Framework for Understanding Consumers' Relationships with Companies. *Journal of Marketing*(67), 76-88.

Bitektine, A. (2011). Toward a theory of social judgments of organizations: The case of legitimacylegitimacy, reputation, and status. *Academy of Management Review*(36), 151–179.

Bridges E, F. P. (2009). When do firms invest in offensive and/or defensive marketing? *Bus*, p. 745–749.

Burton, M. T. (1996). The impact of BSE on the demand for beef and other meats in Great Britain. *Appl. Econom.*(28), 687–694.

Cleeren K., H. H. (2013, March). Rising from the Ashes: How Brands and Categories Can Overcome Product-Harm Crises. *Journal of Marketing, 77*, p. 58-77.

Cleeren, K., Dekimpe, M. G., & Helsen, K. (2008, April 26). Weathering product-harm crises. *Journal of the Academy*, 262-270.

Davidson, W. N. (1992). The effect of product recall announcements on shareholder wealth. *Strategic Management J.*(13), 467–473.

Dawar, N., & Pillutla, M. M. (2000, May). Ipact of product harm-crisis on brand equity: the moderating role of consumer expectations. *Journal of Marketing Research*(37), 215-226.

De Matos, A. C., & Veiga, R. T. (2005). How to Deal with Negative Publicity: the Importance of Involvement. *BAR, 2*(1), p. 57-72.

Dodds, W. B. (1991). Effects of Price, Brand, and Store Information on Buyers' Product Evaluations. *Journal of Marketing Research*, 307.

Dowie, M. (1967). How Ford put two million firetraps on wheels. *Business and Society Review*, p. 46–55.

Ferraro, M. (2019, August 27). Apple e Samsung sotto accusa: «I nuovi smartphone favoriscono lo sviluppo di patologie tumorali». *IlMattino*.

Fombrun, C. J. (1996). Reputation: Realizing value from the corporate image. *Harvard Business School Press*.

Fornell C, W. B. (1987). Defensive marketing strategy by customer complaint management: A theoretical analysis. *J. Marketing Research*, p. 337–346.

Frederick, W. (2006). Corporation, be good! The story of corporate social responsibility. *Dog Ear Publishing*.

Frisch, D. &. (1998). Ambiguity and rationality. *Journal of Behavioral Decision Making*(1), 149–157.

Granville, K. (2018, March 19). Facebook and Cambridge Analytica: What You Need to Know as Fallout Widens. *The New York Times*.

Greenlaw, S. A., & Taylor, T. (2014). *Principles of Economics.* Houston, Texas, U.S.: OpenStax.

Griffin, M. B. (1991). An empirical investigation of the impact of negative publicity on consumer attitudes and intentions. *Adv. Consumer Res*(18), 334–341.

Hauser JR, S. (1983). Defensive marketing strategies. *Marketing Sci.*, p. 319–360.

Heerde, H. V. (2007). The Impact of a Product-Harm Crisis on Marketing Effectiveness. *Marketing Science*(26), 230-245.

Imai, M. (1986). *Kaizen: The Key to Japan's Competitive Success.* New York: Random House.

Johnson, D. G. (1993). *Crisis management: Forewarned is foreharmed.* Journal of Business Strategy.

Jones, B., Bowd, R., & Tench, R. (2009). Corporate irresponsibility and corporate social responsibility: competing realities. *Social Responsibility Journal, 5*(3), 300-310.

Kanouse, D. E. (1972). Attribution: Perceiving the causes of behavior. *In E. E. Jones, D. E. Kanouse, H. H. Kelley, R. E. Nisbett, S. Valins, & B. Weiner (Eds.)*, 47–62.

Kardes, F. R. (1988). *Spontaneous Inference Processe on Advertising: The Effects of Conclusion Omission and Involvement on Persuasion.* Journal of Consumer Research.

Kelley, H. H. (1980.). Attribution theory and research. *Annual Review of Psychology*(31), 457–501.

Klein, J. &. (2004). Corporate social responsibility and consumers' attributions and brand evaluations in a product–harm crises. *International Journal of Research in Marketing, 3*(21), 203-217.

Lange, D., & Washburn, N. T. (2012). Understanding Attributions of Corporate Social Irresponsibility. *Academy of Management Review, 37*(2), 300-326. Tratto da http://dx.doi.org/10.5465/amr.2010.0522

Lastovicka, J. L. (1978). "Components of Involvement". *Attitude Research Plays for High Stakes, J.L. Maloney and B. Silverman*, 53-73.

Lord, R. G. (1983). Theoretical, information processing, and situational factors affecting attribution theory models of organizational behavior. *Academy of Management Review*(8), 50-60.

Marcus, R. D. (1987). An explanation of why shareholders' losses are so large after drug recalls. *Managerial Decision Econom.*(8), 295–300.

Marshall, A. (1920). *Principles of Economics* (8 ed.). London: Macmillan.

Martinko, M. J. (2004). Attribution theory in the organizational sciences: Theoretical and empirical contributions. *CT: Information Age Publishing*.

ME, P. (1985). Competitive Advantage: Creating and Sustaining Superior Performance. *Free Press*.

Mitroff, I. I. (2004). Crisis Leadership: Planning for the Unthinkable. *John Wiley & Sons*, New York.

Murphy, K. S. (2016, September 5). Everything you need to know about the Samsung Galaxy Note 7 recall. *CNNMoney*.

New York Times. (2004, April 29). GM rides bumpy road to quality redemption.

Nossiter, A. (2010, June 17). Half a world from the Gulf, a spill scourge 5 decades old. *New York Times, A1*.

OECD . (2018). Enhancing product recall effectiveness globally: OECD background report. *OECD Science, Technology and Industry Policy Papers*(58). Tratto da https://doi.org/10.1787/ef71935c-en

O'Kane, S. (2019, June 10). Audi recalls its first electric car in the US due to battery fire risk. *The Verge*.

Park, C. J. (1986). Strategic Brand Concept-Image Management. *Journal of Marketing*, 135-145.

Pearson, C. M. (1993). Froni Crisis Prone to Crisis Prepared: A Framework for Crisis Management. *Academy of Management Executive*(7), 48-59.

Perdue, B. C., & Summers, J. O. (1986). Checking the success of manipulations in marketing experiments. *Journal of Marketing Research, 23*(4), 317-326.

PETTY, R. E., & CACIOPPO, J. T. (1981). Attitudes and Persuasion: classic and contemporary approaches. *WCB*, p. 314.

Pinker, S. (2018, February 17). The media exaggerates negative news. This distortion has consequences. *The Guardian*.

Pullig, C. N. (2006). Attitude Basis, Certainty, and Challenge Alignment: A Case of Negative Brand Publicity. *Journal of the Academy of Marketing Science*(34), 528-542.

Pulling, C. P. (2000). The Effect of Negative Events and Firm Responses on Brand Associations, Organizational Associations, and Brand Evaluations. *LSU Historical Dissertations and Theses*.

Reidenbach, R. E., Festervand, T. A., & Macwilliam, M. (1987). Effective corporate response to negative publicity. *Business, 37*(4), 9-17.

Reuters Institute. (2019). *Digital News Report 2019.* https://www.ilsole24ore.com/art/il-sole-24-ore-online-cima-classifica-fiducia-reuters-ACXJ6LQ

Rupp, N. G. (2002). Who initiates recalls and who cares: Evidence from the automobile industry. *J. Indust. Econom.*(50), 123–149.

Samsung. (2016). *An open letter to all Galaxy Note7 Customers.* Samsung. : https://www.samsung.com/uk/note7exchange/customernotice/openletter/

Shrivastava, P. (1995). Industrial/environmental crises and corporate social responsibility. *Journal of Socio-economics, 1*(24), 211.

Shu He, H. R. (2017). *Social Media Strategies in Product-Harm Crises.* Information Systems Research.

Silvera, D., Meyer, T., & Laufer, D. (2012). Age-related reactions to a product harm crisis. *Journal of Consumer Marketing, 29*, p. 302-309.

Skowronski, J. a. (1987). Social judgment and social memory: the role of cue diagnosticity in negativity, positivity, and extremity biases. *Journal of Personality and Social Psychology*(52), 689-699.

Snow, D. A. (1998). Ideology, frame resonance and participant mobilization. *International social movement research, 1*, 197–218.

StatCounter. (2019). *Mobile Vendor Market Share Italy.* Stat Counter Global Stats.

Statista. (2019, June 12). Do you agree that it is hard to distinguish real facts from fake news online? *Statista*.

Stockmeyer, J. (1996). Brands in crisis: Consumer help for deserving victims. *Adv. Consumer Res.*(23), 429–435.

Sydney Morning Herald. (1996b, September 1). Peanut butter king loses a kingdom. *Sydney Morning Herald*.

The Verve . (2016, September 2). Samsung recalls Galaxy Note 7 worldwide due to exploding battery fears. *The Verve*. : https://www.theverge.com/2016/9/2/12767670/samsung-galaxy-note-7-recall-fire-risk

Trussler, R., & Soroka, S. (2014, March 18). Consumer Demand for Cynical and Negative News Frames. *The Internatiol Journal of Press Politics, 19*, 360-379.

Ward, J. a. (2006). Complaining to the Masses: The Role of Protest Framing in Customer-Created Complaint Web Sites. *Journal of Consumer Research*(33), 220-230.

Weinberger, M. G. (1993). Negative product safety news: Coverage, responses, and effects. *Bus*(34), 23–31.

White, L. J., McKenzie, J., & Cole, R. A. (3 November 2008). *Deregulation Gone Awry: Moral Hazard in the Savings and Loan Industry.* SSRN.

Wood, R. E. (1981). Manager behavior in a social context: The impact of impression management on attributions and disciplinary actions. *Organizational Behavior and Human Decision Processes*(28), 356 –378.

Zhao, Y. Z. (2011). Consumer learning in a turbulent market environment: Modeling consumer choice dynamics after a product-harm crisis. *Journal of Marketing Research*(48), 257-267.

Corporate Crises and Negative Publicity: Which Defensive Strategy is more Effective? (Summary)

Supervisor

Prof. *Michele Costabile*

Candidate

Giuseppe Pasqualucci
Student No. 693931

Co-Supervisor

Prof. *Piermario Tedeschi*

1) Corporate Crises and Negative Publicity

Negative publicity, like any other flow of information, influences impressions formation in the mind of observers. For companies, this can be highly significant, since peoples' opinions may determine the success, as the failure of their business (Fombrun, 1996). This explains why companies' objective is to maximize customers' positive judgments in order to establish good relationships (Park, 1986). Yet, also because of the large amount of fake news, establishing positive relationships has become a very difficult task. Considering the countless alternatives on the market, maintaining this relationship is even harder (Fombrun, 1996). From the palm oil scandal that has threatened the food sector in recent years, to the harmful dioxin emissions concerning the *Volkswagen group* that influenced the entire automotive sector, there is no shortage of daily negative news related to firms. Both negligent and conscientious organizations are affected by this information flow concerning their failings. Quality controls, crush tests and lab testing are all examples of how a company seeks to minimize the risk of failings and avoid the damage that might result from them. But, as far as these works could be considered accurate, there will never be absolute guarantees of the expected results (Shrivastava, 1995). Thus, when firms fail to prevent them from these crises, they must change their strategies in order to save the so hard to build relationships with customers, restoring business to pre-crisis levels. This study has indeed as a major goal to suggest which strategy to implement in different kinds of crises that arise with negative publicity. Before going into the subject in-depth, it is appropriate to clarify that the purpose is not to provide ways out to those who knowingly perform immoral acts. On the contrary, the aim is to propose pragmatic solutions to companies who, despite the necessary controls and precautions, are forced to face crises due to legitimate evaluation failings.

2) Theoretical Framework

Previous literature shows the existence of two major corporates' failings and crises macro-categories (Pulling, 2000). The first concerns all the activities that peoples perceive as companies' bad behaviour, that are summarized by *Corporate Social Irresponsibility (CSI)*. It is considered the antagonist of *Corporate Social Responsibility (CSR)*, said differently its "alter ego". While *CSR* provides pro-activity of companies in prevention actions, *CSI* is conceived as a mere consequence caused by the absence or failing of the other. This does not mean that the two cannot coexist. Most of the time a company has strengths, which can diminish if not managed properly; and weak points that can be improved (Jones, Bowd, & Tench, 2009). The other group is linked to *product harm-crisis*. This phenomenon refers to situations in which a product is found to be defective or potentially risky to the user (Dawar & Pillutla, 2000). In these circumstances, manufacturers decide

or are forced to recall some and occasionally all their models from the market to reduce the likelihood of a possible crisis arising. Part of the previous literature considers product-related crisis as part of the CSI macro category, but others suggest that they represent a too vast group not to be considered as a stand-alone problem and therefore analysed separately (1996). Moreover, with the increasing technology, products and services are becoming increasingly complex, so it is expected that *products harm-crises* and *recalls* will be more and more frequent (Dawar & Pillutla, 2000).

Nevertheless, literature does not provide evidence about how this negative information can directly influence consumers purchasing behavior. Since it is even more difficult to attract new customers during crises (Heerde, 2007), it has been chosen to assess this phenomenon analysing repurchase intentions of actual customers for a specific brand. The Conceptual Model in Fig. 1 summarize what is expected to address and verify.

Figure 1:
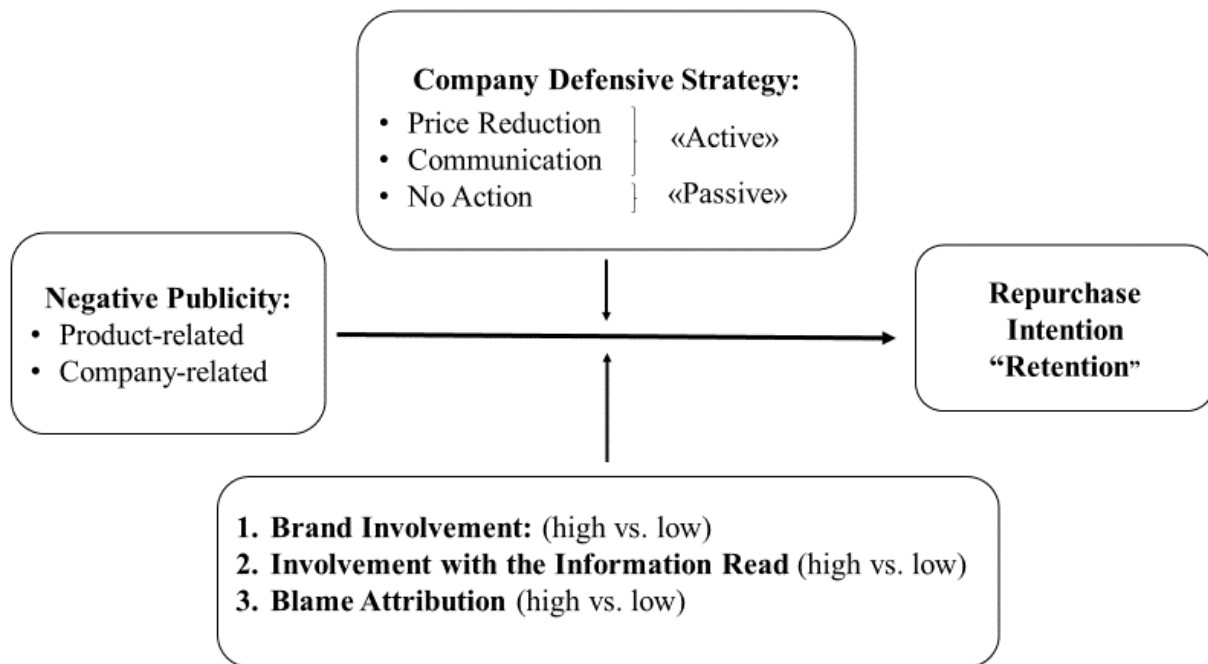
The first part of the research is mainly inspired by the results obtained from Skowronsky (1987) and Lange with Washburn (2012). They showed that if negative publicity is related to moral aspects (CSI), its negative impact is greater than if the publicity and information are about technical aspects of the product itself, such as Product-harm crises. Starting from this perspective, it has been hypothesized:

> *H₁: Company-related negative publicity has a stronger negative effect on Repurchase Intention than Product-related negative publicity.*

Many could be strategies useful in order to restore pre-crisis conditions. But only two of them seem to be significantly efficient in previous studies: *Price strategies* and *Communication strategies* (Cleeren K. v., 2013). These can both be implemented in opposite ways, suited by an offensive or defensive connotate (Bridges E, 2009). Offensive actions are useful in order to increase customer acquisition, the latter is implemented to retain actual customers. Since the aim of the study is to measure Customer Retention through their repurchase intentions, only *Defensive Marketing Strategies* will be considered. Bearing in mind that it would be difficult for "heats" to go off without action (Pulling, 2000), it has been assumed:

> H_2: *Retention depends on the type of response (strategy) adopted by the focal firm. Specifically, repurchase intentions are higher when the company adopts a communication or a price reduction strategy then when it does not provide any kind of response (No Action).*

Nevertheless, the main study will be focused on the effectiveness of different strategies used by a company facing different crises. According to Fombrun (1996), De Matos and Vega (2005), Heerde and colleagues (2007), Shu He (2017), it has been hypothesized that communication strategies are more effective in performance crises than in moral-related crisis. Since it has been demonstrated that in product-harm crises customers are less price-sensitive. Moreover, in this condition customers perceive products involved as lower-quality products (Weinberger, 1993); thus, a price decrease will confirm their perception and expectation, discouraging the repurchase intentions. The reverse will be verified for negative publicity linked to CSI. According to Shrivastava (1995), Bridges (2009), Lange and Washburn (2012), this condition does not have a direct physical impact on customers' zone; thus it will be coherent to push on self-appeal strategies directly rewarding actual customers and potential ones. Moreover, it will not have too much sense to emphasize the negative event providing more related information and coverage with a communication strategy (Ahluwalia, 2000; Kardes, 1988; Johnson, 1993).

> H_3: *the effect that negative publicity (product-related vs. company-related) has on consumers repurchase intention is moderated by the type of defensive strategy adopted by the company as a response to the crisis. Specifically, in case of a product-related crisis repurchase intentions are higher when the company adopts a communication strategy than when it adopts a price strategy; in case of a company-related crisis, repurchase intentions are higher when the company adopts a price strategy than when it adopts a communication strategy.*

Finally, the purchase behaviour is influenced by also other factors, not concerning directly the crisis itself, but linked to specific customers' characteristics. The most important is Customer Loyalty (Ahluwalia, 2000; Park, 1986; Lord, 1983). In particular, Brand Involvement has been chosen as a measure for Customer Loyalty since Petty and Cacioppo demonstrate that it is one of its most explicative components (1981). Then, there will be well-thought-out how different kinds of information are processed by customers in their purchase decision, considering a second time the involvement. This time the measure refers to *Involvement with the Information Read* (De Matos & Veiga, 2005; Pulling, 2000). Also, customers' *Blame Attribution* to the company will be taken into consideration (Kelley, 1980.; Pulling, 2000).

3) Methodology

To evaluate the model, it has been chosen to conduct a social experiment (Ahluwalia, 2000) with a convenience sample of Italian customers, easily accessible during the data collection process. It was used a between-subject experimental design for which respondents were asked about their repurchase intentions, after being exposed to one of the two possible crises (Product-related, Company-related) through fictional negative articles concerning a real company/brand and after being stimulated by one of the three possible firms' responses (Price reduction, Communication, No action). Participants were indeed randomly assigned into one of the 6 possible different groups for which has been described as many dissimilar fictional scenarios:

- *Product-related* crisis with a *Price reduction* strategy
- *Product-related* crisis with a *Communication* strategy
- *Product-related* crisis with *No action* from the firm
- *Company-related* crisis with a *Price reduction* strategy
- *Company-related* crisis with a *Communication* strategy
- *Company-related* crisis with *No action* from the firm

After all the adjustments needed, the final sample was composed of a total of 294 respondents (48-50 for each group), equally distributed regarding gender differences (Males=47%, Females=53%). Differences were found relative to instruction degrees (Masters' degree=54%, Bachelors' degree=28%, Secondary school=17%. Primary school=1%). The average age was 35 (SD= 13.17).

The company chosen as research subject was *Apple*, and his *iPhone* as product, for several reasons. Firstly, for larger firms negative publicity has worse effects on business (Snow, 1998; Wood, 1981), therefore it was expected to obtain more useful inferences. Secondly, it was so much

easier to reach Apple customers because the company had (and actually has) one of the greatest market share in the product category (smartphone) for the Italian market (StatCounter, 2019).

Data was obtained using an e-survey (web-based) since there was no intention to control or impose limits concerning demographic differences and it constitutes the less expensive format in terms of time and cost. Firstly, respondents were asked whether they own an iPhone or another cell phone brand. Only 353 of the total 688 respondents were iPhone owners and therefore included in the sample. Before introducing the negative publicity exposure, questions concerning customers' involvement with the aforementioned brand were presented in order to not influence their pre-crisis attitudes. To introduce the negative information, a fictional entry title from a local newspaper was showed together with a short description of the content information. "Il Sole24Ore" was chosen for the experiment, since research studies described it as the most trusted local periodical for Italian people, considering digital news (Reuters Institute, 2019). Participants read: *"This is a real article from Il Sole24Ore, written by one of his most famous journalists, Luigi Biagio, and published on the 27 of August 2019"*. The intent was indeed to make respondents perceive it as real. Respondents assigned to the Product-related crisis received a description of iPhones' potential harmfulness. It was an adaptation of a real article by "IlMattino" newspaper about Apple and Samsung smartphones (Ferraro, 2019). Respondent assigned to Company-related crisis received a different, but similar description concerning both environmental harms caused by Apples' factories and diseases suffered by workers in the same factories. This time the description was an adapted merger of two famous scandals: the first concerning sick factory workers for Samsung from 2007 to 2018 (BBC News, 2018); the second related to Royal Dutch Shell (Nossiter) which caused huge environmental disaster in the Delta of Niger in 2010. (see Figure 2).

Figure 2:

Product-related	Company-related
≡ Q 3d **Tecnologia** Prodotti **Temi Caldi** Crisi di governo Mercati Tutor Alitalia Pensioni 27 agosto 2019 SERVIZIO LE INDISCREZIONI ⊤ Apple Apple sotto accusa: «I suoi iPhone favoriscono Huawei lo sviluppo di patologie tumorali» Samsung di Biagio Luigi Description: *"L'articolo descrive come grazie a strumenti di analisi più all'avanguardia sia stato scoperto, da un ente governativo esterno, che i livelli di radiazioni emessi dagli iPhone sono superiori ai limiti consentiti dalla legge. Tali radiazioni possono causare maggiore predisposizione a gravi patologie come la sclerosi multipla, l'Alzheimer, il tumore al seno, la leucemia ed il tumore al cervello."*	≡ Q 3d **Tecnologia** Prodotti **Temi Caldi** Crisi di governo Mercati Tutor Alitalia Pensioni 27 agosto 2019 SERVIZIO LE INDISCREZIONI ⊤ Apple Apple sotto accusa: «il colosso della Huawei tecnologia favorisce l'inquinamento globale» Samsung di Biagio Luigi Description: *"L'articolo descrive come grazie a strumenti di analisi più all'avanguardia sia stato scoperto, da un ente governativo esterno, che i macchinari utilizzati nelle fabbriche per il processo di produzione di chip della Apple emettono livelli di diossina superiori a quelli consentiti dalla legge. Tali emissioni sono sufficientemente elevate da causare un danno all'intero ecosistema globale. Inoltre, sono stati registrati numerosi casi di cancro, aborti spontanei e malattie congenite tra gli operai dell'azienda, maggiormente esposti alla contaminazione."*

Then, to the two "No action" groups there was underlined the firms' passive reaction. The aim was to make sure that participants were bearing in mind that the companies did not start any kind of correcting initiative facing the hypothetical scandal. The price reduction stimulus was the same for both the two groups, without accounting for the type of negative information exposure, since it concerned only the product itself. Respondents were informed about a fictional 30% discount on all Apples' devices, provided on their official website. The discount percentage was the same adopted by Samsung during the product harm-crisis, related to their *Note7* batteries, faced by the company in 2016 (The Verve). Once again, the communication strategy stimulus did not account for the different types of information, being the same for the last two groups. It was introduced as a PR (Public Relation) initiative for which the company exposes an apology letter, signed by his CEO, on the official website. The letter was an adaptation of the one written by *YH Eom*, Samsung President and CEO, for UK customers, during the same *Note7* crisis in the 2016 (Samsung). Noticeably, the letter was slightly differentiated for the two groups, considering the different kinds of events for which apologies were offered. After negative information exposure and companies' response stimulus, participants were asked about their global involvement with the information provided by news release, and the specific degree to which they blame the company in regard to the same event. Finally, following the recommendation of Perdue and Summers (1986), the final section of the questionnaire evaluated the participants' interpretation of the stimulus provided. In fact, a dichotomous question was introduced, asking respondents if the information referred to a product or to the company as an organization. To ensure manipulation reliability, incoherent respondents were just eliminated from the original sample. Thus, it is explained why the final sample was composed of only 294 of the initial 353 iPhone owners. After demographic questions, all the participants were informed about the fictionality of the surveys' contents (including the article, the journalist, the strategies), completely created for scientific purposes, at the end.

A Cronbach alpha test was conducted, considering a high threshold value of 0.8 to suggest an acceptable reliability for scales included in the analysis. The challenging choice was motivated since scales previously tested and validated in the literature were used for the study. Thus, the risks of obtaining an unsatisfactory result were relatively low. Expectations have indeed been confirmed, as all the alpha coefficients (α) were overall higher than 0.85. Once verified that each item measured the same construct, final single variables were generated.

4) Results

A two-way ANOVA was run on the sample of 294 iPhone owners, with a 2x3 between-subject design, to test hypotheses. Specifically, it was examined the effect of different appeals of

negative publicity (*Company-related*, *Product-related*) and strategies adopted by firms (*Price reduction*, *Communication*, *No action*) on customers' *Repurchase Intentions*. The model fitted good [$F_{(5.288)}=63.03$, $p<0.05$] showing the presence of significant mean differences in *Repurchase Intentions* due to independent variables considered. Nevertheless, differences were not explained by all these latter. Results did not show significance for the direct effect of different types of *Negative Publicity* [$F_{(1,288)}=0.02$, $p>0.05$], thus the first hypothesis was not confirmed. By contrast, most of the variance analysed through the model was explained by the significant direct effect of different *Defensive Strategies* adopted by firms facing undifferentiated *Negative Publicity* [$F_{(2.288)}=137.42$, $p<0.05$]. In fact, the second hypothesis developed was clearly supported by the evidence. There was a significant interaction between the type of *Negative Publicity* and the *Strategies* implemented on customers' *Repurchase Intentions* [$F_{(5.288)}=20.53$, $p<0.05$]. Looking at margins it was possible to see how the dependent variable was influenced by all the possible combinations. Chart 1 shows a disordinal interaction with crossover effect of the aforementioned independent variables on the *Repurchase Intention*.

Chart 1:
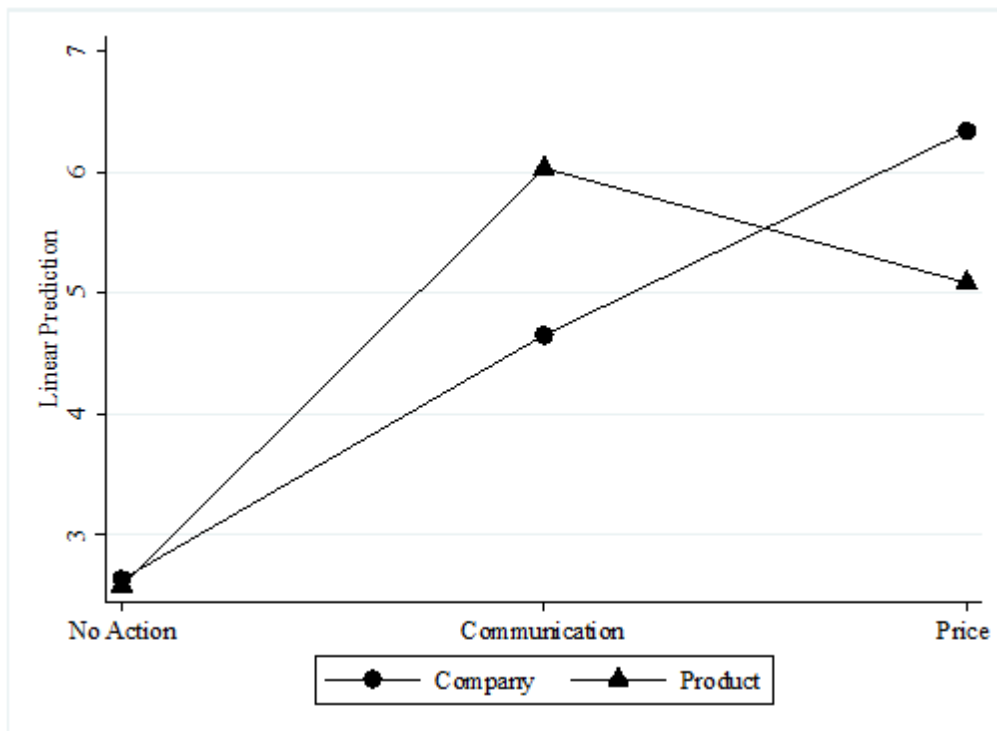
Specifically, difference in Repurchase Intention Means between the two crises changes with *Strategies*: The highest recorded difference is for *Communication* ($\Delta=1.38$, $M_{product}=6.03$ vs $M_{company}=4.65$, $p<0.05$); then for *Price reduction* ($\Delta=1.26$, $M_{product}=5.08$ vs $M_{company}=6.34$, $p<0.05$); there was almost no difference for *No action* ($\Delta=0.05$, $M_{product}=2.58$ vs $M_{company}=2.63$, $p>0.05$). Considering *Product-related* negative publicity the highest mean for *Purchase Intentions* was given

by the *Communication* Strategy (M=6.03), followed by *Price reduction* strategy (M=5.08), which still showed differences in respect to the passive reaction "*No action*" (M=2.58). For what concerns *Company-related* negative publicity, the highest margin was given by *Price reduction* strategy (M6.34). A minor effect was obtained for the *Communication* strategy (M=4.65), once again higher than the passive reaction (M=2.63). Thus, the third and main hypothesis was supported by results. Lastly, it was obtained an impressive, even if still improvable, variance explanatory power of the overall model, meaning reliable external validity (R^2=0.52, Adj-R^2=0.51).

The second target was to build a multiple regression model, analysing the same sample, able to predict how *Repurchase Intention* is influenced by customers' specific characteristics. Thus, the dependent variable was regressed by both customers' *involvement* with the *brand* and *information received*, as for the *blame* attributed to the focal firm, all considered as covariates. Moreover, it was also included the interaction effect, as a discrete factor, to examine how the aforementioned characteristics play a role with each conditions' combination. Once again, it was obtained a good model fit [$F_{(8.285)}$=78.99, P<0.05]. This time, with an even greater variance explanatory power (R^2=0.6892), even after adjusting the model for the number of regressors included (Adj-R^2=0.6805). The *Company-Related/No action* combination was considered as models' intercept (α=3.21**). Customers' characteristics showed all significant influence on *Repurchase Intentions*. The main effect was given by the *Involvement with the brand* (beta=|0.26**|) that positively influenced the dependent variable (t=7.33, p<0.05/2, β=0.31**), followed firstly by the *Blame attribution* (beta=|-0.20**|) for which a negative influence was recorded (t= -3.80, p<0.05/2, β= -0.20**), then by *Involvement with the information* received (beta=|-0.12**|), that also negatively influenced the Repurchase Intention (t= -2.48, p<0.05/2, β= - 0.13**). Results obtained for the interaction effect reconfirmed ANOVA outcomes. Compared to *Company-Related/No action* all the other combinations had a significant positive influence, excluding the other one passive reaction: *Product-related/No action* (t=0.31, p>0.05/2). Specifically, the greatest increase (beta=|0.45**|) is obtained in the case of a *Price reduction* strategy adopted by a firm facing *Company-related* negative publicity (t=9.85, p<0.05, β=2.53**). Then, there were the other combinations in this descendent order: *Product-related/Communication* (t=8.46, p<0.05/2, β=2.17**, beta=|0.39**|), *Product-related/Price* (t=7.54, p<0.05/2, β=1.81**, beta=|0.33**|)*, Company related/Communication* (t=6.41, p<0.05/2, β=1.54**, beta=|0.27**|). No multicollinearity between predictors emerged from regression diagnostics since analysis showed a VIF level lower than 10 for all of them. The normality assumption was also verified and confirmed as shown by chart 2 and 3.
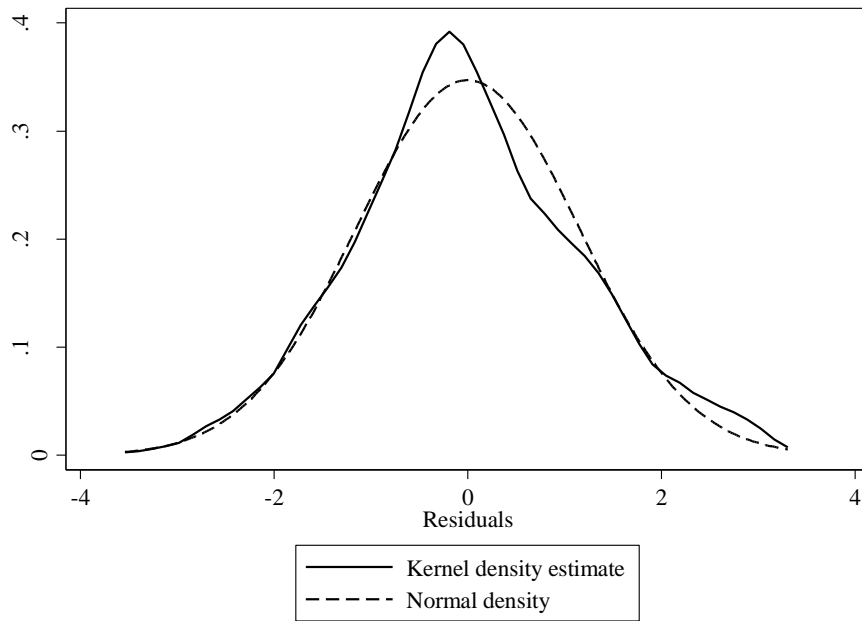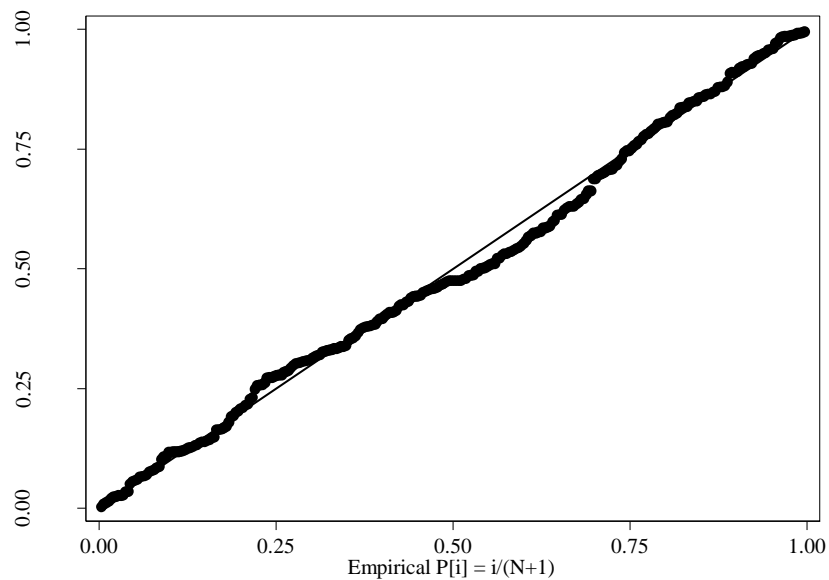
Chart 2:

Chart 3

Moreover, a Breusch Pagan test was run to test homoscedasticity. Nevertheless, with "borderline" results the hypothesis of homogenous variance had to be refused (p=0.049<0.05), implying heteroscedasticity. Probably, this was due to potential subpopulations contained in the sample, considering specific characteristics and factors which were not manipulated in the study. Thus, even if the regression was quite robust considering normality, it was also needy for improvements, considering the variance heterogeneity.

5) General Discussion

The introduction of a fictional event that was supposed to be perceived as real is the first innovation provided by this study. Previous research indeed just tried to expose consumers to hypothetic conditions in lab experiments, stating the fictionality of the event, as for the brand, from the beginning (Ahluwalia, 2000; Dawar & Pillutla, 2000; De Matos & Veiga, 2005). Moreover, while other researchers measured marketing effectiveness in financial terms (Heerde, 2007; Cleeren, Dekimpe, & Helsen, 2008; Cleeren K. v., 2013), in this study it has been chosen to measure it accounting the social impact that makes customers still repurchasing from a brand. Results confirmed antecedents' thoughts about the needs for an "active" strategy in crisis circumstances, even with this metric choice. Then, it has been demonstrated by antecedents that peoples are more sensitive to negative information related to moral aspects than ones related to technical issues (Skowronski, 1987; Lange & Washburn, 2012). By contrast, it has not been funding enough evidence to agree with these theories analysing customers behavioural intentions. Indeed, the type of negative publicity does not seem to be significant in customers repurchase decisions, considering it as a stand-alone indicator. The most interesting result regards customers' behavioural intentions when both the type of negative publicity and the type of defensive strategy adopted are considered, as it happens. The crossover interaction between the type of negative publicity and the firms' response showed great evidence to enforce previous literature. Communication strategy supremacy in product-related crisis complete prior theories witch stated lower price elasticity (Shu He, 2017; Fombrun, 1996; Heerde, 2007) and confirming that apologies do not amount to admissions of guilt (Advertising Age, 2000). In fact, it predicts higher repurchase intentions than a price reduction option, which is still more suitable than a passive reaction. Conversely, regarding company-related negative publicity, it has been deepened the higher effectiveness of a price reduction strategy appealing to customers' direct needs. It is indeed clear that people not directly involved with negative information provided are still price-sensitive (Shrivastava, 1995; Bridges E, 2009; Lange & Washburn, 2012). Despite Communication seems to be once again more efficient than a defensive blackout, it ensures lower retention levels then a Price reduction, emphasizing the negative events publicized as predicted (Ahluwalia, 2000; Johnson, 1993). Finally, Customers who showed higher pre-crisis level of involvement for a specific brand seems to have also higher intentions to repurchase products of the same one, during crisis. Thus, loyal customers provide counter argumentation to the negative information received, resisting to the shocks (Ahluwalia, 2000; Park, 1986; Lord, 1983). By contrast, customers actually involved with this information, or blaming firms for them, seems to show less resistance (Kelley, 1980.; Pulling, 2000).

6) Managerial Implications

The first obvious suggestion is to implement very cautious business processes with enough checks and balances. CSR investments will provide lower levels of CSI and should mitigate post-crisis negative effects. The second-best suggestion is to provide the most suitable defensive reaction when, despite all precautions, a corporate crisis arises. In product-related crises, firms must focus on communicating tangibles guarantee of products' quality and safety. Apologies will not be alleged as an admission of guilt and showing active commitment to the problem will demonstrate how seriously they take their responsibilities. By contrast, even if a price reduction or a permanent discount could retain more price-sensitive customers, it will for sure enhance low-quality attribution, confirming other ones' initial perception and criticism. Companies should even try to increase prices, decreasing in part customer retention, with the purpose of preserving short-run revenues. The opposite phenomenon occurs with company-related negative publicity. Companies communicating their own corrective initiatives sometimes could more involve customers with negative information. In fact, customers that initially perceive negative information as less important could then become scared by firms' related reaction. By contrast, it will be difficult for the same customers to link a product or service price reduction to specific companies' moral aspects. Thus, customers less involved with the information, or more price-sensitive, will turn their interest to the offers' benefits, leaving aside blame attributed to the firm or stopping negative impressions formation. In some cases, peoples' positive reactions played a key role in "saving" brands' reputation. Thus, companies must keep track of effective customers' brand loyalty, since, in times of need, it will become the strongest and cheapest form of advocacy. Nevertheless, managers must bear in mind that these strategies will be an efficient soothing in short-terms, but they cannot recover pre-crisis business levels alone in the long-run

7) Limitations and Future Researches

Analysing real-life performance measures could have provided greater external validity of the insights. Considering the social impact measured through customers' behavioural intentions as a marketing effectiveness metrics, it has not been possible to measure the real financial impact of the phenomenon. Strategies costs were not accounted, as it happened. Nevertheless, the internal validity provided by the prediction model will be indeed useful for future researches in order to conduct preliminary evaluations of both laboratory and real events analyses. Then, conditions' arrangements could have caused response bias. Since both negative information and strategy were only an adaptation of real crises, respondents may have self-reported higher repurchase intentions due to the scenarios' low perceived credibility. Thus, it would have been useful to test or measure the message

trustworthiness. Other limitations are linked to contextual aspects. Firstly, it has been chosen to consider a big-size company, but different results could be obtained for medium or small-sized firms. The product category seems to be quite limitative to since it has been chosen to examine specifically the high-tech market. Finally, latest limitations are due to the sample characteristics. A convenience sample of Italian customers has been used but different regions could indeed provide very divergent attitudes and behaviours due to dissimilar demographics' physiognomies. Moreover, the heteroscedasticity resulted from the regression suggests the potential presence of sub-population contained in the sample. Thus, the prediction model could be improved by future researches, analysing possible different characteristics and clustering the population.