

The Hidden Crisis in Product-harm Crisis Management

George J. Siomkos

Stern School of Business, New York University, USA, and

Gary Kurzbard

Romann & Tannenholz Advertising Associates, New York, USA

Introduction

One of the most pressing problems faced by business leaders in the midst of a wrenching product-harm crisis is to find rapid solutions for diffusing erosion in market share. The tacit assumption is that quick deployment of countervailing forces tends to curtail significant losses. In trying to develop such measures many executives precipitate a rush to judgement. With a firm reliance on conventional wisdom, often more theoretical than tested in the cauldron of practical experience, they reduce the problems they face to a restricted number of imperatives which often belie the complexities inherent in managing product harm crises.

The inclination to reductionism can create problems the solutions of which may be subtly misleading. Although some reductionism is essential to make the product-harm crisis manageable, it should never be used uncritically in the interests of quick solutions.

This article examines three essential imperatives commonly accepted by product-harm crisis managers which, taken uncritically, can lead to significantly negative consequences:

- (1) company's reputation;
- (2) external effects (e.g. impact of media coverage *et al.*);
- (3) company's response to the product-harm crisis.

These categories are broad enough to encompass a great deal that is essential for executives to consider. On the other hand, the very breadth of the categories makes them likely to hide many difficulties which can actually impede the progress of crisis abatement strategies. A case in point is that of perceived potential damage.

This general category is divisible into two essential subcategories:

- (1) perceived harm irrespective of intensity; and
- (2) the likelihood that the individual who hears about product defect will either be a current user of the product or a first-time buyer.

Consumers regard potential damage beyond their power to remedy. They will either await a product recall if none has been undertaken or governmental intervention before they will use the product again. It is the lack of control consumers feel and the paucity of information that they have which may lead

them to stop using the product if they have it, or to not purchase the product at all if they do not. There is no accurate way for consumers themselves to assess potential damage. Many consumers regard their avoidance of the product as the only prudent course of action for them to take. This is of particular concern to marketers, since the product defect for which they may be only peripherally responsible may, in the consumer's mind, be enough to erode market share significantly. A product, the defect of which may be minor, may therefore be relegated to a category of defective products which could have posed far greater real damage.

The focus of this study, however, is to highlight some of the difficulties in the uncritical acceptance of the received wisdom currently in vogue within the business community. What is to follow is a delineation of how those imperatives are currently used and some of the disadvantages of overreliance on them.

Conventional Imperatives

Past studies of crisis management have shown that there are several organizational and environmental variables which can determine a consumer's inclination to return to products involved in harmful incidents[1,2].

During a product-harm crisis, the market often receives negative information about both the company and the product. Companies assume that since a crisis is associated with events and information, consumer attitudes after the crisis will change negatively. Then, the company may communicate information to consumers about the crisis situation and inform them of its efforts to manage the crisis. These are attempts to change consumer attitudes and perceptions or to hold them at their pre-crisis levels[3].

Success in dealing with a product-harm crisis, as Siomkos[4,5] showed, is influenced by three major primary factors:

- (1) a company's reputation;
- (2) external effects (e.g. the impact of media coverage);
- (3) a company's response to the crisis.

Several studies have indicated that a company's reputation is likely to be an important factor in its successful dealing with a current crisis[1,2,4,6]. More specifically, it has been shown that the crisis effect on a well-known company with a positive image may be minimal. The effect can be devastating, however, for unknown companies. Moreover, if a company confronting a crisis has made previous recalls, a current recall for a relatively unknown company may be particularly adverse.

Research attention has also been paid to the impact that regulatory agencies, the press and interest groups have on a company's efforts when treating a crisis. The research on external parties indicates that a company may face either negative or positive external effects during a crisis. Those effects can directly influence the company's success in dealing with it. Current research indicates that specific negative effects of a crisis may be mitigated by the press when it

reports that the troubled company is acting in a socially responsible way in recalling the harmful product[3,5,7].

Finally, a third major factor that substantially influences a company's success in dealing with a product-harm crisis is the type of company response. Current research[3,8] indicates that a company is perceived to be more responsible if it acts before a Government agency steps in and orders it to take action, since consumers are more likely to perceive a company as more responsible if it acts prior to the intervention of an agency like the Consumer Product Safety Commission (CPSC). Responses to a crisis, however, vary greatly. A company may simply deny any responsibility for a defective product that it markets (*denial*); or it can recall the product only after an agency orders such action (*involuntary recall*). Another company may choose to recall the defective product prior to governmental intervention (*voluntary recall*). Alternatively, a company may respond by demonstrating concern with consumer welfare by being socially responsible and by being honest in its communications related to the crisis ("*super-effort*"). The last response category may also involve making the recall process extremely easy for the consumer by offering discount coupons or free samples of other products and by widely advertising the recall[5,6,8]. These four responses, from denial to super-effort, comprise the so-called "company response continuum".

A schematic summarization (Figure 1) encapsulates the association of the three imperatives which have traditionally preoccupied managerial thinking in

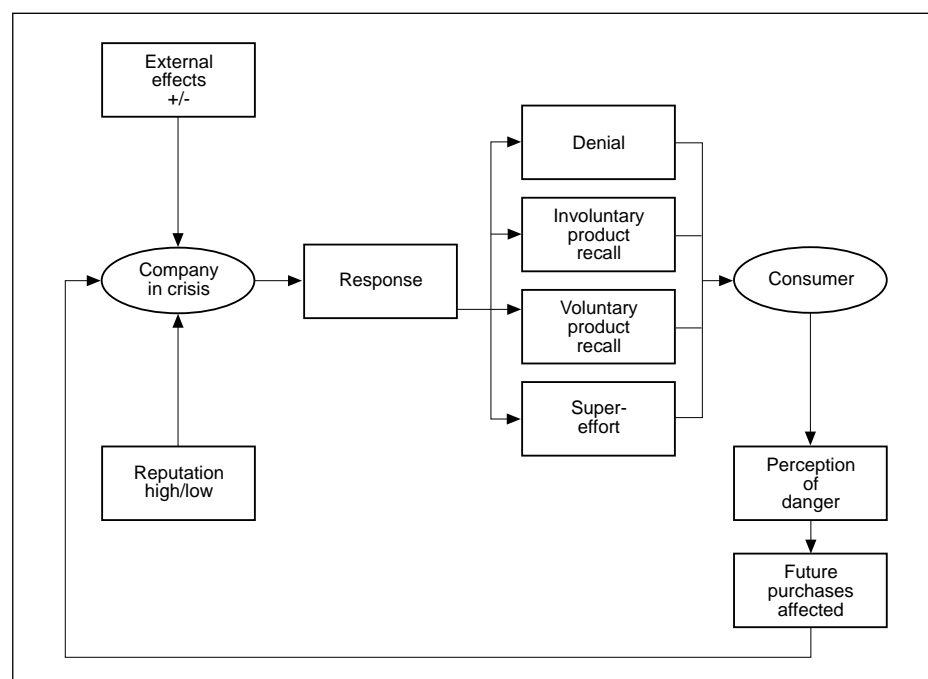


Figure 1.
A Schematic
Representation of
Factors and Variables
Studied

the throes of product-harm crisis. Specifically, two salient dependent variables (i.e. perception of degrees of danger, and “tainting-the-line”) are examined in this article and some consequences of over-dependence on them are discussed. The study intentionally employs these variables to show their relative limitations in treating product-harm crises. In addition, the study shows a differentiation in these two variables when a product is associated with a well-known and highly regarded company as opposed to a company enjoying a less stellar reputation. Moreover, the study highlights the relationship of positive, as opposed to negative, external effects impacting on the company during crises. Finally, it weighs the efficacy of corporate responses.

Dependent Variables

It is perfectly reasonable for consumers to perceive the inherent dangers of using products that may impact negatively on their welfare. What is of special importance to these consumers is that they do not cause any harm for reasons not under their control. Consumers assume a degree of good faith on the part of companies whose products they use. They trust that the products they buy will be unadulterated and reflect a reasonable fit with the purposes they intend. When consumers believe that a company has violated the good-faith standard, they probably will not only turn against the specific brand of the company, but will also turn against the entire line of goods or services marketed by that company. Crisis managers, therefore, usually attempt to prevent “tainting-the-line” as their first priority. They can usually assess the scope of consumer dissatisfaction by having recourse to two instrumental variables.

Perceived Degree of Danger (DANGER)

This variable measures the degree of danger which consumers associate with the defective product. It is operationalized by having participants in the study respond to the 7-point question: “How dangerous do you perceive [the product] to be?” The scale endpoints were 1 = extremely dangerous; 7 = not at all dangerous.

Tainting-the-Line: Impact on Purchase Intent for the Company's Other Products (FUTURE)

The second dependent variable measures the negative influence on the consumers' future purchases of the company's other products. Another 7-point scale is used to operationalize this variable: “Would the recall of [the product] negatively influence your future purchases of the company's other products?” where 1 = definitely yes, and 7 = definitely no; 2-6 indicated varying degrees of negative influence.

Methodology

In total, 384 consumers participated in the study. The respondents represented a broad range of the general population selected from a subject research pool maintained by a large research university on the East Coast of the United

States. Criteria for participation in the study included only those consumers who had used either or both products within the last two years, or were currently regular users of either or both products. Special care was taken to provide a careful balance between the male and female participants. In addition, the methodology attempted to maintain a fair representation of diverse age groups within the respondent pool. Specifically, those participants who responded to the hair-drier scenarios were 49.5 per cent male, 50.5 per cent female, 17.7 per cent comprised the 18-21 age group, 51.6 per cent belonged to the 22-30 age group, 8.3 per cent made up the 31-40 age group and, finally, 22.4 per cent were over the age of 40. Those participants who responded to the apple juice scenarios were 47.9 per cent male, 52.1 per cent female; 11.5 per cent comprised the 18-21 age group, 43.2 per cent belonged to the 22-30 age group, 27.6 per cent made up the 31-40 age group and, finally, 17.7 per cent were over the age of 40.

Respondents were randomly assigned to 16 treatment groups (2 levels of company reputation \times 2 levels of external effects \times 4 levels of company response = 16). Scenarios were developed, each describing one of the 16 treatments (e.g. one described a high-reputation company which faced negative external effects and responded with voluntarily recalling the harmful product from the market). The same study was run for two different products (a hair-drier, and apple juice), providing a support to the external validity of the findings. Since ANOVA was used as the method of analysis, equal numbers of respondents (12) were assigned to each treatment. Scenarios described true cases of product harm. The brand and company names, however, were fictitious, so that participants' prior attitudes would not affect their responses. One case involved a manufacturer of hair-driers who produced a model which proved harmful to consumers. When the hair-drier was in operation, users would receive electric shocks owing to a small short-circuit in the wiring. The second case involved the adulteration of a brand of apple juice. Company investigators discovered that the apple concentrate used in making the juice was a blend of synthetic ingredients, some of which could be poisonous. Participants were presented with these scenarios and were asked to respond to several questions at the conclusion of the scenario presentation.

Hypotheses

Prior research findings and theoretical propositions suggest the following hypotheses which were tested in the present study:

- H1:* Consumers will perceive the degree of danger associated with the defect as relatively small when the product-harm crisis involves a high-reputation and well-known company, as opposed to a crisis involving a company enjoying a less favourable reputation.
- H2:* Consumers will perceive the degree of danger associated with the defect as relatively small if the external reactions to the company's responses (by regulatory agencies and the press) are positive.

H3: Consumers will perceive the degree of danger associated with the defect as relatively small when the company's response lies within a higher rung on the "company response continuum".

Moreover, the study hypothesized that:

H4: Consumers' future purchases of the company's other products will *not* be negatively influenced by the present crisis when the crisis involves a high-reputation and well-known company, as opposed to the converse.

H5: Consumers' future purchases of the company's other products will *not* be negatively influenced by the present crisis, if the external reactions to the company's responses are positive.

H6: Consumers' future purchases of the company's other products will *not* be negatively influenced by the present crisis when the company's response lies within a higher rung on the "company response continuum".

Results

Analysis of variance on the two dependent variables was performed and revealed the results shown in Table I.

The perception of the degree of danger associated with the defect (DANGER) was examined first. The corresponding column with the *F*-ratios for the hair-drier category indicates that only a company's reputation and the external effects it faces during the crisis significantly affect consumers' perceptions of

Source of variation	Hair-drier Future Danger purchases		Apple juice Future Danger purchases	
<i>Main effects</i>				
Reputation	3.77 ^c	9.54 ^a	4.42 ^b	13.69 ^a
Response	1.12	2.41 ^c	2.74 ^b	1.30
External	4.26 ^b	4.17 ^b	19.54 ^a	3.81 ^c
<i>Two-way interactions</i>				
(Reputation) × (Response)	0.30	2.00	1.53	0.09
(Reputation) × (External)	0.00	1.71	0.05	2.07
(Response) × (External)	0.83	0.27	2.32 ^c	1.23
<i>Three-way interaction</i>				
(Reputation) × (Response) × (External)	0.32	0.62	1.14	1.58
^a <i>p</i> < 0.005				
^b <i>p</i> < 0.05				
^c <i>p</i> < 0.10				

Table I.
ANOVA Results
(*F*-Ratios)

the degree of danger associated with the harmful product. Specifically, consumers, on average, perceive the product defect as less dangerous in a crisis involving a high-reputation company (average DANGER = 3.0) than they do in a crisis involving a low-reputation company (average DANGER = 2.6). Higher values for DANGER indicate more favourable values for the company. Hypothesis 1 is supported, as is hypothesis 2. The corresponding mean values of DANGER for positive versus negative external effects cases are 2.8 and 2.5 respectively. Neither the response factor nor any of the interactions were significant.

Results based on the apple juice data yielded similar conclusions. Besides supporting *H1* and *H2*, however, this data set additionally showed that the response's main effect was also significant to the 0.05 level. The average DANGER values for the four organizational responses were 2.96, 2.46, 2.96 and 2.73. In other words, they are the same for both the denial and for the voluntary recall response levels. Consumers perceive the defective product to be the most dangerous when a company involuntarily recalls its product. Hypothesis 3 cannot be supported, although its main effect was significant.

Most importantly, the interaction (response) × (external) was highly significant. Figure 2 shows that, for each response level, consumers perceived the defective product to be less dangerous (higher DANGER values) when the troubled company faced positive external effects during the crisis, than they did when the company faced negative external effects. Moreover, the mean DANGER values, especially for the negative external effects cases, were not very different from one another in the four different company response cases.

Consumers' future purchases of the troubled company's other products (variable FUTURE) seem to be negatively affected because of the product recall.

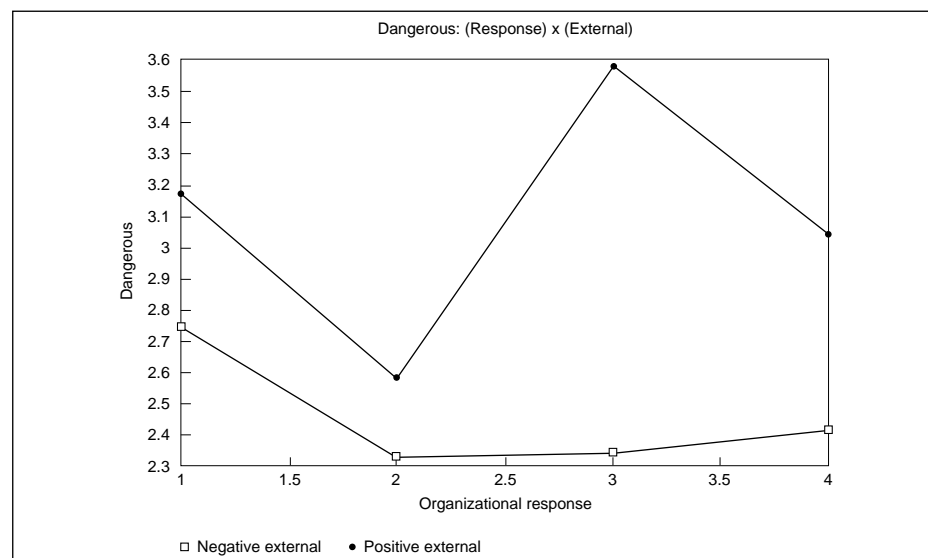


Figure 2.
Consumers' Perception
of Defective Product

The company's reputation, response and external effects during the crisis significantly influence consumers towards negative responses with respect to sales of other products by the same manufacturer. On average, consumers will be less negatively influenced against future purchases of a high-reputation company's other products (FUTURE = 2.9), than they would be against future purchases of a low-reputation company's other products (FUTURE = 2.3). The corresponding mean FUTURE values for positive versus negative external effects are 2.8 and 2.4. The means and the significant *F*-ratios lend support to hypotheses 4 and 5. Hypothesis 6 is also substantiated. As hypothesized, the mean values of FUTURE along the four points on the organizational response continuum are: 2.35, 2.48, 2.67, 3.06. Super-effort has the least negative effects on FUTURE, whereas denial has the most. No interaction effects were significant. The results for the apple juice product cases supported only *H4* and *H5*.

Findings are summarized in Table II. In a product-harm crisis which involves a high-reputation and well-known company, consumers will perceive the degree of danger associated with the defect as relatively small, thereby further substantiating Mowen *et al.*[2]. Consequently, future purchases of the company's other products will be the least negatively influenced. The opposite would hold true for crisis cases involving low-reputation or less well-known companies.

The more positive the external effects by the press and regulatory agencies are to the company's responses during a product-harm crisis, the less consumers are likely to perceive the degree of danger associated with the defective model, as opposed to cases in which the troubled company faces negative effects, since consumers' future purchases of the company's other products will not be so negatively affected by the present crisis, as in the case of negative external reactions.

Future purchases will be less negatively influenced by the present crisis if the company responds to it by either a voluntary product recall or a super-effort.

Finally, for each company's response level, consumers perceive the defective product as less dangerous when during the crisis the troubled company faces positive external effects, than when it faces negative external effects.

Factor	Level	Consumers' perception of danger	Future purchases negatively affected?	Appropriate company response
Company reputation	High	Small	No	Voluntary product recall
	Low	Large	Yes	Super-effort
External effects	Positive	Small	No	Voluntary product recall
	Negative	Large	Yes	Voluntary product recall or super-effort

Table II.
Summary of Findings

Avoiding the Limitations of the Conventional Wisdom: Implications for a New Framework in Handling Product-harm Crises

This article has provided criticism of the conventional way many managers pursue research within the parameters of product-harm crisis management. It provides broad outlines which can well serve to stem the tide of incipient market share erosion. Because it is an integrative approach, however, it often glosses over specifiable variables which, when brought to light, can provide far greater depth of understanding than sole reliance on the general framework of the data. It is essential that these variables be identified.

Let us take, for example, the difference in degree of impact of a product-harm crisis between a large company with a well established reputation and a smaller company enjoying a less prominent public profile. The large company will be less negatively impacted, since it usually has a wide range of product lines under brand names that do not call to mind the company name. Few consumers are aware that Bisquick, Gold Medal and Betty Crocker, among several other products, are manufactured by General Mills. Should Gold Medal become a troubled product, the likelihood is that both Bisquick and Betty Crocker will not be negatively affected. Unless media attention is brought directly to bear on a link between the three brand names, the public will probably not associate one brand with another. In other words, the damage will be brand-specific. In fact, since specific brands may be categorized by consumers as lying within the same product area, consumers may very well assume that the brands are competitors. A small company, on the other hand, which manufactures a single product type, such as Jhirmack or Nexus, confronts a troubled product situation of greater intensity. This is the case because both Jhirmack and Nexus produce and market single product lines, i.e. cosmetics. The problem is further compounded by the fact that both these two brand names are prominently displayed on all product packaging. As a result, the association between company name and brand name is readily apparent.

An essential feature of product-harm crisis control should be for the large company to convince regulatory agencies and the press that they are operating in good faith. In the absence of a good faith conviction, the press may "milk" a negative situation ceaselessly. After all, such situations provide excellent copy on "low news days". The result of this may be that, when a company puts out a fire in one area, new smoulderings, fanned by official agencies or the media, can easily arise in another. The media in particular have a vested interest in sustaining a story and maintaining its news value. Should there be any sense of a cover-up, the media will probably pursue the story with all the tenacity created by their heightened suspicions. Smaller companies, nevertheless, are not free from negative external effects. Often such companies are family owned or lend the family name to the line of products. Negative effects may then result in lower esteem within the social sphere. As examples, we can cite the Coleman Camping Equipment Company, or the Smucker's Company, or Purdue Poultry Farms or even Sara Lee

Company. These companies, in being easily recognized through a family name association, become virtually synonymous with the product line itself. Smucker's, for example, claims that "with a name like Smucker's we've got to be good". Here the consumer is given a guarantee that the family stands behind the quality of their product to such a degree that they are willing to stake their name and reputation on it. The Smucker's slogan, in addition, attempts to suggest that, although their name is unusual, their product line is of the highest quality. In effect, smaller companies using family names have a financial as well as a social interest in keeping that name free of any negative imputation. This is especially true should a large company tender an offer to buy them out. No company, whether large or small, can be oblivious to negative external effects.

The cardinal consideration in whether the company chooses to deny responsibility or to engage in an all-out effort to moderate negative impacts is usually the result of cost-effect analysis. A company may elect to let a disquieting situation abate of its own accord. Too much activity on the part of a company may actually give counter-productive results, since by denying culpability it may keep public suspicions alive when they would have terminated in the course of events. On the surface, therefore, it may seem appropriate, as the data suggest, that companies have immediate recourse to voluntary product recall and to super-effort programmes. A more in-depth analysis, however, suggests that such procedures may actually prolong the difficulties faced by the troubled product. Simply put, it is like picking at an old wound. In order to minimize the possibility that a crisis will be prolonged beyond its natural limits, crisis managers must gear their responses to negative external effects. Over-reaction may be more deleterious in real-world marketing scenarios than would be an insufficient response. It is not suggested that companies faced with crises match external effects in a dollar-to-dollar ratio. What is suggested, however, is that a critical grid of assessment be used first to determine the degree of damage and the necessary response to limit it. All too often, crisis managers operate from a "shoot-from-the-hip" position, thereby striking enemies more of their own imagination than even actual adversaries would warrant.

It must be emphasized that one of the unique characteristics of a product-harm crisis is that the usual focus of the company's advertising changes dramatically. In a crisis attention is directed towards the defect and not the general value of the product, as is the case in usual marketing. Marketing strategies which would ordinarily be used by the company to enhance its differential advantage give way to defensive postures. A company must attempt to explain the defect in terms which will be believable and cogent to the general consumer public. One element in its defensive strategy may be for a manufacturer embroiled in crisis to claim that the offending element or part of the product is used industry-wide. The consequences of this action are three-fold:

- (1) that by using elements or components which conform to established industry-wide norms, the company did everything reasonable to assure the consumer public of a high degree of utility and safety;
- (2) that by using a commonly accepted element or component the onus might be directed towards a common industry supplier; and
- (3) that competitors in the industry would be much less likely to take advantage of a competitor's attempts at crisis control if it became well known that the competitor itself probably used the same supplier or element.

For example, Johnson & Johnson was confronted with two crises involving Tylenol. In neither case did its major competitors, including Bristol-Myers Squibb, makers of Nuprin, and American Home Products, makers of Advil, attempt to take advantage of the crisis situations. All three products use acetaminophen or ibuprofen which might have been adulterated at any point in the manufacturing or distribution processes. There was a general recognition that the defect could have occurred in any of these products, since all of them used common constituents.

A concern many marketing managers have is that an admission on the part of the company that it is using the industry standard, and nothing superior to it, may result in a loss of market position owing to consumer perceptions that the product may represent no real differential advantage to the user. After all, the consumer may assume that the entire product meets minimal standards as required by governmental regulations but that it does not surpass those standards as the company may have claimed in its advertising. This may be called a synecdochic effect, in which a defective element may become synonymous with the product itself. Managers can avoid the negative consequences of the synecdochic effect by claiming in their advertising and marketing efforts that the design of the product was in no way compromised by its use of a commonly accepted constituent element. Stressing superior design can maintain a product's position even in the throes of a current crisis. In effect, the defective element should be shown to be an anomaly which might have affected any brand within the product category; that a specific brand was the first to be confronted by the crisis was purely coincidental, and in no way indicative of a product's potential danger. In this way, a product can withstand the overwhelming forces that can be brought against it in times of crises.

Summary

This article has shown that an over-reliance on the conventional wisdom currently in use in product-harm crisis management may actually increase difficulties rather than abate them. Every crisis management situation is subtle. It involves complexities of perception, understanding and abatement procedures which are inextricably intertwined. All too often business managers may resort to techniques that are counter-productive in their haste to limit a

crisis situation. This most human response is understandable but is actually an element of crisis itself, albeit a hidden one.

This article has highlighted the three essential areas commonly resorted to by crisis managers in their analysis of what they can do to restrict negative impacts: company's reputation, external effects and organizational response. It is not suggested that these three areas do not supply an adequate armoury for the creation of a crisis management plan. It is suggested, however, that these three broad areas must be viewed as potentially hidden variables which, if they remain unexplored, could lead to the failure of the project.

The real danger for managers is that owing to the exigencies they face in dealing with any product-harm crisis situation they may accept current practices as if those practices were laws of general operations. Those practices would be more profitably used as guidelines for effective crisis management operations which show a direction rather than determine a course of action. To their peril crisis managers forget that each crisis is different, and in many ways subtly different, from all others. The degree of managerial success or failure in recognizing those differences and subtleties and the degree of managerial flexibility in responding to them may well mean the difference between a crisis overcome and one that has exceeded its initial boundaries.

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