

Unlikely allies: Credibility transfer during a corporate crisis

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Abstract

A company that faces a crisis can reestablish trust with stakeholders by announcing an independent investigation by a third party. Announcing an independent investigation, without knowing its outcome, significantly restored attitudes toward the company while an internal investigation was ineffective. Liberals responded most positively to a company that invited an independent investigation by a consumer advocacy group (Study 1). Experimentally activating liberal values using an implicit priming procedure likewise enhanced credibility transfer from a consumer advocacy group's investigation to a company in crisis (Study 2).

KEYWORDS: Credibility Transfer, Crisis Management, Moral Signaling

Companies facing crises need to quickly reestablish trust among customers and stakeholders. The loss of trust due to a transgression, potentially compounded by a pre-existing lack of trust in corporations (Edelman, 2012), represents a sizeable obstacle for a company dealing with a reputational crisis. As we will argue, when one's own credibility is in question, an opportune strategy is to borrow someone else's— ideally someone whose goals and interests are diametrically opposed to your own. A company can combat negative perceptions during a crisis by inviting an outside evaluation by a consumer advocacy group or other non-governmental organization (NGO) whose goals are perceived to be inconsistent with those of the company. The success of this strategy, however, may depend on the attitudes towards the third party providing the endorsement.

Negativity bias in social judgment

Reestablishing trust for companies is usually a difficult challenge given a variety of psychological factors that shape perception. Social perceivers are predisposed to both attend more closely to negative information and assume disingenuity in the face of pro-social or altruistic behavior (Cosmides, 1989; Hansen & Hansen, 1988). This bias makes it difficult for people to form positive feelings about others when presented with competing information and can even lead to discounting of what might be contradictory or exonerating evidence (Rozin & Rozyman, 2001). Unfortunately for companies seeking to gain good opinion, they must contend with the suspicion that likely arises when a for-profit organization engages in pro-social behavior. This is particularly germane as corporations are among the least trusted groups in the United States (Edelman, 2012; Peters, Covello, & McCallum, 1997).

Negativity bias requires that during a crisis a company take drastic measures to restore its reputation. In particular, previous work indicates employing an *engaged* crisis response, in

which the company expresses concern for consumers, shares all available information with the public, and avoids acts suggestive of deception and duplicity can cull good will from consumers (Augustine, 2000; Caywood & Englehart, 2002; Diermeier, 2011; Fink, 1986; Uhlmann, Newman, Brescoll, Zhu, Galinsky, & Diermeier, 2011). In the present article we argue that inviting an investigation by an outside group can likewise help to restore positive attitudes toward the company even in the absence of a finding of guilt or innocence.

Non-market strategy and corporate crises

Advocacy groups seek to influence companies not only through institutional means (e.g., lawsuits and lobbying), but by providing information to the broader public through media and other exposure. Using the court of public opinion, these groups seek to change certain company practices, for example the use of animal testing or certain forms of pollution. Companies or industries that change their activities in effect engage in private regulation— i.e., adopt certain constraints on business activities without the involvement of public agents like the government (Baron, 2003; Baron & Diermeier, 2007; Diermeier, 2011).

There is little existing work that explores the rationale for collaborations between advocacy groups and companies, but much of it has focused on the advocacy groups lending credibility to the company (Feddersen & Gilligan, 1995). In such cases, an endorsement of a company or product by an advocacy group lends credibility to what otherwise would be dismissed as just “cheap talk.” Explicit endorsements by advocacy groups in a crisis context, however, are rare. This is due in part to time pressure during a crisis (Fink, 1986). Further, because negative evaluations of a company in crisis are likely to form quickly and without sufficient evidence, an expedient response is necessary. Indeed, a delayed or no comment

response, can lead to negative evaluations (Coombs, 2012; Ferrin, Kim, Coper & Dirks, 2007, Uhlmann et al., 2011).

This raises the question of whether *announcing* an independent investigation is sufficient to reestablish credibility (Diermeier & Feddersen, 2000). In contrast to an endorsement, at the time of the announcement of investigation, it is not known whether the company will be found liable or not. Yet, the very act of starting an investigation may help to rebuild trust as long as the investigating party is considered truly independent and trust-worthy. However, a partnership with a group whose credibility is compromised by a financial relationship with the company will likely be ineffective. The same likely holds true for any internal auditing efforts conducted by the offending company. In contrast, consumer advocacy groups with goals contrary to business interests can offer a more credible investigation. The very choice of inviting an unsympathetic third party to conduct an investigation signals confidence in one's own innocence which may help build trust quickly, even before the facts are known.

Moderating role of political values

What gives outside investigators their credibility, and allows them to transfer such credibility to a company in crisis? The very idea of credibility transfer that underlies the use of an advocacy group to conduct an independent investigation presupposes that the advocacy group can rely on a high level of trust among customers and stakeholders. This will likely vary with the overall attitudes of stakeholders. That is, stakeholders that share the values of advocacy groups will trust them more.

Political liberals, compared to conservatives, are generally more hostile toward corporate interests, but more sympathetic toward advocacy groups (Ray, 1983). While there are also conservative advocacy groups (e.g., National Right to Life), most groups targeting companies are

closer aligned with left-leaning ideologies (Mannheim, 2001). Therefore, we would expect the positive effect of announcing an independent investigation by a consumer advocacy group to be stronger for political liberals. Political liberals, while typically more suspicious of a company, may have the most positive attitudes toward the company after an investigation is announced. This is consistent with the idea of credibility transfer, as for political liberals the (low) credibility of the company is exchanged for the (high) credibility of a consumer advocacy group.

To establish this effect we examined self-reported political orientation. However, experimentally inducing liberal attitudes and demonstrating that they are associated with more significant reputational benefits of an independent investigation would provide more compelling and direct evidence. Work on prime-to-behavior effects indicates implicitly priming relevant constructs exerts a powerful influence on social judgments (Bargh, Chen, & Burrows, 1996). Such effects suggest priming liberal values may enhance the impact of an independent investigation.

The present research

Two empirical studies assessed the effects of an independent investigation by a consumer advocacy group on the reputation of a company faced with a product-harm crisis. Product-harm crises represent an important class of corporate crisis in that most corporations are susceptible (Berman, 1999), the crises are typically well-publicized (Dawar & Pillutia, 2000), and the cost to the company is likely to be realized through reputation or brand damage (Berman, 1999; Klein & Dawar, 2004; Souiden & Pons, 2009). Research has documented the deleterious effects of product-harm cases, and the inevitable recall, in a variety of product domains including the automobile (Rhee & Haunschild, 2006), processed food (Van Heerde, Helsen, & Dekimpe, 2007; Kumar & Budin, 2005), pharmaceutical (Priporas & Vangelinos, 2008) and toy (Beamish &

Bapuji, 2008) industries. The breadth of industries affected reinforces the need of any producer to be prepared for a reputational crisis and the steps it can take to mitigate negative consumer opinions. Study 1 compared the effectiveness of an outside vs. internal investigation, and further tested the hypothesis that political liberals would evaluate the company most positively when it announced an independent investigation. Study 2 assessed whether implicitly primed political values similarly moderate responses to an independent investigation.

Study 1

Method

Participants. Two hundred and sixty eight undergraduate students participated in the study. We used a one-factor design with 3 conditions (independent investigation announced, internal investigation announced, or no investigation).

Materials and Procedure. Participants read an ostensive news story about the (fictitious) Locks Corporation, which was accused of using an unhealthy food additive called Gloactimate (Uhlmann et al., 2011). The news story read as follows:

Chicago, Ill., December 2, 2007 – The Locks Corporation, based in Rockford, Illinois, today was accused that several of their food products contain a prohibited substance known as Gloactimate, which is harmful to people’s health. Gloactimate is an additive in processed foods and is used to increase the shelf life of foods. A recent series of studies found that Gloactimate raises “bad” cholesterol, lowers “good” cholesterol, and increases risk for heart disease.

In the *independent investigation announced* condition, participants further read that the corporation had invited independent investigators into their nationwide locations to test their products. A consumer advocacy group, People for Consumers, had accepted the company’s

invitation. In the *internal investigation announced* condition, the company announced it had formed a team of its employees to conduct an investigation. In the *no investigation* condition, no investigation was mentioned.

Participants then evaluated the company on 9-point semantic differential scales on the dimensions bad-good, unethical-ethical, and immoral-moral ($\alpha = .96$). They further self-reported their political values on a scale ranging from 1 (very liberal) to 7 (very conservative) ($M = 3.69$, $SD = 1.42$). Although measured after reading the news stories, political beliefs were not related to investigation condition, $F(2, 260) = .32$, $p = .73$.

Results and Discussion

There was a significant effect of investigation condition on company evaluations, $F(2, 265) = 22.95$, $p < .001$, $\eta^2 = .15$. Post hoc multiple comparisons (Bonferroni) indicated that the company was perceived more favorably when it announced an independent investigation ($M = 5.64$, $SE = .14$) compared to both the internal ($M = 4.75$, $SE = .14$, $p < .001$) and no investigation ($M = 4.37$, $SE = .13$, $p < .001$) conditions. The difference between the internal and no investigation conditions was not statistically significant ($p = .15$).

The hypothesized interaction between political orientation and investigation condition emerged such that condition differences in company evaluations depended on the political values of the participants (see Figure 1). The final model was significant ($F(5, 257) = 11.08$), $p < .001$, with improved fit over a model without condition interactions with politics (see Table 1). Compared to the no investigation condition, more liberal-minded participants in the independent investigation condition rated the company higher than did more conservative participants ($t = -2.95$, $p < .01$). Political orientation did not moderate the effect of the internal investigation ($t = -1.00$, $p = ns$).

In sum, although an internal investigation was ineffective relative to no action, announcing an outside investigation significantly restored a company's reputation. Of particular interest, individual differences in political values moderated the effects of an independent investigation on corporate reputation. At baseline, when no investigation was announced, political liberals were considerably less sympathetic with the company than were political conservatives. However, liberals actually evaluated the company significantly *more* favorably than conservatives when it announced an independent investigation by a consumer advocacy group.

Study 2

Study 2 sought to further test the critical interaction observed in Study 1 using a subtle manipulation of liberal vs. conservative values. Specifically, we adopted a goal contagion paradigm (Aarts et al., 2004) to implicitly prime liberal vs. conservative values. This paradigm highlights individuals' tendency to adopt and pursue the goals of others based only on perceived behavior. The specific values used – those supporting gun control (liberal prime) and gun rights (conservative prime) – were selected because they were 1) clearly identified with liberal vs. conservative political leanings in the United States context, and 2) not directly related to unhealthy food additives. We expected that participants implicitly primed with the liberal value (relative to the conservative value) would evaluate the company less favorably in the absence of the independent investigation, but more favorably in its presence.

Method

Participants. Fifty-two undergraduate students took part in the study, which employed a 2 (liberal vs. conservative prime) x 2 (independent investigation vs. no investigation) between-subjects design.

Materials and Procedures. In an ostensibly unrelated “memory” study, participants read a paragraph about a college student who planned to volunteer over the summer in support of a political candidate who either backed gun control or gun rights. The prime was modeled on that employed by Aarts et al. (2004). Next, participants read the same news story from Study 1. They were randomly assigned to read either the story in which the company invited an independent investigation (an offer accepted by the advocacy group People for Consumers), or the story in which there was no investigation. Finally, participants completed the company evaluation measure from Study 1 ($\alpha = .95$).

Results and Discussion

As seen in Figure 2, the hypothesized interaction between prime condition and investigation condition emerged, $F(1, 49) = 6.46, p < .001, \eta^2 = .28$. Post hoc comparisons using Dunnett’s test confirmed that, for participants in the liberal prime condition, an independent investigation led to more positive company evaluations than no investigation ($M = 5.97$ and 3.23 , respectively, $SE = .70, p < .001$). For participants in the conservative prime condition, the effect of investigation did not reach statistical significance over the no investigation condition ($M = 4.51$ and 3.42 , respectively, $SE = .69, p = .40$). In addition, in the absence of an investigation a significant effect of the liberal vs. conservative prime did not emerge ($p = .70$). But in the independent investigation condition, participants primed with liberal values evaluated the company more positively than participants primed with conservative values ($p < .05$).

In sum, when a company accused of using an unhealthy food additive invited an independent investigation by a consumer advocacy group, participants implicitly primed with liberal values evaluated the company more positively than participants primed with conservative

values. Indeed, participants in the independent investigation condition primed with liberal values were the only group that perceived the company favorably (above the neutral point of the scale).

General Discussion

The present studies demonstrated the reputational benefits of announcing an independent investigation during a crisis, and that participants' political orientation moderates the effectiveness of such an investigation. Consistent with more favorable attitudes towards advocacy groups on the political left, liberals responded most positively to a company that invited an outside investigation by an advocacy group (Study 1). Subtly activating liberal values using an implicit priming procedure likewise enhanced the reputational benefits of the advocacy group's investigation (Study 2).

These studies empirically demonstrate that credibility transfer is an effective method of boosting one's reputation, particularly when individuals are sympathetic to the organization providing their potential endorsement. The increase in positive opinion occurred despite participants not knowing the results of the investigation. Consequently, these studies also provide interesting evidence regarding moral signaling. In each case, simply announcing an independent investigation was sufficient to significantly raise evaluations of the company. The results suggest that when companies undermine social trust, internal measures may be insufficient to restore reputation. Corporations willing to stake their reputation on the results of an investigation from an external body can better demonstrate their commitment to their consumers.

It is important to recognize, though, that the present studies focused on product harm cases and corporate reputational crises can take many forms. The number of product recalls each year (over 400 non-food/drug products annually in the US; Consumer Products Safety

Commission, 2008) and the variability of industries that have faced product-harm cases suggests any consumer product company could be vulnerable to such effects (Berman, 1999). However, it remains an open empirical question whether the effects we observe will translate to other corporate crises.

At the same time, in a real crisis many factors can complicate judgments. One important variable is the company's own past reputation. A company with a past record of pro-social acts may be able to draw on this "moral bank account" to help it weather a crisis (Coombs, 2007; Coombs & Holladay, 1996; Dawar & Pillutla, 2000; Klein & Dawar, 2004). As a result, a company with a publicly acknowledged history of pro-social acts (e.g., charitable contributions) may have more leeway as far as declining an outside investigation is concerned. Conversely, a poor prior reputation likely makes a credible outside investigation all the more necessary. Indeed, a poor past reputation may actually cause an *internal* investigation to backfire. A company with a bad reputation that conducts an internal investigation and declares itself innocent may provoke moral outrage and even more negative evaluations than a poorly regarded company that conducts no investigation at all.

Future research examining the attributes that lend credibility to a potential external investigator would add generalizability to the present findings. For example, a company that appeals to a well-liked advocacy group that lacks competency in the crises domain may lose the credibility 'boost' from the investigation. Further, this study only looks at the case of an advocacy group as the independent party. It is unclear whether an investigation from a government body or corporate auditor would produce a similar effect or potentially garner favor from individuals of moderate or conservative leanings. Future studies should examine additional

factors necessary to establish an investigatory team as independent thereby making it an asset rather than a liability.

Another important but as-yet-unexamined issue is the reputational consequences of an outside investigation for the investigators themselves. A consumer advocacy group that clears a disliked and distrusted company of wrongdoing (e.g., gives a much criticized company such as, e.g., Exxon a clean environmental bill of health) may do little for the company's credibility and merely damage their own. In extreme cases, the "independent" group could be perceived as little more than a front for corporate interests, such as the Tobacco Research Council.

Both anecdotal and empirical evidence converge on the conclusion that the most scientifically grounded response to a crisis is to express serious concern, share all available information with the public, and put consumer safety first (Dawar & Pillutla, 2000; Klein & Dawar, 2004; Pace, Fediuk, & Botero, 2010; Uhlmann et al., 2011). However, this may not always be enough, as companies often lack the necessary trust in the eyes of the public. The present studies demonstrate that borrowing some other party's credibility can restore desperately needed credibility and goodwill.

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Table 1

Moderation of Condition Effect by Political Orientation

	1	Model 2	3
Constant	4.80 (.03)	4.31 (.25)	3.71 (.37)
Political Values	.03 (.06)	.01 (.06)	.00 (.06)
Independent Investigation Condition		1.28 (.20)***	2.82 (.56)***
Own Investigation Condition		.41 (.19)*	.88 (.51)
Independent Investigation Condition x Political Values			-.20 (.07)**
Own Investigation Condition x Political Values			-.06 (.06)
R^2 :	.001	.15	.18
ΔR^2 :		.15	.03
F Change:		$F(2, 259) = 22.52$ ***	$F(2, 257) = 4.47$ *

Note. Reference condition was no investigation announced. All values are unstandardized coefficients with standard error in parentheses. Dependent variable = company evaluation with higher values indicating more positive evaluations. Political values scale = 1 (very liberal) to 7 (very conservative).

* $p < .05$. ** $p < .01$. *** $p < .001$.

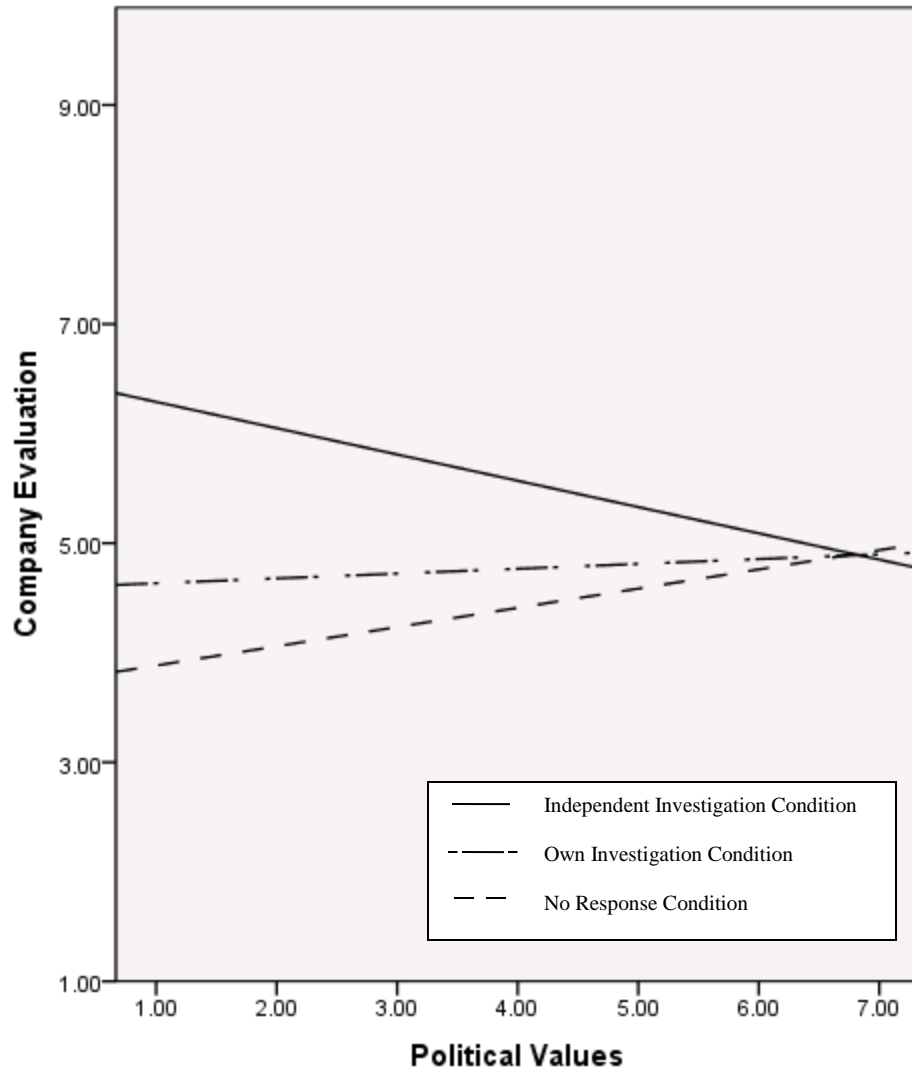


Figure 1. Estimated mean company evaluations by investigation condition and political views. Dependent variable = company evaluation with higher values indicating more positive evaluations. Political values scale = 1 (very liberal) to 7 (very conservative).

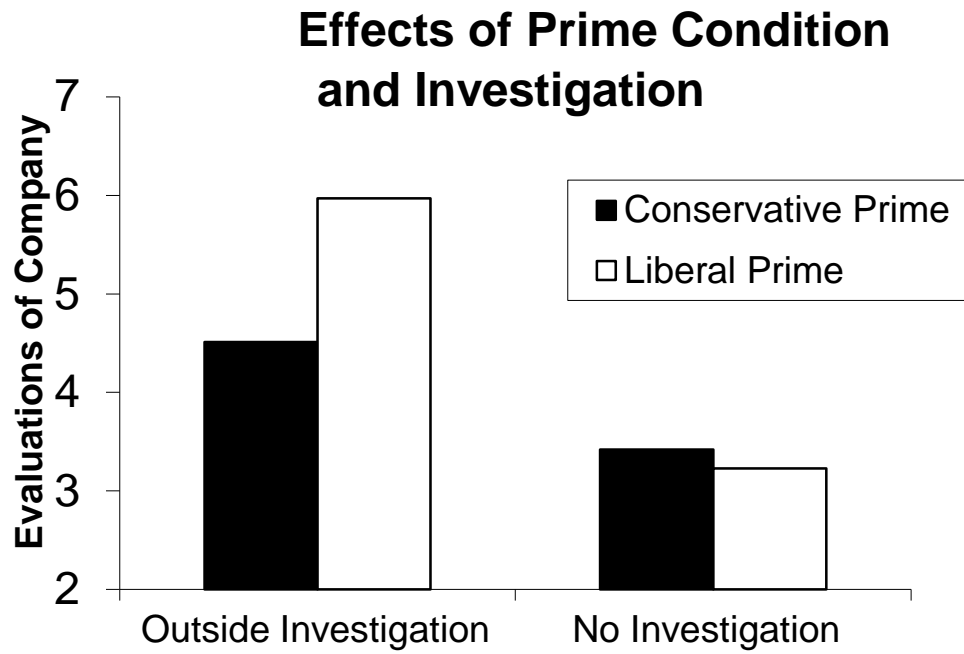


Figure 2. Evaluations of the company by political prime condition and investigation condition. Higher numbers reflect more positive evaluations of the company.