17 Reputational interdependence and spillover: Exploring the contextual challenges of spillover crisis response

Abstract: A spillover crisis occurs when events in an external organization create concern, uncertainty, or perceptions of harm for another organization. While crisis spillover can result from a direct relationship with an organization in crisis, being in the same industry or market category as an organization in crisis can also lead to negative spillover effects due to reputational interdependence. This chapter provides a conceptual overview of reputational interdependence and spillover crisis and outlines communication response strategies that, when effectively applied, can not only limit the negative effects of crisis spillover but also increase an organization's competitive advantage within an industry. Spillover crisis is further explored through three crisis cases that present distinct contextual challenges and offer additional insight for crisis communication research and practice.

Keywords: spillover effects, reputation management, crisis response strategies, trade associations

1 Introduction

As discussed in the previous chapter, relationships among organizations can quickly become burdensome if a related organization experiences a crisis. In the case of supply chains, a crisis in one organization can spillover to organizations further down the chain. Crisis spillover can also result from extensions within the same brand family (Lei, Dawar and Lemmink 2008), sponsorship contracts (Kahuni, Rowley and Binsardi 2009), and company—nonprofit partnerships (Lee and Rim 2016). However, a direct relationship with an organization in crisis is not a necessary prerequisite for crisis spillover. Merely being in the same industry or market category as an organization in crisis can also lead to negative effects (Veil, Dillingham and Sloan 2016).

Organizations in the same industry share a sort of “reputation commons” in that the reputation of one organization is positively related to that of its rivals (King, Lenox and Barnett 2002). Due to this reputational interdependence, when one organization is embroiled in a crisis, the other organizations in the market category can experience spillover effects. This chapter provides a conceptual overview of reputational interdependence and spillover crisis and outlines communication response strategies that, when effectively applied, can not only limit the negative effects of crisis spillover but also increase an organization’s competitive advantage within an industry. Spillover
crisis is further explored through three crisis cases that present distinct contextual challenges and offer additional insight for crisis communication research and practice.

2 Conceptualizing reputational interdependence and spillover crisis

As scholars have noted (see chapter 11), corporate reputation can only exist in the presence of a comparison alternative. In other words, stakeholders will compare the actions of one organization to another to evaluate the merits of each (King et al. 2002). Marketing scholars describe this interconnectivity in terms of Feldman and Lynch’s (1988) accessibility-diagnosticity framework. Roehm and Tybout (2006) explain, “concepts, such as brands, their product attributes, and categories to which they belong, reside in a network and can activate one another when the links between them are strong” (Roehm and Tybout 2006: 366). In effect, the reputations of organizations in the same industry rise and fall alongside the actions of their competitors (King et al. 2002; Winn, MacDonald and Zietsma 2008). While this association can generate positive outcomes as certain product categories become trendy or attract positive attention, the downside of reputational interdependence is the potential for stakeholders to erroneously link the bad fortune or misdeeds of one company to another, triggering a spillover crisis.

A spillover crisis occurs when “events in an external organization create concern, uncertainty, or perceptions of harm for another organization” (Veil et al. 2016: 317). Research has shown that stakeholders group competitors and industry counterparts via mental associations (see Borah and Tellis 2016; Roehm and Tybout 2006). Stakeholders typically lack the information needed to disentangle an organization in crisis from the other organizations in the same market category. Organizations that are geographically proximate, structurally equivalent, or have similar product attributes to the organization in crisis are more likely to experience a spillover crisis (Gao, H. Zhang, X. Zhang and Knight 2015; Lei et al. 2008; Paroli and Huang 2018; Roehm and Tybout 2006; Yu and Lester 2018).

Gao et al. (2015) used assimilative and contrastive associations to demonstrate the opportunity for competitive advantages for some organizations in spillover crisis. According to Gao et al. (2015), an assimilation effect occurs “when negative context information regarding the product category leads consumers to negatively evaluate a non-contaminated brand (“guilt by association”) in the same product category” (Gao et al. 2015: 93). Alternatively, a contrast effect occurs “when the same negative information regarding the product category leads consumers to positively evaluate some non-contaminated brands” (Gao et al. 2015: 93). Due to the combined effects of assimilation and contrast, organizations that consumers perceive to be relevant but distinct
from the organization in crisis can actually capitalize on spillover crisis. Examining crisis spillover across domestic brands versus imported brands of milk during the 2008 Sanlu milk contamination crisis, the scholars found that erosion of trust in contaminated brands significantly decreased trust in non-contaminated domestic brands and moderately increased trust in non-contaminated imported brands. Thus, if organizations in a related market category (imported milk) can present their products as a safe alternative to the perceived contaminated market category (domestic milk), they can effectively capture industry market share from the category suffering negative spillover effects.

Poroli and Huang (2018) employed situational theory of problem solving (STOPS; Kim and Grunig 2011) to explore spillover effects and the role of communication in the formation of stakeholder behavioral attitudes. They found that crisis spillover has a social dimension. That is, stakeholders will talk about the crisis and discuss whether or not the same crisis could happen to other organizations. Social media communication (Borah and Tellis 2016) and intermediaries’ interpretations of the crisis (Yu, Sengul and Lester 2008) also affect crisis spillover. Borah and Tellis (2016) found that an online conversation about an automobile recall for a particular model can increase negative online chatter about a competitor model that is not undergoing a recall. Recognizing the opportunity to engage in the social dimension, this next section outlines communication response strategies identified in spillover crises.

3 Spillover crisis response strategies

Some organizations, seeking to maintain a low profile and limit further association with the organization in crisis, are reticent to communicate at all during a spillover crisis (Dillingham and Ivanov 2017). However, this strategy of silence allows other actors to control the crisis narrative, which could further damage not only the organization’s reputation, but also the legitimacy of the industry. Legitimacy is bestowed by stakeholders who perceive an organization or industry to be in line with regulative, normative, or cognitive norms (Deephouse and Carter 2005). When all organizations in an industry are “tarred with the same brush,” a spillover crisis can call into question the legitimacy of the entire industry.

Winn et al. (2008) refer to collective reputation management as “all activities and behavior undertaken by members of a collective to deliberately alter judgments about the reputation of the collective” (Winn et al. 2008: 37). Conversely, they define competitive reputation management as “activities undertaken by a single firm to enhance its own reputation and competitive position vis-á-vis other members of the industry” (Winn et al 2008: 37). Barnett (2007) suggests the motivation to engage in collective reputation management activities that maintain industry legitimacy typically outweighs the costs and incentives for individual organizations to compete for reputation.
The actions of industry organizations help form the assumptions of stakeholders about what is considered legitimate (Suchman 1995). Early research on reputational interdependence posited that trade associations can be “critical to recovery from crises that face entire industries” (Barnett 2006: 1756). More recent research suggests it is actually counterproductive when trade associations act as an intermediary in the social dimension of a spillover crisis (Veil et al. 2016). When trade associations communicate in an effort to protect the collective legitimacy of the industry, they also reinforce stakeholders’ mental associations of the organizations in the industry, and thereby increase the potential for spillover crises to occur.

Comprehensive crisis communication frameworks, like situational crisis communication theory (SCCT) (see chapter 5 in this handbook), call for crisis response strategies to align with the level of crisis responsibility attributed to the organization in crisis. Spillover crises represent a paradox in which an organization finds itself facing reputational and legitimacy threats without any responsibility for causing the crisis (Veil et al. 2016). And yet, other aspects of SCCT are pertinent to spillover crises. Crisis history (Poroli and Huang 2018), prior reputation (Yu and Lester 2018), and trust (Lee and Rim 2016) all influence stakeholders’ mental associations of organizations in a spillover crisis.

Veil and colleagues (2016) examined a spillover crisis in the peanut industry that spread from a small peanut paste supplier to completely unrelated jarred peanut butter brands. Their analysis revealed a series of five crisis response strategies that seemingly defied SCCT recommendations, but, when employed in the case, limited the negative effects of the spillover crisis and created a competitive advantage for the organizations that sought to distance themselves from the rest of the industry. The strategies identified included (1) disassociation, clearly stating that the organizations have no relational business ties; (2) denial, denying any involvement in the cause of the crisis and specifically naming and blaming the organization responsible for the crisis; (3) ingratiation, thanking stakeholders for ongoing patronage and support; (4) reminding, using bolstering statements to draw stakeholder attention to the organization’s positive attributes; and (5) compensation, offering coupons and discounted rates to entice stakeholders back to the organization and industry.

Comparing a spillover crisis to a hoax, in which “the paradox involves convincing an alarmed public that the organization has made a substantial response to an unsubstantiated claim” (Veil, Sellnow and Petrun 2012: 330), the authors further suggested that if the spillover crisis illuminates vulnerability, the organization should take corrective action and present the strategy as a competitive advantage. In doing so, the organization denies any part in the original crisis and then explains what actions were taken to make sure the organization would not face a similar crisis. The organization can then present itself as more resilient and thus a better alternative to other organizations in the industry.
4 Exemplar spillover crisis cases

To further examine the intricacies of crisis spillover, we next explore three distinct crisis cases in the food, automotive, and airline industries. Each case presents distinct contextual challenges and offers additional insight for crisis communication research and practice.

4.1 Spinach sales and the E. coli outbreak

The 2006 spinach contamination crisis resulted in 200 reported cases of E. coli, 100 hospitalizations across 26 states, 31 cases of kidney failure, and four deaths (Hallman, Cuite, Nucci, Pleasant and Chess 2006). On September 14, 2006, the United States Food and Drug Administration (FDA) advised consumers to avoid fresh spinach. By the next day, all fresh spinach was removed from store shelves. Spinach began to reappear in stores on September 23, and by September 29, only 15 days after the initial report, the outbreak had been traced back to Natural Selections Foods, LLC, in California and the FDA deemed “spinach on the shelves as safe as it was before this event” (Hallman et al. 2006: 5).

Though the FDA quickly contained the E. coli outbreak, the recall had long-lasting ramifications on the spinach industry. In the weeks following the outbreak, spinach sales fell 63 percent (Arnade et al. 2010). Though spinach sales recovered somewhat after the crisis period, in 2010, four years after the crisis, the United States Department of Agriculture (USDA) reported that spinach sales still had not completely recovered from the 2006 outbreak. The USDA offered that there was a “longer term drop in retail expenditures on fresh spinach” (Arnade et al. 2010: 1). Furthermore, by comparing spinach sales data with that of other leafy green vegetables, the USDA ascertained that many consumers had simply made long-term replacements of spinach purchases with similar leafy green vegetables (e.g., iceberg and romaine lettuce).

4.2 The Chevrolet Volt fire

In December 2010, amidst rising gas prices and the Obama administration’s push for electric vehicles, the Chevy Volt and Nissan Leaf were both released to an American public hesitantly interested in the concept of an electric car (Wald 2012). Car pool lane restrictions in California limited early sales of the Chevy Volt, giving the Nissan Leaf an early lead in the U.S. market (Wahlman 2012). Then, in November 2011, the National Highway Traffic Safety Administration launched an investigation after a Chevy Volt battery pack caught fire three weeks after being damaged in a crash test. The Chevy Volt and Nissan Leaf each used different kinds of battery packs and Nissan encased its battery pack in steel while Chevrolet did not (Bunkley 2011). Therefore,
the Nissan Leaf did not pose the same fire risk as the Chevy Volt (Hirsch 2012). Yet insiders reported that, “Chevy Volt battery fires threaten all electric vehicle makers” (Henry 2011: para. 1).

Both Volt and Leaf sales plummeted after release of the investigation report (LeVine 2012). Nissan’s product safety director, Bob Yakushi, was quoted as saying that the problems that caused the Chevy Volt fire simply “don’t exist in the Nissan Leaf” (Berman 2011: para. 2), but he chose not to publically address the widespread concern about electric cars or explain how the Nissan Leaf’s battery pack was different (Henry 2011; Hirsch 2012; LeVine 2012). In January 2012 Chevy announced fixes to its battery casing to prevent future fires (Archer 2012). Two months later the Chevy Volt overtook the Nissan Leaf in U.S. sales (Wahlman 2012).

4.3 United Airlines’ re-accommodation crisis

On April 9, 2017, United Airlines tried to bump passengers already seated on an overbooked flight from Chicago to Louisville to make room for four flight crewmembers. When no passengers volunteered, United selected passengers who were instructed to deplane. One passenger, David Dao, refused to give up his seat. After a verbal altercation, three Chicago Department of Aviation security officers violently removed Dao from his seat while other passengers shouted in protest. Videos of the incident, showing a bloody, screaming man being dragged through the aisle went viral on social media (Paul 2017). United Airlines CEO Oscar Munoz initially tried to downplay the situation, suggesting that Dao’s belligerent behavior caused the incident. After media and social media criticism, Munoz apologized for having to “re-accommodate customers” without explicitly apologizing for treatment of Dao. The next day, after United stock dropped by $1.4 billion (Shen 2017), Munoz issued a full apology and promised a re-evaluation of United’s overbooking policies and procedures.

In the aftermath of the crisis, shares of Southwest Airlines, Delta, and JetBlue dropped roughly 1 percent, compared to United’s 4 percent loss. Shares of American Airlines actually rose nearly 2 percent after it released an unrelated favorable outlook for the first quarter (Shen 2017). While no organization came out in support of how United handled the incident, even news and financial analysts affirmed, “airlines have a right to refuse boarding to any passenger for any reason” (Shen 2017: para 7). Delta Air Lines CEO Ed Bastian said, “It’s not a question in my opinion as to whether you overbook. It’s how you manage overbooked situations … The key is managing it before you get to the boarding process” (Yamanouchi 2017: para 2). By time legislators summoned airline executives and industry leaders to appear before Congress to discuss overbooking procedures a month later, United had settled with Dao and its stock price was at an all time high (Zumbach 2018).
5 Case analysis

The cases described demonstrate that each spillover crisis presents distinct contextual challenges that must be considered in the response. Thus, the lessons derived from the cases do not provide for additional prescribed response strategies but recognition of the contexts in which decisions must be made during spillover crises. The analysis reveals specific challenges related to brand confusion and contrast association, collective protection of an emerging market, and the need for corrective action when a spillover crisis exposes industry vulnerability.

6 Brand confusion and contrast association

The 2006 E. coli outbreak in spinach represents both a supply chain crisis and a spillover crisis. The contaminated spinach was harvested by Mission Organics at the Paicines Ranch in central California, processed by Natural Selection Foods doing business as Earthbound Farm, and packed mostly into bags of Dole Baby Spinach (The Food Industry Center 2009). While the end user most likely purchased a bag of contaminated lettuce with a Dole logo on it, the number of brands along the supply chain involved added to the confusion of the recall.

U.S. restaurants and grocery stores often buy produce from the same major food processors, sometimes under the same brand name, but most often under different brand names. This brand flexibility enables sellers to provide a consistent retail presence by sourcing product from multiple growing regions. The down side of this process is that a given brand can come from multiple processing facilities packaging multiple brands. As a result, “it is more difficult to determine the source of suspect product and to confine a recall to that brand without implicating other labels” (The Food Industry Center 2009: 7).

In the case of the 2006 E. coli outbreak in spinach, rather than attempting to wade through the brand confusion, grocers and consumers alike surmised that all spinach was contaminated. All raw spinach products were pulled from the shelves and consumers simply replaced the spinach on their shopping list with another product. The case reveals that consumers perceived other leafy vegetables to be relevant but distinct from spinach. Due to the combined effects of assimilation and contrast (Gao et al. 2015), trust in all brands of spinach decreased while trust in other leafy vegetables went up, even if the substitution product was sold under the same brand as the contaminated spinach (e.g., Dole). The spinach industry as a whole experienced negative spillover effects and the intermingling of brands along the supply chain limited the ability of any one organization to set itself apart from the rest of the market category. By time spinach was once again considered safe to eat, market share had been irreversibly lost to products in other market categories.
7 Collective protection of an emerging market

In 2011 the Nissan Leaf and Chevy Volt were operating in an unsteady, developing U.S. electric vehicle market. In the midst of the Chevy Volt fire investigation, Nissan could have engaged in the full gamut of spillover crisis response strategies including disassociation, denial, ingratiatation, and compensation (Veil et al. 2016). In fact, across the three spillover crises presented in this chapter, Nissan had the greatest opportunity to use spillover crisis response strategies to demonstrate competitive advantage and increase market share. Instead, Nissan chose to engage in simple denial by stating that the problems that caused the Chevy Volt fire “don’t exist in the Nissan Leaf” (Berman 2011: para. 2).

The contextual challenge of operating in an emerging market may have influenced Nissan’s decision to remain relatively silent during the Chevy Volt crisis. Despite the informal sales race in the East meets West matchup for the Nissan Leaf and Chevy Volt, industry experts argue that, “in a broader sense they’re on the same team” (Cobb 2014: para 3). Nissan needed the electric car market in the United States to grow and likely didn’t want to draw additional attention to safety concerns for an already hesitant consumer base unsure of the technology. The collectivist culture of the Japanese car manufacturer may also have contributed to Nissan’s reticence to use competitive reputation management strategies (Winn et al. 2008). Nissan decided to stay out of the headlines to protect the collective reputation of the emerging market rather than capitalize on Chevy’s misfortune. The result was that the Chevy Volt crisis spilled over to the Nissan Leaf and both companies’ sales figures dipped.

In hindsight, we now know the developing electric car market was strong enough to withstand the growing pains of early models. This was made evident when the Volt returned to the market with its additional safety features, capturing significant media coverage and a percentage of the Nissan Leaf’s market share in the United States (Archer 2012; Wahlman 2012). As the electric car market has grown, other manufacturers, Tesla in particular, have enthusiastically thrown shade over industry stalwarts to gain competitive advantage (Cobb 2013). Now that the viability of the industry is secure, organizations may be more willing to engage in competitive reputation management strategies if threatened by a spillover crisis.

8 Corrective action for exposed vulnerabilities

United Airlines’ re-accommodation crisis exposed vulnerability for all airlines that practiced overbooking. While no airline executive was fool enough to come out in support of how United handled the incident, most large airlines supported the practice of overbooking and did not want to see additional congressional oversight of the practice. The airlines also likely recognized that cell phone cameras and disgruntled
passengers are daily challenges for gate agents and customer service representatives. United’s crisis therefore elicited an industry-wide response as airlines re-examined their own policies related to overbooking and bumping passengers.

Southwest Airlines said it stopped overselling flights completely, while United and Delta Air Lines raised limits on the amount of compensation crews can offer as an incentive for passengers to volunteer their seat. At check-in passengers can now write in how much they are willing to accept to get bumped from their flight, allowing airlines to choose the lowest bidder. Strategies for determining who gets bumped from a flight also now depend on the original cost of the passenger’s ticket, connection time, and inconvenience. After legislators criticized airlines’ tough-to-read contracts spelling out passengers’ rights, American Airlines revised its contact, cutting 3,000 words and incorporating a more conversational tone (Zumbach 2018). According to Department of Transportation statistics, in the year following the highly publicized incident, the share of passengers bumped against their will dropped nearly 60 percent across 12 major mainline U.S. carriers compared with the same period a year earlier (Zumbach 2018). While each airline implemented an individualized plan, the industry as a whole engaged corrective action to address the vulnerability exposed by United’s re-accommodation crisis.

As brutal as the media and social media coverage of the incident was, one would expect the crisis to have a more lasting effect on United’s reputation. However, United’s stock price and the number of passengers flown in 2018 both surpassed the previous year’s record. Industry analysts observe that for most consumers, airfare purchase decisions are based on price and availability and not customer service (Zumbach 2018). The rise of discount airlines like Allegiant and Wow Air show that, when they have multiple options, consumers are willing to forgo customer service, loyalty programs, and passenger perks in favor of a cheap ticket. Thus, the corrective actions taken by airlines likely did more to placate legislators threatening to regulate overbooking practices than the consumers who will ultimately benefit from the more accommodating policies. This case demonstrates that contextual factors of some industries limit the extent to which reputational threats manifest into legitimacy crises.

9 Conclusion

This chapter provided a conceptual overview of reputational interdependence and spillover crisis and outlined communication response strategies that, when effectively applied, have the potential to limit the negative effects of crisis spillover and increase an organization’s competitive advantage within an industry. In addition, the analysis of three varying spillover crisis cases revealed specific contextual challenges related to brand confusion and contrast association, collective protection of an emerging market, and the need for corrective action when a spillover crisis exposes industry vul-
nerability. Further exploration of these contextual challenges can assist practitioners in determining whether to employ collective or competitive reputation management strategies in a spillover crisis.

References


