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Guilty by association: The risk of crisis contagion

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Abstract Crisis contagion, or how a crisis spreads from one company to another, has received very little attention from researchers. This is surprising as the negative consequences of crisis contagion can be significant when customers make assumptions of guilt by association. This article focuses on this important issue and describes four risk factors—country of origin, industry, organizational type, and positioning strategy—that increase the likelihood of crisis contagion. Valuable guidance is also provided on whether a company should issue a denial or remain silent if it faces the risk of crisis contagion.
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1. Crisis contagion: A major risk for companies

Much has been written about how executives should manage crises in their organizations. For example, in this journal, Laufer and Coombs (2006) wrote about how companies can manage ambiguous product harm crises and Claeys (2017) wrote about the benefits of stealing thunder when a company is involved in a crisis. However, what happens when a company is at risk of *crisis contagion*, or being linked to a crisis that is impacting another organization such as a competitor? How should a company respond in this type of situation? Researchers have

discussed *rumor crises*, defined as the circulation of "an untruthful statement about an organization" (Coombs, 2015, p. 154). This article focuses on the analysis of risk factors associated with crisis contagion, which is related to the likelihood of a rumor spreading and linking the corporate response to the level of risk.

A good example of a crisis spilling over from one organization to another is a high-profile crisis involving the airline industry in April 2017. The incident began with a man being violently removed from a United Airlines flight by airport security due to the flight being overbooked. This incident was captured on video by several passengers and it quickly went viral (Lartey, 2017). After the incident was picked up by the media, people were quick to point to the issue of overbooking as an industry-wide problem, mentioning that it occurs at other

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airlines as well (Mahdawi, 2017). This incident highlights the risks for companies when a crisis occurs at another organization and raises the question—when does a crisis occurring at one company spread to others?

The topic of crisis contagion has received little attention. This is surprising as the negative consequences of crisis contagion can be significant when customers make assumptions of guilt by association. This article focuses on this important question, among others: What factors increase the likelihood of crisis contagion? How should a company respond? Should it issue a denial, or remain silent? We hope to provide valuable guidance to companies on these important issues.

2. What causes crisis contagion? The role of accessibility and diagnosticity

Companies can benefit from incorporating the accessibility-diagnosticity framework (Feldman & Lynch, 1988) in order to assess the risk of crisis contagion. Based on this framework, if crisis information is memorable to consumers and perceived as diagnostic in forming judgements, crisis contagion is likely to occur (Roehm & Tybout, 2006). It is worth noting that both of these conditions—accessibility and diagnosticity—need to be satisfied in order to trigger the contagion effect.

Accessibility is enhanced by the perceived similarity of the focal company and the company experiencing the crisis. This effect is associated with categorization. The more a company is perceived to be in the same category as the company experiencing the crisis, the higher the risk for crisis contagion (Janakiraman, Sismeiro, & Dutta, 2009). For example, Starbucks is a typical brand in the coffeehouse chain category. A crisis occurring at Starbucks is likely to activate consumers' knowledge of similar coffeehouse chain brands such as Caribou Coffee and Costa Coffee. The higher the perceived similarity of these brands with Starbucks, the more consumers will be reminded of these brands when they hear about Starbucks in the news or on social media.

Diagnosticity is also related to crisis contagion (Janakiraman et al., 2009). It is triggered when there is something about the category that is related to the crisis. For example, The Coca-Cola Company was criticized in the media for the large quantity of sugar in the company's soft drinks, which was linked to tooth decay in children (Parsons, 2016). If the crisis information (i.e., high levels of sugar) is perceived as being related to soft drinks in general, people will believe the crisis

impacts other soft drink companies. This, in fact, can be seen in the media's coverage of other soft drink brands, Lucozade and Frijj; these companies were judged as guilty by association because they belong to the same category.

In line with this logic, similarities to other scandal attributes—such as safety for cars and fair-trade coffee beans for coffee chains—are associated with inferences about diagnosticity as well. The higher the perceived similarity to the scandal attribute, the more likely crisis contagion will occur (Roehm & Tybout, 2006). In many cases this is related to the positioning strategy of companies, however it can also occur independent of the positioning strategy if the attribute is commonly associated with a type of company or industry. For example, the contamination of milk powder of a specific brand may be generalized to the entire dairy industry due to consumers' concerns about food safety, regardless of the positioning strategy of the dairy companies. In a similar vein, a crisis involving corruption at a state-owned enterprise may be associated with other state-owned enterprises since consumers may believe that corruption is linked with government-owned entities.

In summary, whether a company is at risk for crisis contagion based on the accessibility and diagnosticity framework depends on consumer perceptions of whether the focal company shares a common category with the company experiencing the crisis (accessibility), and whether an attribute of the category is viewed as being linked to the crisis (diagnosticity). It is worth noting that if these two conditions are not met, crisis contagion is unlikely to occur. If, for example, the crisis is caused by an incident at a company which is perceived by consumers to be specific to that company, and not common to other companies in that industry, other companies will not be adversely impacted even if the category is accessible (Roehm & Tybout, 2006). For example, when the CEO of American Apparel was accused of sexual misconduct allegations and removed from his position in 2014 (Hanson, 2015), the risk of crisis contagion to other clothing brands such as Gap was low. These allegations of misconduct were perceived by consumers as unique to American Apparel.

In addition to accessibility without diagnosticity, diagnosticity without accessibility can also occur. This would reduce the likelihood of crisis contagion as well. For example, during the 2003 invasion of Iraq, there was a boycott of French products by American consumers due to the French government's stance on the war. However, the boycott didn't adversely impact all French brands because a number of them did not have French-sounding

names (Pandya & Venkatesan, 2016). This is an excellent example of a lack of accessibility. In a similar case, Chinese companies with Western-sounding brand names avoid consumer perceptions of quality issues linked with those made in China. A good example of this is Giordano, a clothing retailer from China (Watts, 2007).

3. Crisis contagion risk factors: What should companies be concerned about?

Accessibility and diagnosticity are driven by consumer perception, and it is important to understand the factors that strengthen the association between a focal company and a company involved in a crisis. These factors are related to the perceived similarity of companies and whether characteristics perceived to be common to the shared category can be linked to a crisis. Below, we discuss the four risk factors of crisis contagion (see Table 1) and how risk increases when there are multiple factors at play.

3.1. Country of origin

Country of origin (COO) represents the country that a company is affiliated with, which in many cases is the country where its headquarters are located. For example, VW's COO is Germany and Starbucks' COO is the U.S. If other companies share the same COO as the crisis company, there is a risk that they could be linked to the crisis by consumers because companies from the same country may be perceived to share the same category. In other words, the match between the crisis company and other companies' COO enhances accessibility. Diagnosticity, on the other hand, depends on whether an aspect of the COO is perceived to be related to the crisis, such as the country's culture or its product-country image (i.e., the consumers' image of products from a specific country). Maher and Singhapakdi (2017) looked at the role of COO in crisis contagion and examined how a fictitious moral failure of the Japanese company Toshiba impacted consumers'

Table 1. Four crisis contagion risk factors

	Crisis contagion risk factors	Higher risk	Lower risk
1	Country of origin	Identical	Different
2	Industry	Identical	Different
3	Organizational type	Similar	Dissimilar
4	Positioning strategy	Similar	Dissimilar

intentions to purchase competing brands from the same COO (e.g., Japanese Fujitsu) as well as from a different COO (e.g., Taiwanese Acer, American HP). The results suggest that the nature of the contagion effect depends on the brands' COO. In other words, a moral failure is likely to adversely impact competing brands with the same COO, but not those with a different COO.

In addition to findings from experiments regarding COO, there is also evidence from an actual crisis involving the Japanese company Mitsubishi and sexual harassment, which resulted in a payment of $34 million to 350 women (Peirce, Smolinski, & Rosen, 1998). Pollack (1996) attributed the cause of this crisis to Japanese culture: He claimed that the secondary status of women in Japanese society led to discrimination of women and sexual harassment at American subsidiaries of Japanese companies. As a consequence, the crisis was not only damaging for Mitsubishi, but it also had a significant impact on other Japanese companies (Tolbert, 1999). In fact, according to Mehri (2005), a Toyota-affiliated company was concerned about the impact of the Mitsubishi crisis and conducted a survey to investigate the extent of the problem among its own employees. The survey found that 75% of women and 62% of men at the company were aware of someone who had experienced sexual harassment at the company. Similar to the findings from the experiment involving Toshiba, the Mitsubishi's COO caused people to associate Japanese companies with organizational misdeeds such as sexual harassment.

3.2. Industry

Companies in a given industry are, in many instances, adversely effected by a crisis that impacts one of its competitors. If an event is associated with misconduct at a company, consumers are likely to generalize and connect the problem to the industry category as a whole due to the perceived similarity of companies in the category. In particular, if the crisis is related to an industry standard or common operational procedure, high diagnosticity is likely to be perceived by consumers. The crisis information of a typical company in a category causes consumers to adjust their beliefs about the credibility of competing companies in the same industry through a "reputation commons" process (Barnett & King, 2008, p. 1153). As a result, if companies share the same industry category as the crisis company, there is a risk that they could be linked to the crisis by consumers.

A good example of this process is the recent Volkswagen (VW) emissions crisis, which weakened

the confidence of car buyers in the entire automobile industry (Kollewe, 2015). Post-crisis polling in the U.K. found that over 74% of people believed that other car manufacturers could be involved in a crisis similar to VW, while only 9% believed that the crisis was limited to the VW group (Rowe, 2015). Following its crisis, not only did VW sales fall by almost 10%, but other big carmakers suffered steep sales declines as well: Ford sales decreased by 8.8%, General Motors' Vauxhall brand was down 16.4%, and Citroen sales dipped by 18.5% (Rowe, 2015). In addition, the share prices of other companies took a hit following VW's disclosure of the emission scandal, including BMW (6.3% drop), Daimler (5% drop), and Peugeot (5.9% drop) (Neilan, 2015; Sharman & Brunsden, 2015). The decline in sales and stock prices of competing automakers suggests that both consumers and investors believe that VW was not the only company engaging in the illegal behavior.

3.3. Organizational type

A shared organizational type can also lead to crisis contagion. An organizational type is related to a company's mission, ownership, and structure. For example, a for-profit (e.g., private university) entity's mission is to generate income, while a non-profit (e.g., public university) focuses on serving a humanitarian need. Consumers, who recognize that a for-profit organization aims to generate profits, may perceive a crisis occurring at a for-profit entity as a common issue impacting others with the same organizational type. If the crisis is related to the categorical feature of an organizational type, it will be perceived as more diagnostic, and thus more likely to affect companies in the same category. For example, as the goal of a for-profit entity is to generate profits, any one entity's unethical or illegal activities to achieve this goal may be attributed to the feature of this category as a whole, and could spill over to other companies in the same category.

Trump University is a good example to elaborate on this point. Though never licensed as a university, it has been described as a for-profit university (Douglas-Gabriel, 2016). Before it was shut down, an estimated $40 million in revenue was generated from approximately 7,000 students from 2004—2010 (Douglas-Gabriel, 2016). A number of former students sued the company for false and misleading advertising. The allegations against Trump University were mentioned in connection with another for-profit college, Corinthian Colleges, in the media (Douglas-Gabriel, 2016). These two for-profit organizations were linked to one another due to the similar organizational type. As a result, people assumed they employed similar strategies: exploiting vulnerable consumers through the targeting of people with low self-esteem and low income (Douglas-Gabriel, 2016). An article published in *Forbes* mentioned that the $40 million lawsuit against Trump University is a good lesson for all for-profit colleges (Howard, 2013). It is worth noting that nonprofit universities were not mentioned in the article.

3.4. Positioning strategy

A similar positioning strategy is another factor that could increase the risk of crisis contagion. A company's positioning strategy is defined as an organized attempt by a company to differentiate itself from its competitors and to influence the way its target audience perceives it (Trout, 2005). It involves a deliberate branding plan or process (e.g., advertising, marketing campaign). A competing company with a similar positioning strategy leads to accessibility and is likely to be connected to the crisis by consumers because it will be perceived to be similar to the company experiencing the crisis (Broniarczyk & Alba, 1994; Janakiraman et al., 2009). If, on the other hand, the positioning strategy of a competing company is perceived by consumers to be different, the association between the competing company and the crisis company in consumers' memory is likely to be low, minimizing the risk of crisis contagion.

The level of diagnosticity is determined by the extent to which the positioning strategy is connected to the crisis. For instance, if the crisis is triggered by the failure of fulfilling consumers' expectation on the promised corporate mission (e.g., generating value for the local community) or promoted product function (e.g., organic food for health and nutrition), competing companies using the same positioning strategy are more likely to be affected by the crisis.

A good example to illustrate this point relates to the coffee industry. Starbucks has been a leading player in the coffee industry, promoting environmental sustainability and highlighting corporate social responsibility (CSR) (Crane, 2006). This strategy involves a wide range of activities: helping the community, sourcing ethically, and being environmentally friendly.[1] Despite its extensive efforts in this area, Starbucks has been publicly criticized on issues related to CSR such as wasteful water practices, lack of recycling infrastructure for customers, and exploitation of coffee farmers

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[1] www.starbucks.com/responsibility

(Lozanova, 2009). These allegations against Starbucks have also caused consumers to criticize other coffee brands that position themselves on CSR as well, such as Caribou Coffee (Haight, 2011). The similar positioning strategy of Starbucks and Caribou causes consumers to view them in a common category (accessibility) and the likelihood of the crisis spilling over to Caribou is high because the positioning strategy (CSR) is related to the crisis (diagnosticity).

3.5. Existence of multiple risk factors

In many instances, companies are associated with a number of crisis contagion factors. For example, a firm might be in the same industry and share a common COO with a company experiencing a crisis. The existence of multiple risk factors enhances the perceived similarity in consumers' minds, which increases the risk of crisis contagion. This can be explained by the way information is stored in a person's memory. A schema is a cognitive structure that represents an object in memory (Taylor & Crocker, 1981), and the way knowledge is organized in memory influences the retrieval of information. The more nodes linking an object to another object, the higher the likelihood it will be retrieved from memory (accessibility). The risk factors represent nodes to memory, which increase the likelihood that consumers will think about the focal company when the company dealing with the crisis is mentioned in mainstream or social media.

Borah and Tellis (2016) found support for the link between the number of risk factors and crisis contagion in their study that investigated the extent to which negative chatter on social media about one company brand resulting from a product recall (e.g., Corolla or Camry for Toyota) spills over to other brands (e.g., Honda, Nissan, Chrysler). The researchers found that the spillover effect was strongest for the Japanese brands Toyota, Honda, and Nissan. These findings suggest that the existence of two risk factors simultaneously—industry and COO—corresponds to a stronger contagion effect than the existence of the industry factor only. It also implies that if a company is associated with multiple risk factors, there is a higher likelihood of crisis contagion.

4. Company response: Should the company issue a denial?

As demonstrated by Borah and Tellis (2016), if the company exhibits any of the crisis contagion risk factors, this is likely to be reflected in conversations on social media. Therefore, it is important for a company to track a number of key issues on social media, identified in these three questions:

- Is the company being linked to the crisis?

- Are people speculating about possible spillover effects?

- Is the crisis being described as an industry issue?

If the answer to any of these questions is yes, it is important that the company issues a denial. This denial should also include an explanation of why the crisis is not related to the company. For example, in the case of a crisis involving not fulfilling CSR promises—such as a coffee chain competitor not providing fair compensation to coffee growers in developing countries—it is important to demonstrate that the company is fulfilling its CSR responsibilities. Stating that the company issues an annual CSR report, which discusses compensation to coffee growers and is audited by an independent third party, would be an effective way to refute the accusations. Issuing a denial without providing an explanation will not sufficiently satisfy skeptical consumers. An effective denial by the company will greatly assist in combating the risk of crisis contagion.

A good example of an effective company response with a high risk of crisis contagion was BMW following the VW emissions crisis. BMW had a high risk of crisis contagion because the company was linked to two risk factors: COO and industry (German company in the automobile industry). In response to the VW emissions crisis, a spokesperson for the company issued a statement denying any connection to the crisis: "I can confirm that we don't use any software that could influence the emissions test" (Robbins, 2015).

If, on the other hand, the risk of crisis contagion is low, it is best for the company not to respond. Issuing a denial when it is not necessary could draw attention to the company and cause some people to believe that there may be reason to be concerned. For example, Roehm and Tybout (2006) conducted a fictitious experiment which involved Burger King being accused of misleading consumers about the nutritional content of its burgers. The study examined whether a denial by Wendy's, its competitor, was effective ("Wendy's has never and will never mislead customers about the nutritional content of any of its menu items"). When consumers believed there was brand differentiation between Burger King and Wendy's, Wendy's denial was counterproductive and a boomerang effect occurred. In

other words, attitudes and beliefs about Wendy's after the denial were less favorable when compared with the no-denial condition. Roehm and Tybout (2006) suggested that this may have occurred because people might infer guilt when a company protests too much when it is not necessary. In the case of the Wendy's experiment, this occurred because Wendy's and Burger King were viewed as different types of companies in the fast food industry (brand differentiation), therefore crisis contagion didn't occur. As a result, the denial likely caused people to think that perhaps Wendy's was hiding something.

Crisis contagion is an issue companies need to take seriously. By understanding the risk factors and issuing a denial if the risk of crisis contagion is high, a company can minimize the chances of a crisis spilling over and adversely impacting its operations.

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