

Report offers advice for avoiding 'crisis contagion'

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A collaborative research project involving a Victoria University researcher has identified key risk factors that increase the likelihood of 'crisis contagion', where a reputational crisis spreads from one company to another.

Victoria's Associate Professor of Marketing Dan Laufer and Associate Professor Yijing Wang of Erasmus University Rotterdam published their research findings on crisis [contagion](#) in the international marketing journal *Business Horizons*, where they also made recommendations for companies to avoid being tainted by another's crisis.

The researchers draw on real-world case studies to demonstrate each of the [risk factors](#). The more risk factors a [company](#) has, Associate Professor Laufer says, the higher likelihood of crisis contagion.

One of the key risk factors is a shared industry.

"Consumers can generalise the problem of one company to the industry as a whole, as one company's crisis casts the industry's credibility into doubt. A good example of this is the Volkswagen (VW) emissions crisis in 2015 where cars' software was programmed to cheat emissions tests.

"Not only did sales of VW fall by almost 10 percent following the scandal, but other big carmakers also suffered steep sales declines and a drop in share prices," he says.

In a similar way, consumers can draw parallels between companies of the same organisational type, which is determined by a company's mission, ownership and structure.

As an example, Associate Professor Laufer points to allegations in 2016 against Trump University for false and misleading advertising. Crisis contagion occurred as media drew links between Trump University and other private, for-profit universities, which were perceived to be vulnerable to similar marketing strategies. Public universities however, were not implicated in the scandal as their organisational structure was perceived as different.

Companies in the same country, regardless of industry or organisational type, can further be at risk in a crisis. This is when the cause of the crisis is linked to its country of origin or culture. However, Associate Professor Laufer says companies that have names linguistically distanced from the country of origin can avoid crisis contagion.

"In 2003, during the Gulf War many American consumers boycotted French products due to the French government's stance on the war. However, French brands that did not have French-sounding names were not affected by the boycott."

While a problem may initially be linked to one company, it can spread if the perceived cause of the crisis is not specific to the infected company.

"The higher the perceived similarity on the scandal attribute, the more likely crisis contagion will occur. For example, Coca Cola was criticised in the media in 2016 for the large quantities of sugar in the company's soft drinks, which was linked to tooth decay in children. If the cause of the crisis—the high levels of sugar—is perceived as being related to the soft drinks category in general, people will believe the crisis impacts other soft drinks companies as well, judging them guilty by association."

Companies sharing a similar brand strategy is at further risk of crisis contagion. In this way, a crisis affecting a company that is positioned as a fair-trade supplier may spread to other fair-trade companies.

Associate Professor Laufer says if a company is concerned about crisis contagion the first step should be to monitor social media for clues of a possible spill-over.

If their company is being linked to the crisis, he says they should issue a denial and clearly explain why they are not involved.

"If on the other hand, the risk of 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 there may be a reason to be concerned. A public denial in this case would actually have the opposite effect and spread the crisis."

More information: Guilty by association: The risk of crisis contagion, *Business Horizons*, 10 October 2017, DOI: doi.org/10.1016/j.bushor.2017.09.005

Provided by Victoria University

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