

# The Effectiveness of Corporate Response to Brand Crises: The Crisis Response Strategies, and Customer-based Brand Equity

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**Keywords:** Crisis Response Strategies (CRSs), Situational Crisis Communication Theory (SCCT), Brand Crisis, Customer-based brand equity (CBBE)

**Abstract:** Brand crises produce negative impact on brand reputations, and how to respond to the brand crises plays a critical role in the restoration of brand equity. The two herbal tea producers, Guangzhou Pharmaceutical Holdings Limited (GZPH Ltd.) and Jia Duo Bao Group (JDB Group) face the brand crisis in which each claims of legally holding the Wang Lao Ji (WLJ) brand. Finally the JDB Group had to change their year-long building WLJ brand into the new brand JDB which is the same as its corporation name. The purpose of this paper has twofold: (1) is to take the WLJ brand crisis as an example to investigate the differences in crisis response strategies (CRSs) in state-owned and private corporations in Chinese context, based on Situational Crisis Communication Theory (SCCT); (2) to compare the efficacy of three crisis response strategies in brand awareness and brand association, and identify the linkage of customer-based brand equity (CBBE) between old and new brands in the same products. The findings will provide insights into how crisis response activities may be controlled to generate and manage CBBE.

## 1. Introduction

In the beginning of 19th century, the Wang Lao Ji (WLJ) brand was established by Mr. Wang Ze Bang. In 1949, the brand was brought into being country-owned by Guangzhou Pharmaceutical Holdings Limited (GZPH Ltd.), and the later generations of the brand founder has its overseas brand ownership. In 1995, Jia Duo Bao Group (JDB Group) started to use the brand with rent payment to GZPH Ltd., and renewed the contract in 2002 to continue using the brand until 2020. During these years, JDB Group invested manpower and funds to enable the brand to gain tremendous popularity and market share in the Chinese mainland. Then, in 2008 GZPH Ltd. claimed that the renewed contract was illegal due to one top manager Mr. Li Yi Min being charged with bribe-taking. However, JDB Group argued about holding the legal right to use the brand until 2020. As a result, GZPH Ltd. sued JDB Group through the China International Economic and Trade Arbitration Commission. In May 2012, the arbitration commission issued an official judgment that the renewed contract was invalid and JDB Group had to stop using the WLJ Brand.

Actually, with the end of brand-renting contract, JDB Group would finally lose the official right of using their year-long building WLJ brand, even if there is no such a lawsuit. That is, the birth of WLJ brand crisis is only a matter of time. The lawsuit facilitated the emergence of the crisis. It is worthwhile of noticing that the crisis has no harm to customer, but to WLJ brand, brand equity, and other stakeholders etc.

## 2. Research Question

Three primary types of business organizations in China: state-owned enterprises (SOE), collectively ownership enterprises, and private companies (including Chinese private businesses, Sino-foreign joint ventures, and wholly owned foreign companies) [51]. In few studies of the benefits of state ownership have the efficiency arguments for state ownership been supported [29]. Many studies have indicated that SOE do not better serve the public interest [27], and SOE are extremely inefficient [7] [19]. GZPH Ltd. is a fully state-owned enterprise, and its responses to the WLJ brand crisis also have its own features. Thus, it is valuable to investigate crisis response

strategies (CRSs) between GZPH Ltd. and Hong Kong owned enterprises JDB Group. The research question is put forth as follows.

RQ: what crisis response strategies are adopted by state-owned GZPH Ltd. and private enterprise JDB Group? And what are the differences between them?

### 3. Conceptual Framework

Figure 1 presents the conceptual framework of CRSs and customer-based brand equity (CBBE), which is an extension of Aaker's model in 1991 and Boonghee and Naveen's model in 2000. They propose that (1) brand equity produces value for customers and corporations, (2) value for the customer increases value for corporations (3) brand equity has multiple dimensions, (4) brand equity, is placed between the dimensions of brand equity and the value for customers and corporations, (5) an antecedents of brand equity, marketing activities, have tremendous impacts on the dimensions of brand equity. This research extends their models in three ways. First, the dimension of brand equity is put as CBBE's dimensions, brand awareness and brand association. Second, two separate construct CBBE of old brand and CBBE of new brand are placed, and this research tries to find their linkage. Third, another new antecedent, CRSs of victim cluster crisis, is added, assuming that have significant impacts on brand awareness and brand association.

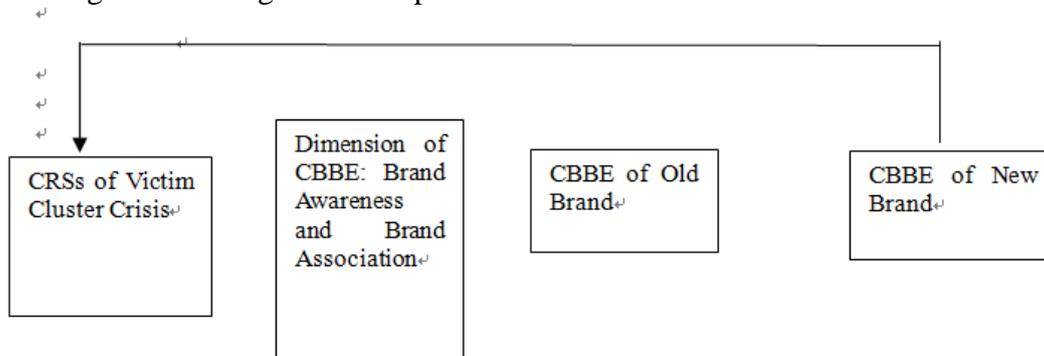


Figure 1 A Conceptual Frame Work of CRSs and CBBE in Victim Cluster Crisis

### 4. Hypothesis Development

We propose that for the victim cluster crisis, three response strategies affect the brand awareness and brand association in products. Specifically, we posit that denial strategy is the least effective response, and the attack the accuser strategy is the most effective response. Moreover, for the brand name change crisis of the same products (a victim cluster crisis), the level of CBBE in old brand is related positively to the extent to which CBBE is evident in new brand.

#### 4.1 Brand Crisis

Brands are crucial assets of market-oriented corporations and organizations continually improve and safeguard brand equity or value. “Brand crises are unexpected events that threaten a brand's perceived ability to deliver expected benefits thereby weakening brand equity, brand confidence and a reduced likelihood of brand consideration and choice” [3] [17] [40]. It is important to conduct researches on consequences of brand crises, as well as to realize that how corporations respond eventually is decisive in the extent to which consumer confidence in the brand involved is restored [39]. To a large extent, whether an organization survives a crisis relies on how the crisis is managed, averted, or re-framed through the communication process [6]. Therefore, we will research the effect of crisis and post-crisis response on brand equity.

#### 4.2 Crisis Types & Crisis Response Strategies (CRSs)

Organizations in crisis experience severe threats or damage of reputation, and correct public relations strategy can minimize the damage by saying the right words at the right moment [11].

Effective crisis management includes crisis communications that can alleviate or remove the crisis, and sometimes bring the organization a more positive reputation than before the crisis [23]. According to Situational Crisis Communication Theory (SCCT), for any organizations the selection of a crisis response strategy is determined by the amount of crisis responsibility attributed to the organization [13]. Figure 2 summarizes the match between crisis type and CRSs. In a preventable crisis, it is a crisis that could be prevented by the organization which therefore holds a high degree of responsibility for the crisis, and the accommodating rebuild strategies should be adopted (e.g., apology). Crises of accidental cluster represent unintentional actions of organization. The organization did not intend to create the crises, which produce moderate attributions of crisis responsibility. It won't constitute a moderate reputational threat [14].

<b>Crisis types</b>	<b>Crisis response strategies</b>
<i>Victim Cluster</i>	<i>Deny strategies</i>
Natural disaster	Attack the accuser
Rumor	Denial
Workplace violence	Scapegoat
Product tampering/Malevolence	
<i>Accidental cluster</i>	<i>Diminish strategies</i>
Challenges	Excuse
Technical-error accidents	Justification
Technical-error product harm	
<i>Preventable cluster</i>	<i>Rebuild strategies</i>
Human-error accidents	Compensation
Human-error product harm	Apology
Organizational misdeed with no injuries	
Organizational misdeed management misconduct	
Organizational misdeed with injuries	

Figure 2 Match between Crisis Types and Crisis Response Strategies

Source: adapted from: Coombs (2007). P.168 and 170.

Our research focuses on a victim crisis in which the organization holds a low degree of responsibility, defensive denial strategies should be used (e.g., denial, scapegoat) [30]. In this type of crisis, the organization has a low degree responsibility, and the deny strategies seek to remove any connection between the organization and the crisis. This group has three sub-strategies. “The attack the accuser strategy involves that the crisis manager confronts the person or group claiming something is wrong with the organization. Denial occurs when crisis manager asserts that there is no crisis. Scapegoating takes place when the crisis manager blames some person or group outside of the organization for the crisis” [13]. Moreover, in 2006 Kim et al. state that simple denials do not restore trust as effectively as apologies that offers some explanation. A denial leaves questions unanswered and hardly can parties predict future transgressions. Actually, responses explaining issues surrounding the crisis would be possibly evaluated more favorably than those that do not [13] [39]. Thus, we predict that the denial strategy is the least effective than the other two the scapegoating and attack the accuser strategies.

### 4.3 Customer-based brand equity (CBBE)

Brand equity is the overall value of a brand, and for the most part it is a function of consumers' confidence in the brand's ability to fulfill their expected benefits and willingness to consider the brand over competing brands [1] [32] [36]. Customer-based brand equity (CBBE) is defined as the differential effect of brand knowledge on consumer response to the marketing of the brand. That is, CBBE involves consumers' reactions to the marketing mix elements for the brand, in comparison with their reactions to the same marketing mix elements attributed to a fictitiously named or unnamed version of the product or service. CBBE exists when consumers are familiar with the brand and holds some favorable, strong, and unique brand associations in their memory [32].

Three important concepts are included in the CBBE definition: “differential effect”, “brand

knowledge”, and “consumer response to marketing”. “Brand knowledge is defined in terms of brand awareness and brand image and is conceptualized according to the characteristics and relationships of brand associations described previously” [32]. Building brand awareness and a “positive brand image” in consumers’ memory leads to different types of customer-based brand equity, depending on what marketing mix element is considered [32]. Fundamentally, high levels of brand awareness and a positive brand image should increase the probability of brand choice, and produce greater consumer loyalty and decrease vulnerability to competitors’ marketing activities. Information about a brand crisis and response also likely affect these important dimensions of the brand's equity, that is, consumers’ brand awareness and brand image. We intend to research on the relation between CRSs and dimensions of CBBE. More importantly, research on the linkage of old and new CBBE in the same products will be firstly introduced.

In summary, for a victim cluster crisis, we anticipate information in three response strategies positively affect CBBE. The attack the accuser strategy will be the most effective response because it adequately explains the crisis. The scapegoating strategy will be more effective than denial because it provides more explanation. We also assume the CBBE of old brand has positive relations with the CBBE of new brand.

Based on this reasoning above we propose,

H1: (1a) For a victim cluster crisis, the attack the accuser strategy is related positively to the extent to which brand awareness and brand association are evident in products.

(1b) For a victim cluster crisis, the denial strategy is related positively to the extent to which brand awareness and brand association are evident in products.

(1c) For a victim cluster crisis, the scapegoating strategy is related positively to the extent to which brand awareness and brand association are evident in products.

H2: For the brand name change crisis of the same products (a victim cluster crisis), the attack the accuser strategy will lead to greater brand awareness and higher level of brand association in new brand than denial or scapegoating strategy. Scapegoating will be more effective than denial.

H3: For the brand name change crisis of the same products (a victim cluster crisis), the level of customer-based brand equity in new brand is related positively to the extent to which customer-based brand quality is evident in old brand.

## **5. Methods**

### **5.1 Pilot Study**

Firstly, this case study will use a comparative double case study approach to explore the CRSs difference between GZPH Ltd. and JDB Group. Content analysis of media coverage was used to identify the CCSs that GZPH Ltd. and JDB Group used to respond to the WLJ brand crisis, and the frequency of media coverage. Textual analysis, which focuses on text exclusively, will be employed.

### **5.2 Main Study**

The main study has three experimental groups (under conditions of denial, scapegoating, attack the accuser strategies). 150 Adult consumers will be recruited in Guangdong Province where people have traditional customs to drink herbal tea in the Chinese mainland. Respondents’ ages range from 18 to 60. There are 5 sessions, and each experimental session will be run in three small groups (10 participants). The experimental stimulus will appear in a booklet. The cover page informs participants that the study relates to a current news story for the WLJ brand. The booklet introduces the brand crisis and JDB’s responses carry the tagline of a “CCTV News” story. Manipulations are of equal length. The session begins by presenting the crisis manipulation and by asking respondents to list crisis-related thoughts. Next, participants see the response manipulation and dependent variable measures.

The WLJ brand crisis is manipulated. In the denial response the JDB Group denies the allegations of illegal using the WLJ brand. In the scapegoating response, the JDB Group argues that

GZPH Ltd. violates the signed contract of using WLJ brand. In the attack the accuser response, JDB Group issues a lawsuit that GZPH Ltd. should be forbidden producing red can WLJ herbal tea, and protect JDB using the brand. Perceived realism of the responses is measured with a single 7-point item.

10 brand awareness, brand association, and overall brand equity items [50] will be employed to measure simple brand associations, incorporating brand recognition in CBBE. First, the correspondents will be asked to compare JDB brand herbal tea with WLJ brand. The same physical product without the brand name is the best referent object for measuring brand equity. Second, in each item, it was emphasized that all brand characteristics are identical between JDB and WLJ except brand names. The only differential information to the respondents is brand names. The respondents will be asked to express their intention to select the WLJ brand against JDB brand, using items such as “if another brand has the same price and quality as X, it is smarter to purchase X”, and “I would select X even if I find another brand whose characteristics are not different from those X.”

<p>Brand Awareness<sup>4</sup></p> <p>I know what X looks like.<sup>4</sup></p> <p>I can recognize X among other competing brands.<sup>4</sup></p> <p>I am aware of X.<sup>4</sup></p> <p>4</p> <p>Brand Associations<sup>4</sup></p> <p>Some characteristics of X come to my mind quickly.<sup>4</sup></p> <p>I can quickly recall the symbol or logo of X.<sup>4</sup></p> <p>I have difficulty in imaging X in my mind.<sup>4</sup></p> <p>4</p> <p>Overall Brand Equity (OBE)<sup>4</sup></p> <p>It makes sense to buy X instead of any other brand, even if they are the same.<sup>4</sup></p> <p>Even if another brand has same features as X, I would prefer to buy X.<sup>4</sup></p> <p>If there is another brand as good as X, I would prefer to buy X.<sup>4</sup></p> <p>If another brand is not different from X in any way, it seems smarter to buy X.<sup>4</sup></p> <p>4</p>
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Figure 3 Items for Measuring CBBE

## 6. Conclusion

This research has two parts: one is a case study of CRSs between GZPH Ltd. and JDB Group, another part is an experiment investigating the effectiveness of CRSs and CBBE of old and new brands. For the first part, although it could present the difference of CRSs in the two corporations, it needs an organization-perspective study to find the insider reasons for the selection of CRSs, such as interviewing the management committee in this crisis. Moreover, slogans play a vital role in responding to the WLJ brand crisis. GZPH Ltd. uses the slogan of “Wang Lao Ji never change name”, JDB group uses the slogan of “the herbal tea in red can with most popularity has changed names into Jia Duo Bao. “Future research could use discourse analysis to investigate how different slogans affects brand equity in different crisis stages.

For the second part, we explored the relationships between CRSs and CBBE. Specifically, we investigated the relational linkage between three CRSs in victim cluster crisis and CBBE through the mediating role of two brand equity dimensions and will find some important implications for the new brand equity creation process. However, the favorability, strength, uniqueness, of brand association in old and new brands in the same products, and their linkage should be future explored. Besides, additional research should be added to analyze the linkage in other two crises, accidental and preventable cluster crisis.

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