The Impact of Negative Publicity and Subsequent Organisational Response on Brand Equity

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ABSTRACT

This paper presents a proposal for research into the study of how negative publicity and organisational response affects customer based brand equity. It is suggested that the substantial investment of time, money and resources into building a strong brand may be threatened when an unexpected, corporate crisis occurs, creating a frenzy on negative publicity. Many case studies have highlighted the short term and long term effects of such publicity, loss of sales, market share, profit and corporate image. Organisational response is posited to be critical to the successful recovery of a firm. The current research intends to understand the effects of a wine award and associated negative publicity on brand equity, brand loyalty and purchase intention, and the success of a response from the organisation in countering the negative publicity.

INTRODUCTION

Brand equity is a strategic perspective for the organisation. Branding is a powerful means of differentiation - the brand is the asset that can be the basis of competitive advantage and long term profitability (Aaker & Joachimsthaler, 2000). Customer based brand equity is defined as “the differential effect that brand knowledge has on consumer response to marketing activities”(Hoeffler & Keller, 2003, p. 421). Firms with high brand equity levels have higher consumer preferences and ultimately higher purchase intentions (Cobb-Walgren, Ruble, & Donthu, 1995). Other benefits include: greater customer loyalty, less vulnerability to competitive marketing actions or crises, larger margins, more favourable customer response to price increases and decreases, greater trade cooperation and support, increased marketing communication effectiveness, and licensing and brand extension opportunities (Keller, 2001). The value of a brand to deliver such benefits is described as the brand equity. It is “ultimately derived in the marketplace from the words and actions of the consumers” (Hoeffler & Keller, 2003, p. 421). Brand knowledge structures in the minds of the consumer that are therefore of considerable importance to the organisation (Hoeffler & Keller, 2003).

The importance of high brand equity or a ‘strong brand’ is further highlighted when a consumer is uncertain about a particular purchase. In a situation of uncertainty and/or ambiguity in which consumers “lack the ability to arrive at a deliberate, well-reasoned decision, they may rely on brand knowledge as a heuristic or allow it to colour their impressions in various ways” (Hoeffler & Keller, 2003, p. 438). Brand knowledge is made up of brand image and brand awareness (Hoeffler & Keller, 2003).

Much research has highlighted the benefits of favourable brand image and how this then translates into favourable action (Aaker, 1996; Hoeffler & Keller, 2003; Keller, 1993). However, the results of unfavourable associations have been less widely discussed. How devastating are the effects of negative publicity on brand equity and to the future success of the brand? Can this be overcome through an appropriate organisational response? The purpose of this paper is to present a conceptual framework to answer these important research questions. The case of Wither Hills, a New Zealand wine producer provides the framework for the proposed research.

BACKGROUND AND RELEVANT LITERATURE

The Wither Hills saga began in October 2006, when Wither Hills 2006 Sauvignon Blanc was awarded five stars and a place in the Cuisine’s Top Ten New Zealand Sauvignon Blancs. Cuisine later discovered that the wine had breached the rules of the Cuisine awards, which stipulates that the competition wine must be “identical” to that available to the public (chemical analysis concluded a difference in sugar, acidity and sugar levels). Consequently, the wine was withdrawn from the Cuisine’s Top Ten. The controversy that followed, suggested that the
Wither Hills wine maker had intentionally blended a small batch of wine specifically for award testing, purposefully misleading the public of the wines quality. An independent audit later quashed this suspicion, and it was concluded that the wines varied because of the standard variations one would expect to see from grapes from different vineyards sites, and variations in the wine making process. Experts were unable to detect a difference in perceived quality - technically they were different wines, but from a quality point of view and from a style and taste point of view they were essentially the same. Over the two months, the Wither Hills Saga became a popular news item, with the media brandishing considerable amounts of negative publicity across a wide range of medium (internet, television, radio, newspaper, magazines), accusing Wither Hills of intentionally misleading consumers by manipulating the winning of awards. Despite being cleared from any “wrong doing” by an independent audit, the Wither Hills wine maker responded by giving back all wine awards he had ever won, with a public apology. In reference to the negative publicity surrounding this controversy, Lion Nathan (owner of Wither Hills winery) reports that “the immediate effect of that particular incident and the ongoing effect has not been negative on the brand”. It is this statement that is of particular marketing interest; how is brand equity effected by negative publicity and subsequent organisational response?

First of all, it is important understand the nature of the wine industry, and why this is a model industry in which to base this research. The wine category is unique in its level of competition; “where most supermarket categories have 10 or so brands, wine typically has over 700”, and up to 1000 different wines can be stocked at one individual supermarket (Lockshin & Hall, 2003, p. 2). Given this extraordinary level of choice, the consumer decision making process to purchase wine is very complex (Lockshin & Hall, 2003).

As more shelf space is devoted to wines, it becomes increasingly important for wine brands to differentiate themselves and stand out on the crowded shelves (Gluckman, 1986). The focus on differentiation has motivated many wineries to enter their wines into award competitions. The endorsement of a wine award on the packaging of a wine brand, conveys information regarding the wine quality at the point of purchase (Thomas, 2000). The award therefore serves a dual role: it gives the consumer an extrinsic cue to the quality of the wine and also reduces the risk of purchasing a bad tasting wine.

Wine could be considered both an experience and a credence product, depending on the wine consumer. In both cases the wine attributes cannot be ascertained prior to purchase. In respect to wine as an experience product, it means a consumer will be able to establish wine quality after the consumption experience. As a credence product however, quality will not even be established after consumption (common in inexperienced consumers, lacking knowledge of the wine category). In order to reduce the risk of purchasing a wine of poor quality, consumers look to information provided by extrinsic cues as a proxy for experience and/or knowledge (Northern, 2000).

The purchasing of wine for many consumers can be described as being “dominated by fear and uncertainty…afraid of appearing ignorant or unworldly” (Gluckman, 1986, p. 36). With the exception of wine connoisseurs, who purchase wine at the high end of the market, the majority of wine purchasers are “highly risk-sensitive and their subsequent purchases are governed by risk-reducing strategies”(Lockshin & Hall, 2003, p. 9). To increase self confidence in the decision making process, consumers require reassurance that the ‘risks’ have been reduced in their choice of wine (Gluckman, 1986). This is achieved by the consumer actively and/or passively seeking information about the product to be purchased. Information handling is one of the prime factors in reducing risk (Mitchell & Greatorex, 1989).

Approximately 70% of consumer decisions are made in store when purchasing wine in a supermarket (Halstead, 2002). Therefore it is the small amount of information that is available to the consumer at point of purchase that is considerable importance to the final decision to
purchase (Chaney, 2000; Foxhall, 1983; Olshavy & Grambois, 1979 cited in Lockshin & Hall, 2003). Therefore, the display of an award on a wine bottle can provide a strong, favourable and relatively unique brand association in the mind of the consumer.

In such a highly competitive industry it is understandable that a company’s actions are scrutinised and consequently on occasion, negative publicity occurs. Negative publicity is the “input of information that is perceived in such a way as to denigrate the object of communication” as defined by the audience (Weinberger, 1986, p. 110). Its effects, both short and long term can be “devastating…resulting in major losses of revenue and market share” (Ahluwalia, Burnkrant, & Unnava, 2000, p. 203). Such negative publicity has the potential to damage corporate image, ultimately effecting the brand equity of the brand in question (Dean, 2004). The reason behind the severity of its effect is due to the credibility of the source and the impact on attention. Bond and Kirshenbaum’s (1998) study concludes that publicity is considered a credible source of information and the message it conveys is therefore “more influential than other marketer-driven communications”. In Fiske’s (1980) study, negative information was found to be more ‘attention getting’ than positive information – people put more weight on negative information when evaluating a product (as cited in Ahluwalia et al., 2000, p. 203). Another influencer of the power of the negative publicity is ‘consumer expectation’ and ‘consumer commitment’ to a brand. Previous studies have shown that both of these factors exhibit a moderating effect on how consumers respond to negative publicity (Ahluwalia et al., 2000; Dawar & Pillutla, 2000).

The occurrence of significant negative publicity can be called a ‘corporate crisis’. This is an “unexpected, non routine event that creates uncertainty and threatens and organisation’s priority goals” (Dean, 2004, p. 194). The threatening of the firm’s social legitimacy, the continuous scrutinisation of the firm by the public, and the need for the public to identify cause and assign blame highlights the need for the organisation to engage in a form of organisational response or ‘corporate communication’ (Dean, 2004).

Past research as indicated that the optimal communication strategy for an organisation to adopt following negative publicity is to ‘accept responsibility’ and ensure that the response was “fair, equitable and just”. This form of response will reduce the attribution ambiguity (who is to blame and why) and allow consumers to make more knowledgeable inferences on the situation (Dean, 2004, p.201).

RESEARCH OBJECTIVES

In light of the Wither Hills Scandal and the relevant literature outlined above, the proposed study is interested in understanding:

a) The effects of a wine award on brand equity, brand loyalty and purchase intention.

b) The effect of award associated negative publicity on brand equity, brand loyalty and purchase intention.

c) The success of a response from the organisation in countering the negative publicity.

To date, no study has investigated the effects of negative publicity on an award winning wine brand, or the communication response strategy required, and how these variables affect the brand equity, brand loyalty and purchase intention. The findings of the proposed research have a number of practical implications for New Zealand wineries in their decision to enter a wine competition, and how best to respond to associated negative publicity in order to regain the intangible brand value that may have been jeopardized in the scandal.
CONSTRUCT DEFINITIONS

The constructs of interest in this research are identified as follows:

Wine Award:
A wine award is an “extrinsic cue … that communicates quality” to the consumer at the point of purchase (Lockshin & Hall, 2003). It is an addition to the front label of a wine bottle, often displayed as a ‘sticker’ with the name of the award endorser, the competition and the rating (eg. Cuisine Magazine, Cuisine Magazine Recommendations, gold). There is significant ‘flow on effects’ in the form of positive publicity from the winning of an award.

Publicity:
Publicity is an area of “Marketing Public Relations”. It is most frequently associated with press and media releases and it involves disseminating information about the organisation and its products to achieve editorial coverage (Pickton & Broderick, 2005). For the purposes of the research study, it is negative publicity that will be manipulated explicitly. Negative publicity is the “input of information that is perceived in such a way as to denigrate the object of communication”. Negativity is defined by the audience (Weinberger, 1986, p. 110).

Corporate Response:
Corporate response is how an organisation responds to negative publicity – “counterfactual reasoning in an effort to understand the event” (Dean, 2004, p. 200). It is a form of communication strategy from the organisation to the parties concerned. The proposed research for manipulation purposes will divide response into 2 categories: appropriate response and inappropriate response. An appropriate response is “either fair, equitable, and just” and an inappropriate response is “insincere or blame shifting” (Dean, 2004, p. 200).

Brand Equity:
Customer based brand equity is defined as “the differential effect of brand knowledge on consumer response to the marketing of a brand” (Keller, 1993, p. 2). Brand knowledge can be conceptualised into 2 components: brand awareness and brand image. Brand awareness is made up of brand recall and recognition. Brand image is determined by the associations the consumer has with the brand – the type, favourability, strength and uniqueness of the associations (Keller, 1993).

Brand Loyalty:
For the purposes of this study, brand loyalty will be conceptualised on the basis of consumer perceptions, not on the basis of their behaviour. Brand loyalty is therefore an attitudinal perspective - a consumer’s intention to be loyal to the brand long term. Yoo and Donthu (2001) defined brand loyalty as “the tendency to be loyal to a focal brand, which is demonstrated by the intention to buy the brand as a primary choice” as cited in (Pappu, Quester, & Cooksey, 2005, p. 145).

Purchase Intention:
Purchase intent is the intention to purchase a brand – a short term perspective. Oliver’s (1997) study, defined purchase intent as “a deeply held commitment to rebuy or repatronise a preferred product or service consistently in the future, despite situational influences and marketing efforts having potential to cause switching behaviour (as cited in Pappu et al., 2005).
CONCEPTUAL MODEL AND HYPOTHESES

Drawing upon Keller’s (1993) customer-based brand equity literature, a conceptual model is presented examining the relationship between award status, organisational response and publicity and how these constructs impact on brand equity. For the purposes of the proposed research, brand loyalty will be excluded from the brand equity measurement and included as an attitudinal outcome of brand equity. The model represents a process based view of customer-based brand equity, with the outcome being purchase intention, mediated through brand.

Figure 1:

The following hypotheses are proposed:

**H1:** An award winning wine brand will exhibit higher brand equity than if it had not won a wine award.

An award is an extrinsic cue for quality from a credible source which acts as a proxy for experience or knowledge (Northern, 2000). The association in the mind of the everyday consumer between the award and the wine brand will enhance both brand awareness and image, ultimately increasing brand equity.

**H2:** An award winning wine brand will exhibit lower brand equity when it is subject to a negative publicity situation than a wine that has won no award.

Previous research has shown that consumers put more weight on negative information, than positive information (Fiske, 1980). Publicity is rated as more credible than market driven communications and therefore more attention-getting (Ahluwalia et al., 2000). The assumption is that negative publicity will increase brand awareness, although it will emphasise the negative brand image, lowering brand equity.

**H3:** An appropriate response to negative publicity will exhibit higher brand equity than an inappropriate response.
An appropriate response enables the consumer to identify the cause and attribute blame accordingly – based on knowledgeable inferences (Dean, 2004). This is posited to increase brand image, increasing brand equity.

**H4: An appropriate response to negative publicity will exhibit lower brand equity than a wine brand that had not won a wine award and not been subjected to negative publicity.**

Consumers put more weight on negative information (Fiske, 1980). The negative brand image is expected to be too engrained in the consumers brand associations. Despite the appropriate response it is predicted that the brand will not gain the strength it had not entered an award or been exposed to negative publicity.

**H5: There will be a positive relationship between brand equity, brand loyalty and the probability of intention to purchase.**

A strong brand (high brand equity) gains the marketing advantage of increased consumer loyalty (Keller, 2001). Consumer loyalty is a long term measure of commitment to a brand, while purchase intention is the short term measure. In a previous study, brands with high brand equity generated significantly greater probability of intention to purchase (Cobb-Walgren, Ruble, & Donthu, 1995).

**RESEARCH METHOD**

**Sample**

The proposed target population for the research is existing New Zealand wine consumers who purchase and consume wine within the $12-17 price bracket. In order to generalise results to this population of interest, a sampling frame of members of ‘Rumbles Wine’ and ‘Centre City Wines and Spirits’ email databases will be used. Centre City Wines and Spirits have an email database consisting of approximately 1,000 members. Rumbles Wines has an email database of approximately 200 members. Therefore the size of the sample frame is 1,200 people.

Electronically administered questionnaires have been chosen as the preferred tool of data collection for the proposed study. Members will self select themselves to fill in the questionnaire from the link provided in the email newsletter. Members will be randomly assigned into one of the 4 manipulation groups - the online survey software used will assign members by rotating the 4 surveys eg. First member gets survey 1, second person gets survey 2. This is hoped to distribute the confounding variables among groups equally. Ultimately a sample of at least 15 individuals for each of the 4 manipulation groups is desired (Cavana, Belahaye, & Sekaran, 2001).

**Questionnaire design**

The award, publicity and response constructs will be described in the questionnaire based on extracts from the actual media reports on the Wither Hills case. This is to ensure that the experiment is as close to reality as possible, despite being a fictitious research simulation.

This is a within-subjects and between-subjects design. Each of the 4 experimental groups will receive one generic written scenario (base), followed by a series of questionnaire scale items addressing the scenario just read. A second written scenario will then be presented. This will be unique for each of the 4 questionnaires. Participants will then be instructed to answer the same series of questionnaire scale items as earlier, however this time answers will be based on all of the information presented (base scenario + unique scenario). Including a base for each of
the experimental groups will increase the internal validity of the design (Cavana, Belahaye, & Sekaran, 2001).

**List of Surveys and Corresponding Manipulations:**

Table 1:

<table>
<thead>
<tr>
<th>Survey #</th>
<th>Control / Base</th>
<th>Award</th>
<th>Negative Publicity</th>
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Survey 1: Base + award (implicit positive publicity)
Survey 2: Base + award + negative publicity
Survey 3: Base + award + negative publicity + appropriate response
Survey 4: Base + award + negative publicity + inappropriate response

**Measures**

**Brand Equity Measures**

Based on previous research, brand awareness, brand associations, perceived quality and brand loyalty are identified as relevant dimensions of brand equity (Pappu et al., 2005). Nine of the brand equity measures and items proposed have been taken from the Pappu et al. (2005) studies. Based on suitability and relevance for this particular topic 1 has been modified.

The dimension of ‘Brand Awareness’ will be measured with 1 item, ‘Brand Associations’ with 4 items and ‘Perceived Quality’ with 2 items. Each item will be measured using a 7 point Likert Scale, using the anchors “strongly disagree” (1) and “strongly agree” (7).

**Brand Awareness**

The brand awareness item as cited by Pappu et al. (2005) has been modified from awareness to consideration. The study has a fictitious brand to avoid any bias that may occur from prior perceptions which could influence how the subject may respond to various stimuli presented in the manipulation (Dean, 2004). For example, previous studies have highlighted that ‘consumer expectation’ and ‘consumer commitment’ to a brand have had a moderating effect on how consumers respond to negative publicity (Ahluwalia et al., 2000; Dawar & Pillutla, 2000).

Brand awareness is defined in Rossiter and Percy’s (1987) study as “the strength of the brand node or trace memory, as reflected by consumers’ ability to identify the brand under different conditions” (cited in Keller, 2001, p. 3). Raising brand awareness will increase the likelihood that the brand will be a member of the consumer’s consideration set (Nedungadi, 1990). Based on these studies, consideration will act as an appropriate proxy for brand awareness.

**Brand Associations**

Brand associations are the “other informational nodes linked to the brand node in memory and contain the meaning of the brand for consumers” (Keller, 1993, p. 3). Brand associations are
evaluated based on the following dimensions: favourability, strength and uniqueness (Keller, 1993).

While a brand may derive associations from a wide range of sources, two brand associations that will be measured in this study are brand personality and organisational associations (Aaker, 1996; Pappu et al., 2005).

Of the 5 items used to measure the brand associations dimension in Pappu et al.’s (2005) study, the item “tough” will be excluded, as it is not perceived as an appropriate measure for a wine brand. Instead brand association will be represented by a 4 item measure: ‘upmarket’, ‘like the company’, ‘proud to buy’ and ‘trust the company’.

Perceived Quality
Perceived Quality is the core construct in the Total Research approach to measuring brand equity (Aaker, 1996). It is not the actual quality of the brand, rather it is the consumer’s subjective judgement. This dimension helps to differentiate a brand or product from competition, providing consumers with a reason to buy (Zeithaml, 1988). Pappu et al.’s (2005) study utilised 5 items to measure the dimension of perceived quality. The following 3 items have been excluded as they are not relevant to the perceived quality of a wine brand: very durable, very reliable and excellent features. The 2 remaining items; good quality and consistent quality, will be used for this study to measure the dimension of perceived quality.

Brand Loyalty Measures

The dimension of brand loyalty will be measured with 2 items; feel loyal and first choice. Both items have been confirmed as reliable items to measure the construct of brand loyalty. Brand loyalty in this study is defined from an attitudinal perspective and accentuates consumers intentions to be loyal to the brand in the long term (Pappu et al., 2005).

Wine Purchasing Behaviour Measures

The frequency of wine consumption and standard drinks per occasion are established questions and scales obtained from the ‘DrinkCheck Questionnaire’ developed by the Alcohol Advisory Council of New Zealand ("DrinkCheck Questionnaire," 2003). These two questions use nominal scales.

Three questions have been developed specifically for the proposed research. They are: “you perceive yourself to be knowledgeable on wine”, “you are confident at purchasing a high quality wine” and “do you consider the award won to be credible in determining quality”. All three questions use 7-point Likert scales. The topics for the questions have been derived from previous literature (Mitchell & Grearex, 1989; Sternthal, Dholakia, & Leavitt, 1978).

Demographics Measures

Demographic questions include age, gender, income.

CONCLUSION

The proposed research is intended to provide insight into how brand equity is affected by negative publicity in the market place. Further understanding of organisational response to negative publicity will also aid in the success of the organisation’s recovery. Brand equity, behavioural loyalty and purchase intention are important aspects of business success. In today’s competitive and dynamic marketplace organisations need to understand the effects of publicity on brand equity and be confident in responding in order to maintain a strong brand status.