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BRAND DAMAGE FROM REPORTED INCIDENTS OF PRODUCT HARM AND CORPORATE MISCONDUCT – HOW DEEP AND HOW LONG?

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ABSTRACT

Brand equity can suffer severely during brand crises. Managers understand the threat of a product failure to marketing assets and economic performance but seem to be less concerned about brand damage from corporate social misbehavior such as bribery. The main objective of this paper is to measure the dynamic impact of reported incidents of product harm and corporate misconduct (ESG issues) on two important brand perception metrics, *brand attention* and *brand strength*. Such incidents may precipitate a firm into a severe brand crisis.

Specifically, we want to answer the following questions related to a reported incident of product harm or corporate misconduct:

RQ1. How large is the immediate effect (gain or loss) in brand attention and brand strength?
RQ2. How long does it take for the brand to recover to the new equilibrium level for attention and strength?
RQ3. How large is the cumulative effect (gain or loss) in brand attention and brand strength?
RQ4. Is the gain or loss in brand attention and brand strength persistent and if, how large is the effect?
RQ5. Which contingency factors explain the variation in immediate and cumulative effects?

To answer these questions, we apply an autoregressive distributed lag (ARDL) model to 69 brands in Germany, for which we have weekly observations of brand attention and brand strength in the years 2008-2012 available. These 69 brands were involved in 214 events relating to product harm or ESG issues that we identified in a comprehensive search among leading national media. We estimate the dynamic effects brand-by-brand.

The crisis effects are asymmetric. While brand attention increases, brand strength drops. Surprisingly, average brand damage is larger for corporate social misbehavior than for product failure. The damage may last up to 9 months. The effect aggravates if the firm denies responsibility, the event is a national event, and more media report on the news. These findings help better forecast brand image drops during crises and give guidance to managers for appropriate reactions.

Keywords: Autoregressive distributed lag model, brand crises, brand attention, brand strength, product-harm, corporate misconduct