Socially Responsible Joint Ventures, Brand Misconduct and Recovery Communication: Implications for Relationship Quality

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Communication: Implications for Relationship Quality

The past several decades have witnessed a growth in organisations implementing strategic alliances, joint ventures, and an increasing number of corporate social responsibility (CSR) initiatives in order to gain competitive advantage and enable the achievement of organisational objectives that would otherwise have been unattainable (Das and Teng, 2000; Lacey, Kennett-Hensel, and Manolis, 2014; Nowell and Harrison, 2011; Tjemkes and Furrer, 2010). Increasingly, corporations and non-profit organisations or charities are using these relationships and joint projects as critical institutional positioning for achieving mutual goals (Shumate and O'Connor, 2010). These organisations are building ethical brand identifications from their collaborative output. In fact, due to the 2008 economic crash, many firms have increasingly pursued and developed structured ethics programs, as those engaging in socially responsible activities can gain strength, power, and importance in the global marketplace (Uccello 2009). However, when it goes wrong, these initiatives can suffer. Cases of brand misconduct or transgressions occur when the brand owner(s) seriously disappoint consumers’ expectations and research has suggested that firms can suffer a range of negative outcomes from a loss of image and reputation to brand boycotts (Coombs and Holladay, 1996; Diers, 2006; Huber et al. 2010).

The challenge for firms guilty of misconduct is to address the relevant transgression in such way that maintains or, if necessary, restores relationships with customers, thus sustaining the enterprise and ensuring a suitable return on investment. The present study focuses on the largely unexplored communication element of post-misconduct recovery activity by firms engaged in socially responsible joint ventures. We integrate extant knowledge from the fields of corporate communication and relationship marketing to derive
an expanded relational model of corporate image assessment. We then review previous research, expanding this model in four key areas: consumer responses to differing types of corporate misconduct, their relative evaluations of corporate and non-profit contributors to a joint venture, the impact of misconduct on relationship quality, and the relative efficacy of varying recovery communications strategies. In the following section, we describe the literature on CSR joint initiatives and brand misconduct before introducing the relationship marketing dialogue. We then highlight areas of conceptual overlap between relationship marketing, brand misconduct, and crisis response.

LITERATURE REVIEW

Socially Responsible Joint Ventures.

CSR joint ventures between firms and non-profits entail the union of profit and principle. These collaborations are highly mission-driven, mutually beneficial, and create a distinctive brand for the joint initiative. In addition to being socially responsible, these ventures can provide partners with improved image, enhanced resources and stronger brand differentiation (Andreasen, 1996; Rondinelli & London, 2003; Shumate & O’Connor, 2010). More specifically Schumate & O’Connor’s (2010) symbolic sustainability model proposes that: (1) the value of such joint ventures is co-constructed by the alliance’s partners and stakeholders; (2) such alliances mobilise and restrict different forms of capital for non-profits and corporations; (3) partner formations are based on perceived mutual value; (4) there is a risk of the loss of legitimacy from each organisation’s stakeholders because of the alliance; but (5) non-profit and corporate partners in such partnerships will be more buffered and less vulnerable to environmental threats compared to those organisations not in cross-industry alliances. Ultimately, firms enter into joint ventures with the expectation of multiple benefits.

CSR Joint Initiatives and Misconduct. These outcomes represent the best case scenario for CSR joint initiatives; however, what happens when the joint venture faces a crisis due to
perceived misconduct, unique to the joint initiatives themselves? Brand misconduct can range from product or service-related defects to socially or ethically debatable actions (Huber et al., 2010). Previous research suggests situations like these could create a strain on the strategic relationship between non-profits and firms (e.g. Shumate & O’Connor 2010; Rondinelli & London 2003). At the heart of what is threatened by brand misconduct, however, is the relationship between the brand and its consumers (Diers, 2012; Huber et al., 2010). Altruistic post-misconduct activities may be unable to offset transgressions (Brunk & Blümelhuber 2011) due to adjusted consumer expectations of behavior from the venture and partners (Lacey et al. 2014). Moreover, the extent to which the negative impact of brand misconduct varies between collaborating firms, and the opportunities for regaining brand equity remain largely underexplored. There is, however, a substantial amount of research focusing on situations where the brand fails to meet its consumers’ expectations and more importantly where the blame for the situation can be directly attributed to the organisation, regardless of its intent (Coombs and Holladay 2002; Diers & Tomaino 2010; Huber et al. 2010). Despite this research on brand misconduct, there is little research analysing the impact of different types of misconduct. For example do consumers differentiate their evaluation of firm behavior between legal misconduct and ethical misconduct? Legal misconduct is characterised by illegal corporate behavior, be it intentional or unintentional; examples include price fixing, fraud, or patent infringement (Hearit 1999; Pearson & Clair 1998). Ethical misconduct is less well-defined in the previous literature as most research conflates legal and ethical misdeeds (Forsyth 1992); however, we contend ethical misconduct is a unique type of transgression arising when firms behave in a manner that is technically not illegal, yet violates consumers’ moral expectations for the firm’s behavior. Brunk (2010) classifies ethical issues based on groups directly affected. Examples range from unreasonable price mark-up to unsustainable environmental practices. Lacey et al. (2014) suggest that CSR
initiatives serve a dual role as hygiene and motivating factors in driving consumer perceived relationship quality, suggesting that for a CSR initiative (that is, a JV positioned as ethical), we might see differences in consumer evaluations of varying type of misconduct evident. Therefore, exploring the extent to which consumers differentiate between legal and perceived ethical transgressions is an area worthy of investigation as firms operating within this grey area may face significant risks to the quality of their existing customer relationships and thus profitability.

**Relationship Quality and the Relational Model of Corporate Image Assessment**

The quality of consumer-firm relationships has been placed at the forefront of many corporate objectives due to the economic crash of 2008 and, more broadly, the evolving relationship marketing dialogue. Morgan & Hunt (1994) define relationship marketing as “all marketing activities directed towards establishing, developing and maintaining successful relational exchanges” (p. 22). Marketing research has identified consumer perceptions of relationship quality as mediating the effectiveness of relationship marketing activity (Palmatier et al. 2006). Relationship quality is defined as a consumer’s overall assessment of the strength of their relationship with a provider based primarily on relationship satisfaction, trust, and commitment (Hennig-Thurau, Gwinner & Gremler 2002). Certainly, previous investigations highlight positive relationships between enhanced relationship quality and traditional relationship marketing outcomes related to sales (e.g. Palmatier et al. 2006) and behavioral loyalty (De Wulf, Odekerken-Schröder & Iacobucci 2001); however, relationship quality is increasingly being assessed with regards to increased engagement and interaction with consumers outside of the point-of-sale context (e.g Lacey et al. 2014).

The research in relationship marketing mirrors much of the insight emerging within the crisis communication sphere. Therefore, combining previous relationship marketing research with the emergent relational model of corporate image assessment (Diers 2012) will
inform each domain and highlight the benefits of interdisciplinary knowledge building. The relational model is grounded by Haley’s (1996) analysis of advocacy advertising that emphasizes the relationships between: (1) the organization and the transgression, characterized by the degree of association between the two, the firm’s perceived expertise in addressing the issue, and the concern expressed by the firm in relation to their transgression; (2) customers and the transgression, reflected in their personal investment in the relevant issue, congruence of the transgression with the customer’s identity, and personal values; and (3) customers and the organisation, characterised by the latter’s reputation, customer’s knowledge of the organisation, and congruence of both party’s values (see Figure 1). The model aligns with previous research establishing that consumer attitudes (Claes, Rust & Dekimpe 2010), public pressure from interested stakeholders in the face of corporate irresponsibility (Piotrowski & Guyette 2010; Uccello, 2009), and engagement (Hong, Yang & Rim 2010) are all likely to influence consumer evaluations and behavioral intentions towards organisations. Behavioral intentions incorporate desired relationship marketing outcomes of sales, profit, share of wallet, and consumers’ interests in being brand advocates. Previous applications of the model to analysis of post-misconduct communication have demonstrated its effectiveness in identifying factors influencing consumer evaluations of the firm, such as an organisation’s reputation, consumer knowledge of the organisation, perceptions of the organisation’s concern regarding the transgression, and consumers’ interest regarding the transgression (see Diers 2012).

The latter of the relationships identified in the model – the relationship between the customer and organisation – is equally embedded in the relationship marketing domain as it is in the public relations dialogue. Therefore, we suggest that the relational model of corporate image assessment be extended to delineate trust, commitment, and satisfaction as mediators of the relationship between customers and the organisation. Sirdeshmukh, Singh & Sabol
(2002) define trust as “the expectations held by the consumer that the service provider is dependable and can be relied on to deliver on its promises” (p. 17). Palmatier et al. (2006) describe commitment as a consumer’s desire to maintain a relationship with a firm. The relationship satisfaction construct captures the “customer’s affective or emotional state toward a relationship, typically evaluated cumulatively over the history of the exchange” (Palmatier et al. 2006, p 138). The resulting framework (Figure 1) thus combines the public relations and relationship marketing knowledge streams into an expanded model, offering greater granularity of insight regarding consumer responses to brand misconduct.

**Figure 1: Expanded Relational Model of Corporate Image Assessment**

![Figure 1: Expanded Relational Model of Corporate Image Assessment](image)

**Post-Misconduct Recovery Communication**

One factor that is critical in determining consumer evaluations and behavioral intentions towards organizations managing misdeeds (and, therefore, consumer perceptions of relationship quality) is the way the organization(s) communicate(s) about the crisis (Claeys, Cauberghe & Vyncke, 2010; Diers & Donohue 2012; Seeger & Griffin-Padgett 2010; Weber, Erickson & Stone 2011). Across the research on crisis response, more than 40 unique tactics have been identified (Diers 2009). However, the issue of which response strategies are most appropriate for firms engaged in ideological collaboration has not yet been addressed; moreover, the impact that varying response strategy on relationship quality
mediators is under investigated. Defensive strategies can be risky as they may exacerbate the negative reputational evaluations attributed to the organization in crisis (Coombs 2006); however, defending the organization is also necessary in contentious communication environments where there may be several versions of events and an organization must defend its roles and responsibilities relative to the crisis. Defensive strategies are also important for different types of stakeholder groups (e.g., shareholders or regulators) in order for the organization to remain stable (Sellnow & Ulmer 1995). Conversely, popular assumption is that response strategies grounded by CSR messaging are likely to be the most effective as they emphasize the organization’s ethic of care (Simola 2003) and focus on accommodative apology-based messaging (Dardis & Haigh 2008; Hwang & Cameron 2008). Though these messages have been found to be effective response strategies for organizations managing serious misdeeds, the full risk and potential associated with CSR strategies have not been fully analyzed.

FURTHER DEVELOPMENT OF THE RELATIONAL MODEL

Having expanded the relational model of corporate image assessment to include relationship marketing constructs (Figure 1), we next discuss four specific areas of further development, which we present as four discrete research questions (RQs). By drawing on current knowledge in each area, we enrich the model through greater granularity of insight and identify implications for research and practice.

RQ 1: How do consumers’ evaluations of legal and ethical misconduct differ?

Examinations of consumers’ evaluations of firm’s ethical misdeeds have to date adopted two theoretical lenses: moral philosophy and the hygiene/motivation theories. Moral philosophy propounds that consumer evaluations of action ethicality are guided by deontological or teleological principles (Brunk 2010). Deontology entails rules-based judgment; evaluation of whether an action is right or wrong via reference to promulgated
norms. In contrast, teleological judgement considers the consequences of the relevant action, to determine whether it is ethical (Brunk 2012). Intuitively, one might expect legal misdeeds to be more easily evaluated from a deontological perspective than ethical transgressions, due to the availability of established and regulatory benchmarks against which to judge the former; logically, a more objective evaluation occurs (De George 1999, cited in Joyner & Payne 2002). Evaluation of ethical misconduct, in contrast, represents a potentially subjective process of examining consequences against personal values and beliefs (Belk, Devinney & Eckhardt 2005; De George 1999, cited in Joyner & Payne 2002). Consequently, we might expect a greater diversity of consumer evaluation of and response to ethical misconduct. However, prior research (Brunk 2010) highlights instances of legal misconduct evaluation from a consequential (and, therefore, teleological) perspective, suggesting that consumers do not apply only rules-based judgement to such scenarios. Brunk’s (2010) predominant focus on teleological evaluation, however, along with the limited number of studies with a similar focus undertaken to date, render any initial conclusions regarding consistent, philosophically driven differences in consumer’s evaluation of legal and ethical misconduct tentative.

Hygiene/motivation theories (e.g. Herzberg 1968; Kano 2001, cited in Nilsson-Witell & Fundin 2005) describe the relationship between consumers’ evaluation of a firm and their attributes. Certain attributes are defined as hygiene factors; their presence is necessary to fulfil basic consumer needs; exceeding customer expectations in this regard does not enhance the perception of the firm. Alternatively, motivating factors do not represent solutions to basic needs, yet their presence has the potential to improve consumer perceptions of the company. Brunk & Blümelhuber’s (2011) application of this hygiene/motivation theory to an examination of consumer evaluations of corporate misconduct suggests that legal transgressions act as hygiene factors in having a detrimental impact, yet meeting legal requirements do not enhance the firm’s perceived ethicality. Responses to ethical misconduct
mirror those relating to motivating firm attributes: ethical behavior (e.g. philanthropy) has the potential to improve a consumer’s perception of a firm’s ethicality, yet an ethical misdeed (conceived in this instance as the absence or withdrawal of such activity) will not necessarily have a detrimental impact. While this might seem to imply a clear difference in the way legal and ethical misconduct is evaluated, Brunk & Blümelhuber (2011) also highlight instances where ethical misdeeds have a negative impact on customer perceptions of the firm. Specifically, failing to balance diverse stakeholder needs to the detriment of one party resulted in a lower perception of ethicality. This is echoed by Lacey et al.’s (2014) evidence of potential positive and negative impacts of ethical misconduct on firm’s perceived ethicality. It seems, therefore, that while certain ethical misdeeds may be evaluated differently to legal misdemeanours with differing implications for the firm, this distinction may be inconsistent. Research applying hygiene/motivation theories thus fails to clearly delineate differences in consumer evaluations of legal and ethical misconduct. This stream of knowledge is emergent, however, comprising a small number of studies of limited scope. For instance, Lacey et al. (2014) exclude legal obligations and transgressions from their investigation. Further research is therefore required to determine the extent of any hygiene/motivation factor influences on consumer’s evaluation of corporate misconduct.

Overall, the question of how consumers’ evaluations of legal and ethical misconduct differ remains largely unanswered, presenting an area ripe for systematic enquiry. Indeed, Cohn (2010) and Shea (2010) call for further investigation into whether all corporate misdeeds are evaluated equally. We contend that an understanding of how (or indeed, whether) consumers’ evaluations of misconduct vary with the ethical or legal nature of the transgression has implications for post-event recovery communication strategy. Specifically, a granular understanding of the rationale behind consumer responses to misconduct might
facilitate the tailoring of recovery communications to address these drivers of consumer perception.

**RQ 2: In the event of misconduct, do consumers most negatively evaluate the joint venture, the company, or the non-profit? Does the type of misconduct affect this evaluation?** Prior investigation has identified differences in public reactions and organizational responses to crises between types of organizations and industries. For example, such research has found that niches or sectors are likely to influence organizational reactions to crises (Arpan 2002; de Brooks & Waymer, 2009; Massey 2001; Millar 2004). Second, the type of work an organization performs, its routines, and its identity influences the crisis communication process (Ginzel, Kramer & Sutton 1993; Glynn 2000). In addition, previous research has established the importance of reputation, legitimacy, and trust to organizations and, in particular, that crises represent a serious threat to these factors (e.g. Carroll, 2009). Other authors have conceptualized the relationship between reputation and legitimacy as organizations being social actors; that is, that both concepts are essential, complementary, reciprocal concepts linked to an organization’s identity (King & Whetten 2008).

However, there is a clear dearth of research evaluating the reputational, legitimacy, and identity impacts of crises on strategic alliances or joint partnerships, both in terms of the individual organizations involved as well as the reputation of the joint partnership itself. Yet, in the crisis communication literature, invoking interorganizational relationships has long been considered a viable response strategy (Diers 2006; Massey 2001). This includes promoting relationships with positively evaluated partners and stakeholders in order to ‘borrow’ from their reputation, or distancing an organization from negatively evaluated partners and stakeholders to minimize the impact of their negative reputation (Benoit 1997; Milliman, Clair & Mitroff 1994; Mohamed, Gardner & Paolillo 1999; Sellnow & Brand
2001). Yet, none of this research compares the negative impacts of misconduct on neither the relational partners nor the joint partnership and none of this research distinguishes between the types of crisis.

**RQ 3: In the event of misconduct, how are the relationship quality constructs of trust, satisfaction, and advocacy affected?**

The nature of the relationships between ethical corporate activity and the relationship quality constructs of trust, satisfaction and commitment represents an established field of investigation. Consumers are found to trust firms perceived as ethical to a greater degree than those viewed as unethical (Leonidou, Leonidou & Kvasova 2013; Pivato, Misani & Tencati 2008); evidence exists that ethical corporate conduct drives greater customer satisfaction, either directly or via increased trust levels (Leonidou et al. 2013b) which in turn enhances the customer’s commitment to the relationship (Roman & Ruiz 2005); commitment is also found to arise directly from perceptions of firm ethicality (Bartikowski & Walsh 2009); at the meta-level, Lacey et al. (2014) highlight the relationship between ethical corporate behavior and enhanced relationship quality. This body of research also identifies a relationship between perceived ethical behavior, relationship quality constructs and the key relationship marketing outcome of brand loyalty (Leonidou et al. 2013a; Pivato et al. 2007; Bartikowski & Walsh 2009), supporting Lacey et al.’s (2014) argument that perceived ethical and socially responsible conduct represents a strategic objective for firms. The related issue of the impact of discrete ethical transgressions on trust, satisfaction and commitment, however, is less explored. Diverse examples of brand misconduct, such poor customer service (Aaker et al. 2004) and marketing harmful products (Van Heerde et al. 2007), are found to be detrimental to trust and relationship quality. Consequently, and given the positive relationships identified between perceived firm ethicality and consumer trust, satisfaction and commitment, we might logically expect an ethical transgression to result in reduced levels of relationship quality.
Empirical support for this assumption arises from Huber et al.’s (2010) evidence of the negative impact of brand ethical misconduct on consumer trust, while Ingram, Skinner & Taylor (2005) highlight reduced satisfaction as arising in the event of perceived unethical behaviors. Both Huber et al. (2010) and Ingram et al. (2005) also identify a subsequent negative impact of misconduct on consumer repurchase intention and advocacy, key relationship marketing objectives. Examinations of the relationship between ethical misconduct and customer commitment, however, have focussed on the latter as a barrier to the detrimental impact of corporate misdeeds on relationship quality. That is, consumers with high levels of commitment prior to an ethical transgression are found to be more resistant to subsequent attitude change than those with lower, pre-event commitment (Ahluwalia, Burnkrant & Unnava 2000; Ingram et al. 2005). The impact of corporate ethical misconduct on customer relationship commitment remains unexplored. Overall, the addressing of research question 3 is limited by the low volume of empirical studies with a relevant focus. Further work is required to validate the initial findings of this emerging field of study, to examine the impact of corporate transgression on levels of relationship commitment, and to determine any inter-relationships between trust, satisfaction and commitment as mediators of relationship marketing effectiveness.

**RQ 4: How does the response strategy affect the relationship quality constructs of trust, satisfaction, and commitment?**

In the last several years, considerable attention has been paid to describing and analysing the response strategies that organisations deploy (Oles 2010; Piotrowski & Guyette 2010; Samkin, Allen & Wallace, 2010; Seeger & Griffin-Padgett, 2010; Sung-Un, Minjeong & Johnson 2010; Weber et al. 2011); however, scant attention has been paid to measuring stakeholder evaluations of those crisis response strategies. In fact, studies analysing stakeholder evaluations of crises are limited in number and somewhat fragmented in focus.
For example, Claeys, Cauberghe & Vyncke’s (2010) experiment applying Coombs (2007) situational crisis communication theory (SCCT) found that the type and severity of the crisis along with a person’s locus of control influenced organizational image and strategy preference. In contrast, Piotrowski and Guyette’s (2010) analysis of the Toyota recall focused on stakeholder evaluations and recall of leadership, brand loyalty, and ethics. Their findings provide illuminate Toyota’s ineffectiveness in managing their crisis but are not theoretically grounded. Finally, Diers (2012) analysis of stakeholder attitudes towards BP one year after the 2010 spill found that consumer interest in the issue, information-seeking behaviors, and perceived knowledge predicted their behavioral intentions and attitudes towards BP.

Diers’ (2012) research supports the importance of corporate social responsibility at a time when more organisations are moving towards ‘socially responsible’ messaging as a cornerstone of their routine and crisis response strategies (Tengblad & Ohlsson 2010; Uccello 2009). Theoretical analyses posit that consumers will more positively evaluate companies engaging in socially responsible activities because the company is viewed as having higher moral standards (Leonidou, Leounidou & Kvasova 2013). Yet, these changes in governance that promote social and/or ecological sustainability must also be rewarded by financial markets, benchmarked, audited, and subject to public scrutiny (Frankental 2001). One of the few other studies directly examining the efficacy of a CSR strategy studies in recent years found a significant relationship between CSR messaging and public intentions to engage in dialogue with the company (Hong et al. 2010). These findings suggest that CSR messages positively influenced corporate image, both increasing stakeholder intentions to interact and their identification with the company. Hong et al.’s (2010) findings also reveal a positive relationship between stakeholder identification behavioral feedback intentions; that is, their intent to continue interacting with the company.
As previously discussed, most of the crisis response literature identifies socially responsible messaging as the best approach while identifying defensive responses as sometimes useful but a strategy to mostly avoid (Coombs & Holladay 1996). However, there have been cases demonstrating that restorative rhetoric for organizations ought to include assessments of the crisis, articulations of blame, along with messages of healing and forgiveness, as well as corrective action (Griffin-Padgett & Allison 2010). In fact, image restoration theory suggests that denial, evading responsibility, and reducing the offensiveness of an act can be just as important as image repair and corrective action in managing consumers’ reactions to crises (Benoit & Henson 2009). As such, though there is significant research identifying situational, outcome, and strategy recommendations; there is insufficient research directly comparing crisis strategies and their effects on consumers’ behavioral intentions and attitudes towards organizations.

CONCLUSION

Organizational involvement in CSR activity is an established strategic priority among firms seeking CSR-based competitive advantage and differentiation, with many engaging in socially responsible joint ventures to achieve this goal. Given the increasing frequency of such initiatives and the potential commoditization of socially responsible market activity, consumers may ultimately differentiate between firms on the basis of their reactions and responses to incidences of misconduct. Consequently, a detailed understanding of consumer evaluations of transgressions and response strategies is vital for firms operating within this domain, to clarify the impact on the firm(s) or brand and the most effective means of managing customer relationships through communication. In this study we have taken initial steps toward developing this understanding. This paper has established the conceptual and practical foundations connecting the relationship marketing and crisis communication literature, and identified a set of questions relevant to a more sophisticated understanding of
joint ventures and relational challenges that can emerge in the case of brand misconduct. In addressing each of these questions, we have identified current knowledge, this enriching the expanded relational model of corporate image assessment. Moreover, we have developed an informed research agenda, highlighting potentially fruitful areas requiring greater focus. Further research directions include an examination of the impact of varying consumer characteristics (e.g. sociocultural or demographic variances) on their response to brand misconduct and recovery communications.

Our analysis is limited by our focus on consumer relationships with firms. Future research might examine the impact of brand misconduct and recovery communication strategy on relationships with alternative stakeholders, such as shareholders or key supply chain participants. Additionally, we have not considered the impact of multiple transgressions on relationship quality. Future studies might, therefore, seek to qualify the effect of repeated incidences of misconduct on the trust, satisfaction and commitment constructs, and whether varying response strategies are required with an increasing number of misdeeds.
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