

REPUTATION CRISIS RESPONSE STRATEGIES ON THE EXAMPLE OF SELECTED POLISH COMPANIES

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Abstract: Reputation is a valuable, but simultaneously highly vulnerable asset and the most difficult to protect asset of enterprise. No company is able to protect itself from committing some errors and avoiding the risk of reputation loss or damage. But the point is to identify the sources and causes of risk and take appropriate action related to compensation tarnished reputation, and so choose the appropriate crisis response strategy. Against this background we present examples tarnished reputation in selected Polish companies (Wawel, Bank Pekao Group, LPP Group), its financial and non-financial consequences and crisis response strategies. In a summary it was concluded that moderate, small, impairment of reputation and a proper reaction of a company can be a positive experience and it can even contribute to the enforcement of reputation in the future.

Keywords: corporate reputation, crisis reputation, crisis response strategies.

1 Introduction

Recovery the corporate reputation after crisis requires to use the rules and procedures for crisis management, widely described in the literature [e.g. Siomkos, Kurzbard 1994; Coombs 2000; Barton 2001; Dean 2004; Coombs 2006; Smith 2006; Coombs 2007; Jaques 2007; Brocato, Petersen, Crittenden 2012]. One of the most crucial activities taken in order to rebuild reputation after the crisis is effective and open communication of the company with the environment [Sturges 1994; Fearn-Banks 1996; Argenti 2002; Coombs 2004a, 2004b; Hale, Dulek, Hale 2005].

The first objective of the paper is to indicate the importance of having effective crisis management plans and tools for an unpredictable reputation crisis event in a company, it is the concept of appropriate crisis response strategy. The second objective is to illustrate, that a positive corporate reputation, as well as a long history of a company and its tradition in the market, can help mitigate the effects of negative events. Finally, in the paper was questioned, suggested by many authors claim, that reputation is a very fragile enterprise resource.

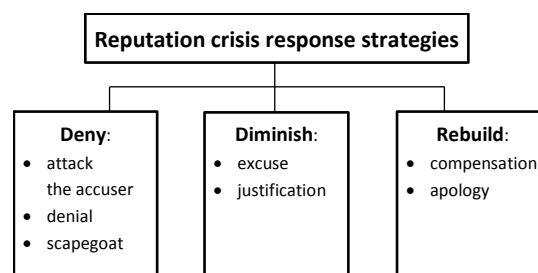
In this article, in order to conduct research, as a research method the individual cases method (the case study) was adopted, relating to the analysis of Polish companies examples in which the reputation crisis was observed as well as an effective process of its rebuilding. Selection of companies from different industries should indicate that problem described in the paper is not limited to a specific industry, but it can affect every company and every company has a chance to fix a mistake.

To create a case studies analysis of researched companies we used numerous press releases, information on the official websites, the messages issued by the researched companies as well as annual and interim reports published by them. In addition, in order to present investors' reactions to reputation crisis and its rebuilding, we made use of information on the shares quotation of the analysed companies.

2 Reputation crisis response strategies

Ways to respond to a reputation crisis situation may be different and their choice is conditioned by many factors. Coombs within the Situational Crisis Communication Theory (SCCT) distinguishes several types of behavior, which he calls strategies to respond to a crisis situation. He points at three primary strategies – deny, diminish, rebuild – and in the second place at bolstering crisis response strategies – reminder, ingratiation, victimage [Coombs, 2007]. The primary reputation crisis response strategies are presented in Figure 1.

Figure 1. Reputation crisis response strategies



Source: Own work based on: [Coombs, 2007, p. 170]

The main idea of deny strategies is to convince the public that the organization is not experiencing any crisis (denial or attack the accuser), or that any problems are not its fault (scapegoat). Diminish strategies aim to weaken the negative perception of the surroundings by proving, that the organization had no bad intentions or had no control over the event that triggered the crisis (excuse), or by insisting, that the damages caused by the crisis are not large and can be quickly fixed (justification). In the rebuild strategies organization assumes full responsibility for the crisis, accepts the losses and tries to fix them. Its activities are focused on providing financial assistance or other compensation for victims (compensation), or rely on public recognition of their sins and asking for forgiveness (apology).

A similar approach to the possible response to the crisis situation presented K. Wojcik, distinguishing five of the following strategies [Wojcik, 2009]:

- Dodging strategy – the organization behaves as if the crisis situation did not concern her at all: remains silent, argues that there is no connection with the crisis or submit the conflicting messages;
- Denying strategy – the organization responds immediately informing that did not cause the crisis, nor participate in it;
- Defense strategy with standards rejection – organization defends its decisions and actions that caused the problem, referring the use of other standards;
- Defense strategy with using the responsibility issue – the organization explains their actions, trying to convince the surroundings, that it is not responsible for the creation of a crisis;
- Acceptance strategy – organization accepts all charges, accepts responsibility, apologizes and corrects errors, and promises to improve.

The effectiveness of these reputation crisis response strategies depends to a large extent on respect for the truth principle and stakeholders reaction. In cases of the truth principle breach (dodging and denying strategies) the problem is not resolved, it passes into a state of latency and can transform into a much bigger crisis. Then reputation risk is very high. With regard to the defense strategy with violation of the truth principle risk of reputation damage is significant. While observing that principle the level of risk depends on organization's stakeholders reaction. It seems, that the lowest risk to organization reputation generates the acceptance strategy, provided, that the truth principle is also observed, i.e. that organization actually accepts the charges and repairs the damage, and does not do so within the framework of considered and temporary tactic.

3 „WAWEL” Confectionery Company – insects in chocolates

Manufacturer of sweets Wawel prides itself in over one hundred years of tradition on Polish and European market. The company's head office is located in Cracow. Corporate reputation means

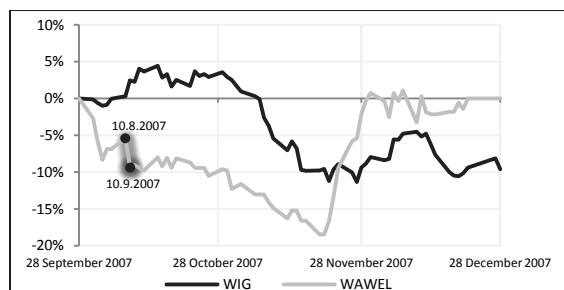
the quality of products, „based on tested recipes and the raw materials used are of the highest quality and are subject to detailed control” [www.wawel.pl, 30th August 2012]. Chocolate products soon gained huge popularity among the connoisseurs and became one of the symbols of Cracow (Wawel is the name of a residence of Polish kings located in Cracow).

However, corporate reputation was put at risk as a result of a crisis which was related to the detection of insects in filled chocolates – Kasztanki – in October 2006. After a phone call from a customer to one of the newspapers information spread immediately on the Internet. An image and reputation of Wawel company was seriously affected. However, the company did not take up any corrective actions. What is more, the head of technological department tried to convince journalists that there was nothing unusual and the insects (*Ephestia Elutella*) found in sweets were harmless to human health. He also added that the factory is under constant control of sanitary and epidemiological station [Zadroga A., 9th October 2007].

Nevertheless, this described in the press case caused further flurry of reactions. This issue was taken up by media. Although the main topic in traditional forms of media was discussed only for two days (9th and 10th October), on the Internet it was raised for several months.

For Wawel as a listed company, the most crucial was the information published for investors. Crisis, through media, spread to the next group of stakeholders of the company – the shareholders who reacted with over four per cent drop in Wawel’s shares on the Warsaw Stock Exchange (Figure 2). The company reacted to the crisis not earlier than after two days (11th October) publishing management representation in the form of a current report [www.wawel.com.pl/gielda/?pg=rapoty-biezacy&id=4183, 11th October 2007].

Figure 2. Changes in stock quotes of Wawel and WIG index on the Warsaw Stock Exchange on a cumulative basis before and after a crisis event (reference date: 28th September 2007)



Source: Own work based on quotes data from www.stooq.com.

Moreover, it established cooperation with PR Network in the course of which the following steps were agreed upon:

- Corrective actions aimed at calming the media storm including, inter alia, a proposal to sanitary and epidemiological station for a comprehensive inspection;
- Actions dedicated to employees which included meetings regarding the situation of the company.

The results of inspections together with a favorable opinion of sanitary and epidemiological station got to business partners and the media [www.wawel.com.pl/oswiadczenie20071017/komunikat.html, 12th August 2008]. This argument convinced investors and customers. As shown in Figure 1, the market reacted positively on corrective actions of the company and thus, the negative influence of the event mentioned above was limited only to one session. In the course of further quotations company’s shares returned to correlation with the main market index (WIG) and after a positive quarterly report, presented in November, even behaved better than this index.

Wawel managed to get out of the crisis with minor losses, although in first comments following the detection of insects in sweets, it was suggested that the company would fall into serious troubles connected with the reputation crisis. Wawel company, immediately after the crisis, did not take up any actions addressed to customers and investors, whereas a statement made by one of the employees had even more negative influence on its reputation.

Fortunately, Wawel realized relatively quickly what mistakes had been made and drew conclusions from this situation. Thanks to the cooperation with PR Network agency it changed its attitude towards preparation for the crisis. Apart from the trainings how to talk to the media, the company was also instructed how to correspond with the customers (inter alia by the Internet website). In order to improve corporate reputation the company was advised to communicate actively with the media and to take up actions within the range of social business responsibility (in the winter Wawel supported actions of Fundacja Przyjaciółka – a charity organization, for the benefit of foster family care). These actions were noticed and appreciated by the stakeholders of the company, including the shareholders, which resulted in its relatively better quotations in relation to WIG index.

To sum up, at the beginning Wawel has applied the denial strategy, claiming that the crisis situation did not have place. After the publication of press, it adopted the diminish strategy, and thus it clarified that the damage was not too harmful and possible to fix. Then it applied the rebuild strategy of reputation.

4 Bank PEKAO Group – Personal data leakage

Reputation is an important element in the activities of banks which as the institutions of public trust are particularly vulnerable to its loss. One example of a bank whose reputation was injured is Bank Pekao Group – one of the leading banks operating in the Polish market. The crisis was related to the leakage of personal data of the candidates applying in the recruitment process which took place in the summer of 2008. From the portal „zainwestujwprzyszlosc” it was possible to download data about addresses, phone numbers and employment history of one and a half thousand people. Within the period from 12th to 19th July 54 publications appeared in the press and on the Internet referring to this topic, 51 of which brought about a negative effect for the bank [Podraza, 2009, pp. 207-220].

The bank reacted immediately calling crisis management center which at once took up operational activities. They were divided into three groups:

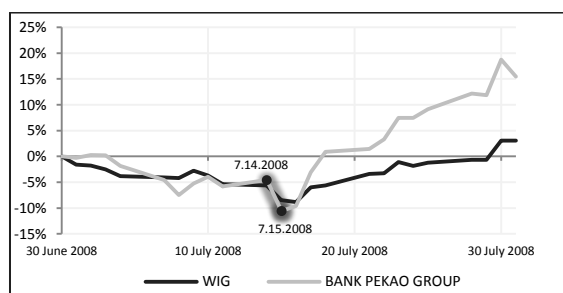
- Activities in the field of information technology to ensure security of data, supervised by the bank’s head of IT;
- Activities related to victim applicants who were addressed by the project manager of HR department;
- Communication activities lead by the spokesman of the bank.

The decision was made to conduct in the first place communication activities addressed to the customers in order to make them feel confident that their data and financial resources deployed were completely safe, in the second place activities addressed to potential victims and in the third – to public opinion. In a published announcement it was emphasized that the creation and administration of the web portal where the leak appeared, was maintained by external company for the bank and the portal itself was set up on external web server. However, quick reaction did not eliminate the problem because lack of proper website security enabled an access to data for a next few hours after the page had been blocked. Information about the leakage spread rapidly in the network and it was the Internet where merciless comments such as: „disgrace, incompetent PR, embarrassing form of the defence of the bank” appeared. This situation had a negative influence on the image and reputation of this financial institution.

M. Macierzyński and L. Radomski on the portal bankier.pl state that „Bank Pekao Group undoubtedly suffered from image loss in this crisis. And it does not matter that the application was prepared and administered by an external company. The role of the bank is to choose the cooperators in such a way that everything could work correctly and safely. And personal data is the most crucial thing for the bank” [Macierzyński, Radomski, 14th July 2008].

Reputation crisis of Bank Pekao Group did not in fact cause serious losses in bank's activities in the form of customer attrition, but it affected negatively its image as well as financial results in the form of the costs of error correction and PR activities. From the stock market point of view the crisis described above, as in the case of Wawel, had only a short-term negative effect on the stock quotes of Bank Pekao Group on the Warsaw Stock Exchange (Figure 3). After a one-day drop in quotes, which was relatively greater than in the case of a main stock index on the Warsaw Stock Exchange (WIG), on successive sessions the shares of Bank Pekao Group behaved much better than this index.

Figure 3. Changes of stock quotes of Bank Pekao Group and WIG index on the Warsaw Stock Exchange on a cumulative basis before and after a crisis event (reference date 30th June 2008).



Source: Own work based on quotes data from www.stooq.com.

It should be also noticed that the bank drew conclusions from this difficult lesson and took up preventive actions for the future. First of all, personal data from each recruitment process and trainings since that time are stored on well-protected bank servers. Moreover, in September 2008, therefore very soon after the incident, a cycle of trainings in the field of personal data protection and security policy of the bank was conducted.

In the context of the above-mentioned types of strategies, firstly Pekao applied the denial strategy of repression (scapegoat). Bank tried to blame an external company, which was responsible for the operation of the portal. Then adopted the diminish strategy by taking appropriate measures in the field of PR. Applied strategies yielded results in the form of restoration of confidence in the bank, which was confirmed by the quotations of stock prices. It should be noted, that Pekao has not escaped some errors:

- wrongly identified group of stakeholders who were mostly concerned about this problem (it turned out that they were not the customers or potential victim applicants but Internet users);
- an attempt to blur responsibility through pointing to an external company which was engaged in the process of creation and administration of the portal where the leakage appeared.

5 LPP Group – unsuccessful collection

LPP Group is an enterprise which is engaged in designing and distribution of clothes in Poland and countries of Central and Eastern Europe. Specification of LPP is based on a combination of design, distribution and marketing activities [A. Leder, 20.12.2004]. The company supplies a wide range of clothes representing the latest trends in the fashion world.

The offer is addressed to different groups of customers, offering them a distinct brands and chain stores. The company launches on markets clothes under the following brands: Reserved, Cropp, House, MOHITO, Promostars, Sinsay.

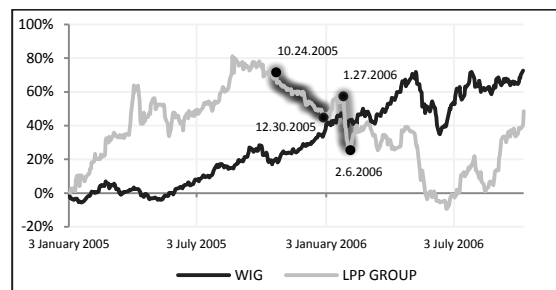
LPP uses a variety of distribution channels. For each of its brands it uses distinct methods of promotion and distribution. Currently, distribution of clothing focuses primarily on retail sales through a network of company-owned stores, which functioning within the framework of franchising. In addition, LPP provides its products to wholesalers, retail chains, as well as for export to the countries of Central and Eastern Europe.

The current scope of activity the company, related to the presence in the markets of Central and Eastern Europe, it would not be so extensive, if not the company's reputation. Reputation LPP has been created for years, beginning in 1997, when it was born the brand – Reserved. Then, it was also created the idea of the company's activities, which were associated with the design of clothes and its distribution, while production was commissioned outside. The company's headquarters employed Polish designers, then the projects were sent to Asia, and there were sewn clothes according to their own designs. In addition, LPP strengthened his reputation by every seasonal collections of clothes such brands as Reserved, Cropp, and after in 2008 the acquisition of the firm Artman – also House and Mohito.

However, at the turn of 2005 and 2006 the reputation of the LPP Group was tarnished.

The crisis was associated with the autumn-winter collection, which turned out to be completely unsuited to the market needs. „I think we wanted to be too trendy, but Poles turned out to be too conservative. Our clothes were too extravagant. We went by the trends prevailing in the world” [Estrawagancja nie popłaca, 13.11.2006]. During the crisis, brand Cropp was specified for the target group of young people aged 13-18 years. However, research has shown that the clients are also consumers aged 25 years, and older. Therefore, it was decided to expand the target group, which was associated with the new character of collection. Changes also related advertising, which was addressed to young people, but not „kids”. The crisis also embraced a leading brand Reserved. In autumn 2005, the firm started rebuilding the image of the brand Reserved, from lifestyle and casual for all people, in direction fashion's brand for demanding and constantly waiting for new customers. It turned out, however, that the direction was too revolutionary, and the number of customers bent on challenging of modern clothes was much less than expected.

Figure 4. Changes of stock quotes of LPP Group and WIG index on the Warsaw Stock Exchange on a cumulative basis before and after a crisis event (reference date 3th January 2005).



Source: Own work based on quotes data from www.stooq.com.

The crisis of reputation firstly moved into a decline in sales. Domestic sales of Reserved brand in the first quarter of 2006 dropped by 6.5%, which translated into a decline financial results, and this resulted in a negative reaction from a group of shareholders (Figure 4). Jan. 31, 2006, the shares of LPP Group decreased by 11.5% as a result of the second revision

of the forecasts of net profit (the first of the 60 million to 53 million, and then from 53 million to 40-44 million PLN).

Presented a kind of crisis reputation was associated with errors in determining the target group and maladjustment offer to the needs of customers. LPP quickly realized what mistakes committed. In the next autumn-winter collection (2006/2007) projects were calmer, tailored to the tastes of the "average" customer, as well as addressed to a wider circle of consumers. Collection spring-summer was also more moderate. These collections were met with increased interest from customers, which resulted in an increase in sales. It can therefore be concluded that the error has been fixed. The company in the framework of strategy to respond to the crisis situation has adopted the rebuild strategy, involving the public recognition of their wines as well as taking up corrective measures.

6 Conclusions

The effects of the damages to reputation depend on two main issues: the source of risk (type of reputation risk) determining the scale and depth of crisis as well as the speed and effectiveness of corrective actions taken by a company, and so the crisis response strategy. Crisis at a moderate level which is the source of human errors (operational risk) may, paradoxically, have a positive influence on reputation and even strengthen it in the future, an example of which are presented companies: Wawel, Bank Pekao Group, LPP Group. It should be noted, that each of these companies has applied the appropriate strategy or several strategies response to the crisis.

Presented examples suggest that tarnished reputation, as a result of a crisis, is possible to rebuild in a relatively short period of time. So reputation turns out not so sensitive resource, as it might seem. However, in order to verify this claim it should be carried out broader research taking into consideration variety of industries, economies, cultures, size and scale of business operations

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