

Tactics to Restore Damaged Customer Relationship after Negative Events

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DOI: 10.6007/IJARBSS/v6-i6/2188 URL: <http://dx.doi.org/10.6007/IJARBSS/v6-i6/2188>

Abstract

Negative event about companies is widespread in media recently. Corporate image, trust and customer relationship of an organization can be damaged once negative media publicity is spread in the marketplace. How to restore damaged customer relationship becomes a critical task for management. This study examined effect of different repair tactics to repair corporate image and damaged relationship with customers after negative publicity. Effects of social account (apology, excuse, promise) and substantive actions (financial compensation, etc.) differ in different types of violation events. A combination of social account and substantive actions based on event characteristics may work better than using any single strategy. This study can help management effectively cope with the adverse impact of negative publicity. An efficacious combination of social account and substantive actions may maximize the effect of repair. Management of the companies should understand what the affected customers really need to figure out a most effective repair tactic.

Keywords

Repair tactics, negative publicity, trust repair, social account, internal /external attribution

1. Introduction

Recently, negative publicity about companies is widespread in the current marketplace, making the focal firms become the focus of media attention. Many parts of an organization can be damaged once negative publicity is spread in the marketplace, such as losing customer trust, boycotting goods from focal companies and making customers switch to other competitive brands. On April 13, 2016, Toyota Motor Sales, U.S.A., Inc. announced that it is recalling approximately 16,880 Model Year 2016 Avalon and 41,630 model Year 2016 Camry sedans, because the front passenger airbag and the front passenger knee airbag may not deploy as designed in a crash, increasing the risk of an injury to a front seat passenger. On May 2, the CEO of Oxy Reckitt Benckiser held a press conference delivering a public apology to the victims and their families, pledging to spend more than four million U.S. dollars in compensation. According to the Ministry of Environment of South Korea, since 2011 more than 200 people have suffered from the toxic humidifier disinfectant manufactured by Oxy Reckitt Benckiser including 95 related deaths.

Rebuilding the damaged relationship with existing customers is as difficult as attracting new customers. How can companies repair destroyed relationship with customers after harmful publicity? Does the tactics they use, ie. Apology, compensation and etc., can rebuilt company image and restore public trust? To answer these questions, this study reviewed existing literature on tactics to repair trust and damaged relationship after negative events.

2 Repair tactics

2.1 Social account

Most of the prior researches about trust repair have examined the efficacy of certain types of social accounts used by the trustee after trust has been damaged. These accounts are effective because they revise damaged attributions after a negative outcome. Verbal communication by the offender frames and shapes the victim's interpretation of the trust violation, assisting the victim in cognitive sense making and shaping his or her perceptions of the offender's intentions and relevant contextual information by providing information that would otherwise be unavailable. Prior research has established that exonerating accounts for a negative outcome tend to assert that the cause has an *external* locus to the offender, is *uncontrollable* by the offender, and/or is due to an *unstable* cause (Weiner 1985). There are many kinds of tactics which are used in trust repair research: apologies/denials, excuses, and promises.

2.1.1 Apology/Deny

An apology is an admission of the wrongdoing, confession of responsibility for a transgression, normally accompanied by an expression of remorse for the harm inflicted. Although apology acknowledges guilt, which should lower trust, its concomitant expression of regret signals an intention to avoid similar violation in the future, which should reduce trustor's concern about continued vulnerability and, thereby, improve trust. Remorseful apologies attempt to convey to the victim of a transgression that the cause of the transgression was unstable. In other words, a dispositional "good" person did an uncharacteristically "bad" thing that will not recur. Therefore, apologies convey that there is not enduring damage to the trustee's trustworthiness. Tomlinson, Dineen, and Lewicki (2004) found offering an apology no matter with an external attribution or internal attribution was more effective than offering no apology in influencing the victim's willingness to reconcile the relationship. Xie and Peng (2009) found affective repair through apology could positively affect the perceived trustworthiness of a company, eventually repairing consumer trust after negative publicity incident.

Using a denial, a trustee declares that he or she was not the perpetrator, and claims not to be responsible for the negative outcome. Denials declare that the cause of the negative outcome is external to the trustee. Different from apology, denial can avoid the damage to trust. But, it indicates that there is no need to rectify one's behavior, which may in turn raise concerns about the mistrusted party's future actions. Surprisingly, denial still appears to be an effective method in some sociology research. Sigal et al. (1988) found, after participants watched a video tape of a simulated debate in which one political candidate was accused of sexual or financial misconduct by the other, the accused party received more votes and was considered to be more honest, ethical, and trustworthy when that party denied culpability, rather than apologized for the misconduct. Riordan et al. (1983) used fabricated reports of a fictitious senator having taken a bribe and found that subsequent character

evaluations of the senator were less negative when the senator denied rather than admitted responsibility for the transgression.

There is another research indicated that whether apology or deny is more effective is depending on the type of violation. Kim et al. (2004) found after a competence-based trust violation, individuals will exhibit more positive trusting beliefs and trust intention to the accused party if they apologized rather than denied. Whereas, after an integrity-based trust violation individual will exhibit more positive trust beliefs and trust intention in the accused party if they denied rather than apologized.

2.1.2 Internal/ External Excuse

Although the transgressor admits his/her wrongdoing, there are still two kind of situations: making an internal attribution of the cause of violation and making an external attribution. External attribution is also known as excuse. An excuse attempts to minimize one's responsibility for negative events by claiming that mitigating circumstances attenuate his or her culpability. Different from a denial, the trustee admits a role in the negative outcome but contends that he or she is not fully responsible for the transgression. An excuse thus alters attributions such that the cause of negative outcome is seen as more external, which should lead to repaired trustworthiness. There is a growing debate between researchers about whether internal attribution or external attribution is more effective after a violation. Some researchers insist that external attributions are more effective. Admitting that one has committed a trust violation is an admission of flawed moral character. Victims may construe such admissions as evidence that the offender is not worthy of trust in the future. Prior research has stressed the advantages of shifting culpability following transgressions. For example, Crant and Bateman (1993) discovered that supervisors in a large accounting firm, who read scenarios that described an unsuccessful audit, blamed the subordinate less if an external causal account was offered than if it was not. Wood and Mitchell (1981) found that nurse managers, who read scenarios depicting their subordinate's wrongdoing in patient care, assigned less responsibility, and punished less severely when they were given accounts of external causes for the poor performance than when they were given an apology.

However, other researchers also awarded the limitations of external attribution. Though excuse may work well at beginning, it still has a risk of being seen as deceptive and self-absorbed as the evidence come out of the surface later, which is especially true for organizations under the supervision of stakeholders inside and outside of the organization (such as employees, customers, and etc.). Those who make excuses to reduce personal responsibility may seriously compromise their credibility and character in the eyes of others. As a result, external attribution for the violation is expected to have deleterious effects on efforts to repair. Instead, internal attribution may be more effective, because those who assume full blame with an internal attribution are seen as more likely to admitting a personal shortcoming, and more likely to correct these actions in the future than those who attempt to mitigate their blame with an external attribution, hence will be more credible, and more effective in stimulating willingness to reconcile. Gillespie and Dietz (2009) proposed following an organizational failure, an apology with internal attribution should be more effective than an apology with external attribution. Bottom et al. (2002) found acknowledging intent (internal attribution) was more effective than denials of intent in repairing short interactions.

There is another research indicated that whether an internal or external attribution should be used is depending on the type of violation. External attributions should be more effective than internal attributions for repairing trust when the need to mitigate blame is great. Kim et al. (2006) found that, after an integrity-based violation, mitigating one's blame using an external attribution would be more effective than assuming full blame with an internal attribution. In contrast, after a competence-based trust violation, assuming full blame with an internal attribution would be more effective for repairing trust than mitigating one's blame with an external attribution.

2.1.3 Promise

A promise is a pledge of the offender's intention to behave in a trustworthy fashion in future interactions after a trust violation. It is the trustee's claim that his/her word is credible, and signals that he/she will behave in a manner that is consistent, reliable, and dependable henceforth. From the perspective of impression management, promise is a kind of assertive impression management approach to convey positive intentions about future behavior to the trustor. If it is believed, promise is helpful to restore positive expectations about future trustworthy behavior of the trustee and to improve subjective assessments regarding the likelihood that the trustee is a trustworthy person.

Furthermore, from the perspective of attribution theory, the effectiveness of social accounts has been attributed to the fact that they try to convey to the victim that the transgression should not be viewed as a typical behavior, but should be viewed as an isolated incident, which will not happen in the future again. As one type of social accounts, promise may implicitly acknowledge that a trust violation has occurred because of the offender's past actions and claim that the harm-inflicting events of the past will not be repeated, as they are attributed to an unstable cause.

2.2 Substantive actions

Because most of the existing trust repair research focus on interpersonal trust repair, compared to social account which is commonly used in interpersonal environment, research on substantive action is neglected, which is a kind of actions used in inter-organizational trust repair and public trust repair. Reparations (Bottom et al. 2002), legalistic remedies (Sitkin and Roth 1993), hostage posting (Nakayachi and Watabe 2005) and communication of information (Xie and Peng 2009) are all successful substantive actions. Using substantive action to repair trust is more effective than only using social account: Penance have more positive effects on affective reactions and cooperative behavior after a transgression only using apology (Bottom et al. 2002; Desmet et al. 2011a; Desmet et al. 2011b; Dirks et al. 2011); Offer of reparation to affected stakeholder will be effective in trust repair (Gillespie and Dietz 2009); Compensation and managerial reaction have effect on perceived trustworthiness and trust intention (Xie and Peng 2009). Moreover, because information asymmetry is especially prominent in organizational trust violation, quick and transparent communication to the public has a greater impact on public trust (Poppo and Schepker 2010). Timely communication of information to the customer can successfully increase perceived trustworthiness and trust intention after a negative publicity event (Xie and Peng 2009). Hostage posting is another action that can be used. Nakayachi and Watabe (2005) found voluntary hostage posting raised participants' perceptions of the trustworthiness of organizations that had caused incidents, whereas imposed or involuntary hostage posting did not result in more

positive valuations. Voluntary posting also affected respondent's behavior when their interests were at stake.

3. Conclusion

Negative publicity is an inevitable situation many companies must face in this highly transparent Internet age. Effects of tactics to repair company image and customer relationship differ depending on different types of events. Coping with all different events with one consistent approach may cause problems to the company. Apology with internal excuse may not always work well in different product or service failures. In addition, it was ineffective for firms to communicate organizational good will to customers only through substantive repair actions. Instead, an act of affective repair such as making a sincere apology and promise is a potent way to highlight corporate integrity and benevolence. An efficacious combination of social account and substantive actions may maximize the effect of repair. Management of the affected companies should understand what the victimized customers really need to figure out a most effective repair tactic.

Acknowledgement

This research was supported by Hankuk University of Foreign Studies Research Found of 2016.

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