Spotlight
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Can firms in a group protect their reputation when one of them goes rogue?

Navigating Crisis: How Business Groups Can Manage Image After Wrongdoing

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Reputation is everything in business, especially in interconnected business groups where firms share ownership, resources, and even public perception. When one company within a business group engages in misconduct, negative public sentiment can spill over to its affiliated firms, even if they had no involvement.

But how can the "innocent" affiliates protect themselves from this reputational damage? This research investigates the effectiveness of different impression management strategies—whether companies should align their response with the wrongdoer or differentiate their approach to distance themselves.

WHAT WE STUDIED

The study draws on attribution theory, which explains how people assign responsibility for events, particularly negative ones. It examines how external stakeholders react to different combinations of impression management tactics in business groups.

The authors conducted three experimental studies:
- Study 1: Tested whether an innocent affiliate benefits more from aligning its response with the wrongdoer or differentiating its actions.
- Study 2: Investigated how a firm's history of misconduct influences the effectiveness of its crisis response.
- Study 3: Explored the role of the parent company's coordination in shaping stakeholder reactions.

Each experiment involved randomly assigned participants who evaluated firms based on fictional crisis scenarios modeled on real-world cases, ensuring practical relevance.

KEY INSIGHTS

1. Differentiation Works Better Than Alignment

When an affiliate firm responds to a crisis, it must decide whether to align its impression management tactics with those of the wrongdoer or differentiate itself. The study found:
- When both firms take the same actions (e.g., both issue apologies or both highlight positive achievements), stakeholders perceive them as more connected, leading to greater reputational harm.
- Affiliates that differentiate their response from the wrongdoer are perceived more favorably because they signal independence and control over their own ethical standards.

2. The Nature of the Response Matters

Firms generally use two types of impression management tactics:
- Technical actions (e.g., introducing stronger safety measures, fixing internal problems)
- Ceremonial actions (e.g., making charitable donations, highlighting past corporate social responsibility efforts)

The research finds that:
- The best strategy for an innocent affiliate is to adopt the opposite approach from the wrongdoer.
- If the wrongdoer takes technical actions, the affiliate benefits from taking ceremonial actions, and vice versa.
- This contrast helps stakeholders mentally separate the innocent affiliate from the wrongdoer.

3. Past Wrongdoing Makes Differentiation More Crucial

If an affiliate has a history of misconduct, stakeholders are more skeptical of its attempts to distance itself from the wrongdoer. However, differentiated tactics still help mitigate reputational damage. Firms with prior scandals must work even harder to show they are not part of a systemic issue.

4. Parent Company Coordination Can Backfire

Business groups often coordinate responses to crises, but excessive coordination can be counterproductive. If stakeholders perceive that the parent company is orchestrating a collective PR strategy, they become suspicious of the group's motives.

Instead of improving reputation, highly visible coordination makes stakeholders believe the group is manipulating public perception, undermining the effectiveness of individual firms' efforts.

TAKEAWAYS FOR BUSINESS LEADERS

1. Differentiate, Don't Copy

Affiliated firms should avoid mirroring the wrongdoer's crisis response. Instead, they should deliberately take a different approach to create a clear distinction in the minds of stakeholders.

2. Use the Right Type of Impression Management

If the wrongdoer is implementing technical fixes, the innocent affiliate should focus on ceremonial actions to highlight its own strengths. Conversely, if the wrongdoer is making public relations gestures, the affiliate should take technical steps to reinforce its commitment to ethical practices.

3. Be Careful with Parent Company Involvement

Parent companies should facilitate but not overly control their affiliates' crisis responses. Overly visible coordination may appear manipulative, making the entire business group look complicit in wrongdoing.

4. A History of Scandals Increases the Need for Differentiation

Affiliates with past misconduct must be even more proactive in distancing themselves from current wrongdoing in the group. The best approach is to emphasize clear, distinct strategies rather than relying on standard public relations tactics.

IMPACT

This research has important implications for family business groups, conglomerates, and multinational corporations, where firms are interconnected but not always directly involved in each other's actions. The findings suggest that strategic differentiation is key to protecting reputations in the face of crises.

In an era of heightened transparency and media scrutiny, business groups must navigate crisis response carefully. Firms that fail to separate themselves from their misbehaving affiliates risk losing public trust, investor confidence, and long-term sustainability.

RECOMMENDATIONS

To avoid reputation damage from associated firms' misconduct, business groups should:

- Encourage affiliates to take distinct crisis response actions rather than coordinating a uniform response.
- Ensure wrongdoers implement technical fixes while innocent affiliates highlight their own positive actions.
- Limit visible top-down coordination from the parent company to prevent stakeholder skepticism.
- Regularly assess affiliates' risk exposure to prepare for potential spillover effects.

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