

**How Do I Fix This? Managing a Product-Harm Crisis**

Robert E. Davis

Walden University

December 2013

### **Abstract**

Product-harm crisis is an important organizational management topic due to the potential detrimental business impact. Organizations are more vulnerable than ever to the possibility of product related incidents disrupting business at any point in the supply chain. To counteract this implicit threat to an organizations reputation and financial wellbeing, if properly deployed, continuity management fosters the ability to run in the face of a crisis event; whereby business continuity management induces the means for appropriate product-harm crisis responses. In this study, the author synthesizes selected published research presenting product-harm crisis management considerations. Based on an assigned literature review; the author summarizes article content, compares and contrasts methods and extrapolates results and conclusions garnered from the selected scholarly research; then provides an actionable recommendation for enabling effective product-harm crisis management.

### How Do I Fix This? Managing a Product-Harm Crisis

Definitive or critical situations impacting individuals and/or groups are crises ("Crisis," n.d.). Crises are the natural or unnatural conditions disrupting the accepted normal state of affairs by affected parties. Under most circumstances, affected individuals and/or groups attempt to control the resulting impact of crises through appropriate response preparation, engagement and remediation. Executed activities, identified for performance, to preserve and protect life and property as well as supply goods and services to the affected population are the expected response (Davis, 2009). For organizational formations, crisis management is the termed response preparation; where intervention and coordination occur by individuals or teams before, during, and after an event to resolve the dilemma, reduce loss and otherwise protect the business (Davis, 2009; Zhao, Y., Zhao, Y., & Helsen, 2011).

Regardless of organizational formation type (e.g. corporation, partnership, co-operative, or agency), management has an accepted fiduciary duty to plan and enact strategies permitting the entity's survival under less than idealistic conditions (Davis, 2009; Zsidisin, Melnyk, & Ragatz, G., 2005). Literally, to ensure adequate business continuity for an organizational formation requires securing capabilities that offset potential adverse conditions created by a crisis event (Davis, 2009).

Derivatively, considering the preceding discussion concerning crisis management, product-harm crisis management represents efforts directed toward remediating issues directly or indirectly associated with goods established by an organizational formation (Chen, Ganesan, & Liu, 2009; Vassilikopoulou, Lepetos, Siomkos, & Chatzipanagiotou, 2009; Zhao et al., 2011).

**Contributing Factors to Product-Harm**

Given the interconnectivity of most national economies through product trade, entities are more vulnerable than ever to the possibility of product difficulties disrupting business at any point in the supply chain (Davis, 2009; Zsidisin et al., 2005). The nature of a product-harm crisis can extend from flood or fire to quality assurance or computer-virus where the conditions affect a product that maybe crucial to conducting business locally, regionally, or globally (Cerullo, V. & Cerullo M., 2004; Davis, 2009; Vassilikopoulou et al., 2009; Zsidisin et al., 2005).

Identifiable factors contributing to a product-harm crisis can be divided into two generic classifications: natural and unnatural conditions (Cerullo, V. & Cerullo M., 2004). Natural events include hurricanes, wild-fires, earthquakes and other nature originated events; whereas, unnatural conditions include inadequate quality assurance procedures, inappropriate product usage, negative product publicity and other human originated incidents (Cerullo, V. & Cerullo M., 2004; Zsidisin et al., 2005).

Additionally, unnatural conditions can be categorized as intentional or unintentional. As particulars, negative or positive consumer perceptions such as perceived social irresponsibility or a supply shortage can induce a product-harm crisis (Zsidisin et al., 2005). For instance, a product-harm crisis can be created through intentional circulation of unsubstantiated negative (or positive) attributions regarding a brand or business as a whole by a competing organizational formation (Lei, Dawar, & Gürhan-Canli, 2012; Zhao et al, 2011).

**Findings of the Various Studies on Product-Harm Crisis**

Scholarly product-harm authors have approached product-harm crisis management from different perspectives. Vassilikopoulou, Lepetsos, Siomkos, and Chatzipanagiotou (2008)

considered the factors affecting the outcome of a product-harm crisis utilizing conjoint analysis of selected variables to examine the merit of each factor influencing consumer purchase behavior and studied purchase intention variations across three different crisis degree levels. Zhao, Y., Zhao, Y., and Helsen (2011) longitudinally researched consumer choice behavior following a product-crisis creating consumer product quality uncertainty. Lei, Dawar, & Gürhan-Canli (2012) investigated how foundational information affects product beliefs. Yannopoulou, Koronis, and Elliot (2011) assessed consumer perceptions of a brand's integrity using the case study methodology. Chen, Ganesan, and Liu (2009) probed the impact of product recalls on the stock-market value when a product-harm crisis occurs employing the event study methodology.

Vassilikopoulou et al. (2009) in their product-harm study identified four primary characteristics affecting consumer response to a product-harm event. These primary attributions, included as study variables, are the company's reputation and social responsibility, the company's response to a crisis, the time span after a crisis, and the external effects during and after the crisis considering the level of harm or injury (Vassilikopoulou et al., 2009). The authors found (from the resulting constructed theoretical model) at the high extent, medium extent and low extent levels time, organizational response and social responsibility as the number one factors influencing purchase intentions; respectively (Vassilikopoulou et al., 2009). Consequently, the authors suggested, by considering the factors affecting purchase intentions, businesses could handle product-harm crisis conditions to minimize negative consequences (Vassilikopoulou et al., 2009).

Zhao et al. in their product-harm study identified uncertainty characteristics affecting consumer brand choice after a product-harm event. These primary attributions, included as

research variables, are consumer set, consumer brand market, consumer purchases, brand choice, and consumer utility before, during and after the crisis. Sub-categorically, the study's derived utility attribute are the result of advertising stock, product quality experience, price, advertising sensitivity, the weight attached to the experience quality level, and risk coefficient (Zhao et al., 2011). According to the authors, their structural paradigm is more robust than the standard consumer learning model and a model similarly devised that omits information discounting over time (Zhao et al., 2011). Furthermore, the authors stated, upon processing scenarios using the newly created model, where sensitivity to price and risk delineate from quality evaluation and uncertainty factors, companies can appropriately manage quality perceptions after a product-harm crisis (Zhao et al., 2011).

Lei et al. (2012) in their product-harm study assessed the impact of foundational information in determining product-harm features. The primary attributions, included as study variables, are prior beliefs, industry frequency, and similarity information with alternative values of positive versus negative, high versus low, and present versus absent; respectively and a control group (Lei et al., 2012). The authors' major finding, based on the outcomes of two experiments, with the second experiment termed a subsequent crisis event related to the same brand, was that prior beliefs have a relationship with industry frequency and similarity information when considering blame assignment, brand trustworthiness, and brand evaluation factors (Lei et al., 2012). Therefore, the authors suggested, when considering the factors that affect product-harm characteristics, foundational information is an important source that influences consumers' inference judgment (Lei et al., 2012). Correspondingly, the authors also

recommended, organizational management of a product-harm crisis through foundational information was important for brands with positive prior beliefs (Lei et al., 2012).

Yannopoulou et al. (2011) in their product-harm case study identified two primary questions generating consumer responses to a product-harm event broadcasted through mass media. The primary enquiries involved in the research study were: how private and public, communication domains affect brand trust, as well as the media's effect on uncertainty perceptions during a crisis (Yannopoulou et al., 2011). The authors found that consumers have a significant difference in risk perception and brand trust when examined through the private and public arenas (Yannopoulou et al., 2011).

Chen et al. (2009) in their product-harm study identified and examined product recall organizational option features. The key attributions, included as study variables, are strategy, firm and product during a crisis; with alternative values of proactive versus passive for the strategy characteristic (Chen et al., 2009). The authors found, from the resulting built theoretical model, proactive recall strategies have a more negative effect on a publicly traded company's stock returns than passive strategies, regardless of the firm and product features (Chen et al., 2009). Additionally, the authors stated, choosing between proactive and passive strategies, companies focused on minimizing potential financial losses associated with the product recall (Chen et al., 2009). Therefore, the authors proposed, considering the event study results, companies should be sensitive to how the stock-market potentially synthesizes proactive product-harm strategies (Chen et al., 2009).

Comparatively, Vassilikopoulou et al. (2009), Zhao et al. (2011), Lei et al. (2012), and Yannopoulou et al. (2011) derive their assertions from a consumer's perspective, whereas Chen et

al. (2009) extrapolate their assertions from an investor's perspective. In the use of studying consumer behavior, Vassilikopoulou et al. (2009) and Zhao et al. (2011) suggest that time is an important determinant of consumer behavior; while Zhao et al. (2011) and Lei et al. (2012) consider discounting as a research impact factor.

### **Recommendation for a Company Handling a Product-Harm Crisis**

Commonly, management's primary job is integrating organizational resources into an effective and efficient system (Davis, 2009). On occasion, as proposed by Thompson (as cited in Zsidisin et al., 2005), management carries out this task rationally and before the fact, attempting to blend an appropriate resource mix to achieve a defined objective or goal (Davis, 2009). However, frequently, entity organizational managers find that someone has already provided the recipe and one of the resource ingredients is more or less fixed and they must blend the other resource additives (Davis, 2009). For this reason, management needs mechanisms for making adjustments to product-harm responses (Davis, 2009).

Continuity management provides the ability to operate in the face of a crisis event; whereby deploying business continuity management within organizational formations furnishes the means for effective and efficient product-harm crisis management (Davis, 2009). Business continuity management is the program by which a firm prepares for future incidents that could jeopardize an organization's core mission and long-term viability (Davis, 2009; Zsidisin et al., 2005). Product continuity controls ensure that when unexpected events occur imperative operations continue without interruption, or promptly resumed; and promote the protection of significant as well as sensitive data (Davis, 2009). To this end, within an organizational formation, all functional departments should address business continuity to ensure adequate



preparedness and effective management of product-harm crises (Cerullo, V. & Cerullo M., 2004; Davis, 2009; Lam, 2002; Zsidisin et al., 2005).

### References

- Cerullo, V., & Cerullo, M. J. (2004). Business continuity planning: A comprehensive approach. *Information Systems Management, 21*(3), 70678.  
doi:10.1201/1078/44432.21.3.20040601/82480.11
- Chen, Y., Ganesan, S., & Liu, Y. (2009). Does a firm's product-recall strategy affect its financial value? An examination of strategic alternatives during product-harm crises. *Journal of Marketing, 73*(6), 2146226. doi:10.1509/jmkg.73.6.214
- Crisis. (n.d.). *Merriam-Webster.com*. Retrieved November 17, 2013, from <http://www.merriam-webster.com/dictionary/crisis>
- Davis, Robert E. (2009). *IT Auditing: Business Continuity and Disaster Recovery*. Mission Viejo: Pleier. CD-ROM.
- Lam, W. (2002). Ensuring business continuity. *IT Professional Magazine, 4*(3), 19625. doi: 10.1109/MITP.2002.1008533
- Lei, J., Dawar, N., & Gürhan-Canli, Z. (2012). Base rate information in consumer attributions of product-harm crisis. *Journal of Marketing Research, 49*(3), 3366348.  
doi:10.1509/jmr.10.0197
- Vassilikopoulou, A., Lepetsos, A., Siomkos, G., & Chatzipanagiotou, K. (2009). The importance of factors influencing product-harm crisis management across different crisis extent levels: A conjoint analysis. *Journal of Targeting, Measurement, and Analysis for Marketing, 17*(1), 65674. doi:10.1057/jt.2008.30

Yannopoulou, N., Koronis, E., & Elliot, R. (2011). Media amplification of a brand crisis and its effects on brand trust. *Journal of Marketing Management*, 27, 5396546.

doi:10.1080/0267257X.2010.498141

Zhao, Y., Zhao, Y., & Helsen, K. (2011). Consumer learning in a turbulent market environment:

Modeling consumer choice dynamics after a product-harm crisis. *Journal of Marketing*

*Research*, 48, 2556267. doi:10.1509/jmkr.48.2.255

Zsidisin, G., Melnyk, S., & Ragatz, G. (2005). An institutional theory perspective of business

continuity planning for purchasing and supply management. *International Journal of*

*Production Research*, 43, 340163420. doi:10.1080/00207540500095613