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Strategies to offset performance failures: The role of brand equity

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Abstract

In this research, we examine the role of brand equity as a strategy to offset the negative effects of a performance failure. Two independent studies, spanning four industries and involving 669 respondents are employed to investigate this issue. Results suggest that high brand equity leads to more favorable satisfaction evaluations and behavioral intentions than low brand equity. The brand equity effect is identified as a prevailing advantage that spans the entire failure and recovery sequence. This is an important finding because it implies that the advantages of high brand equity theoretically can apply to all failures, not just those for which recovery is attempted. Further inspection, however, reveals that despite the prevailing advantage, high-equity brand failures lead to a more drastic decline in customer evaluations immediately after the failure episode. Managerial implications and future research are addressed.

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Introduction

Mitigation of performance failures is a critical part of retail management, as even the most respected firms will incur scheduling mishaps, service blunders, and product defects from time to time. For example, as a result of its conspicuous mismanagement of an ice storm, JetBlue went from regularly appearing on lists of top service firms to being mocked and parodied by television pundits and the mass media (McGregor 2007). Venerable brands like Wal-Mart, Ford, Northwest Airlines, and Home Depot have recently suffered from similar negative publicity (Kavilanz 2007).

The issue we seek to address in this research involves the strategic implications associated with poor performance from a strong brand like JetBlue. The need for retailers to identify and evaluate strategies to offset failures is recognized by both practitioners and academics (e.g., Folkes 1984; Maxham and Netemeyer 2002). Failures increase operating costs, as employees' time and customer remuneration are often required to offset negative consequences. These observations imply a need for organizations to pursue strategies that may attenuate the negative effects of performance failures.

Predictions regarding the interplay between brand equity and performance failures, however, are not straightforward. On one hand, the incongruity between a negative encounter from a revered brand may intensify customer backlash. On the other hand, positive associations derived from the brand's equity may offset some of the negative effects of the failure incident. Thus, our objective is to examine the role of brand equity in managing performance failures.

The remainder of the paper is organized as follows: first, extant theory is utilized to make predictions about the effects of brand equity on customer reactions to performance failures. Second, two independent studies are introduced that test the effects of brand equity and assess the duration and relative magnitude of brand equity effects. We conclude with a general discussion of the results, which provide valuable guidance to retail and brand managers.

Conceptual background

Research suggests that successful brand-building strategies encourage greater customer loyalty due to the accompanying array of positive associations that consumers attribute to strong brands (Keh and Lee 2006; Keller 1998). This "brand

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equity" increases consumer loyalty and switching costs and can result in long-term benefits for firms with strong brands (Jones, Mothersbaugh, and Beatty 2000; McWilliams and Gerstner 2006). Prior research on related constructs suggests that these benefits may also apply to negative information. For example, consumer-specific variables such as brand commitment and familiarity have been shown to moderate the processing of negative information (e.g., Ahluwalia, Burnkrant, and Unnava 2000; Ahluwalia, Unnava, and Burnkrant 2001; Ahluwalia 2002). Still, the effectiveness of more global brand building variables in inoculating organizations against the ill effects of performance failures has not been assessed.

Characterized in terms of the memory of an individual consumer, customer-based brand equity is regarded as a consequence of knowledge that is stored about the brand (Keller 1993, 1998). Brand knowledge is envisioned as a network of associations including brand-related beliefs, attitudes, and perceptions about such things as quality and image (Aaker 1991; Erdem and Swait 1998; Keller 1993). These brand associations, or brand equity, arise from direct sources, such as prior personal experience and from indirect sources, such as word-of-mouth comments or advertising claims (Keller 1993). It is from this customer-based view of brand equity that we consider effects on customer perceptions of failure and post-failure events.

Before developing predictions relating brand equity to product and service failure, it will be useful to draw a distinction between brand equity and similar constructs, such as brand loyalty, commitment, and familiarity. Consistent with Arnett, Laverie, and Meiers (2003), we view brand equity, brand loyalty, brand commitment, and brand familiarity as related and yet separable constructs.

Loyalty has typically been conceived as a behavioral construct relating to intentions toward repeat purchase (Harris and Goode 2004; Kumar and Shah 2004; Magi 2003; Srinivasan, Anderson, and Ponnavolu 2002; Wallace, Giese, and Johnson 2004). By contrast, brand equity entails favorable predispositions that may not necessarily result in repeat buying behavior. For example, a person with limited means may hold a posh hotel in high regard because of advertising messages and word-of-mouth information yet have no current opportunity to book a room.

Brand commitment refers to pledging or binding of one's self to behavioral acts, which represents an association between public behavior and internal attitude (Ahluwalia, Burnkrant, and Unnava 2000). Brand equity, by contrast, is viewed as a differential response to a brand due to stored knowledge (Keller 1993, 1998), which may manifest in more private ways than commitment, such as interest in an advertisement and absorption of its content. Indeed, Ahluwalia, Burnkrant, and Unnava (2000) warn against attempting to generalize findings about commitment to other related constructs like brand equity.

Finally, brand familiarity can also be differentiated from brand equity. Brand familiarity relates to salience and the ability to recognize or recall information about a brand (Keller 1998). Brand equity is conceptually broader, encompassing brand image (e.g., perceptions of quality) in addition to brand familiarity (Keller 1993).

In summary, brand equity is a perception or belief that extends beyond mere familiarity to an extent of superiority that is not necessarily tied to specific actions. Familiarity does not imply belief in superiority. Also, inherent in commitment and loyalty conceptualizations is an act of devotion, whether voluntary (e.g., affective loyalty) or involuntary (e.g., continuance commitment). Brand equity does not imply action, only perception. Commitment and loyalty also do not imply superiority, whereas brand equity does. An example of this difference is evident by comparison to continuance commitment, where a consumer is committed to an organization because of financial investment or lack of alternative options rather than by a belief in the superiority of the firm.

Offsetting performance failures: The recovery literature

There is ample guidance in the recovery literature on how to offset the negative effects of performance failures (e.g., Mattila and Patterson 2004; McWilliams and Gerstner 2006; Menon and Dube 2004; Tokman, Davis, and Lemon 2007; van Birgelen, de Jong, and de Ruyter 2006). Once a failure is identified, best practices for recovery management include acting quickly (Hart, Heskett, and Sasser 1990), offering an explanation (Mattila 2006), fair treatment (Maxham and Netemeyer 2002), effective complaint procedures (Tax, Brown, and Chandrashekaran 1998), fair compensation (Smith, Bolton, and Wagner 1999), and empowering employees to make amends (Tax and Brown 1998). There are also factors that are not recovery strategies per se but, if present, may mitigate the negative impact of a failure incident. Prior research suggests that service guarantees (Liden and Skalen 2003), commitment (Ahluwalia, Burnkrant, and Unnava 2000; Mattila 2004), customer choice (Cranage and Mattila 2005), explanations (Mattila 2006), and brand personality (Aaker, Fournier, and Brasel 2004) have dampening effects on negative information about a firm. The purpose of this research is to consider whether brand equity may have similar dampening effects on customer reactions to performance failures and, if so, how the effect of brand equity is applied across the failure sequence. In the next section, rationale for why brand equity may help to offset failures – and why it may not – are discussed.

The role of brand equity in offsetting performance failures

It is conceivable that brand equity could have advantageous or disadvantageous effects on reactions to performance failures. For example, brand equity might be expected to impede recovery after a failure episode. Customers may come to expect more from a brand with strong equity, and thus be especially disappointed when a failure occurs. Customers who encounter a failure with a prominent brand may be more upset than if they had encountered the same circumstances with a brand that has less equity. Such an effect is consistent with expectancy-disconfirmation and the Gaps model of service quality (Parasuraman, Zeithaml, and Berry 1985; Oliver 1997; Niedrich, Kiryanova, and Black 2005).

Although the disadvantageous effects of brand equity are theoretically and intuitively plausible, research has identified

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