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Corporate scandals as denial of reputation

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Scandals can cause serious damage to the reputations of corporations, as the recent example of the Volkswagen case has once again demonstrated. The media play an important role in the emergence and dissemination of corporate scandals. They are the source from which people typically learn about the wrongdoings of corporations, and they constitute the arena wherein people evaluate, criticise and discuss the behaviour of corporations. Corporate scandals and the media are hence in a symbiotic relationship. Without the publicity fostered by the media, there is no scandal, since the wrongdoings of a corporation can only be referred to as a scandal when they become known. Yet, scandals also influence the headlines and the value of news for the media, and they are thus assets for publishers seeking to sell their newspapers. Furthermore, scandals represent the events by which the watchdog function of the media becomes evident. The role of the media in corporate scandals has therefore attracted significant research interest in various disciplines. The literature mostly includes research on firms and their management, although more recently there has also been a focus on other types of corporations, such as higher education institutions or sport organisations.

This chapter will focus on how corporate scandals unfold in the public sphere as well as the role of the media in such scandals. It begins with a critical review of the existing literature concerning corporate scandals. We will then illustrate how the concept of the public sphere is valuable in relation to analysing the communicative dynamics of corporate scandals. Based on the theory of communicative action offered by Jürgen Habermas (1984) and the reputation theory introduced by Eisenegger (2005; 2016), we will subsequently present a conceptual framework for classifying and analysing corporate scandals, and we will suggest denial of reputation as the definition of corporate scandals. When we define scandals as the denial of reputation, the communicative dynamics that occur throughout the process of scandalisation, as well as how those dynamics relate to changes in the public sphere, move to the centre of interest. During the discussion, we further argue that digitisation, as the most recent transformative power of the public sphere, is changing the way corporate scandals unfold in the media. Social media sites, such as Facebook and Twitter, allow stakeholders to articulate directly their opinion on corporations without having to pass through the media as gatekeeper. The new communicative dynamics seen in the age of digitisation thus lead to more frequent and rapidly evolving scandals that are hence less controllable and predictable. This development poses challenges in relation to corporate reputation management, which we will discuss in the closing section of the chapter.
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From Enron to Volkswagen: research on corporate scandals and the media

The wrongdoings of corporations inspire research in various disciplines related to business, including law, accounting, management as well as communication or public relations. The studied cases often relate to standardised practices within corporations, such as accounting (Levi, 2006; Zona et al., 2013) and the production of goods (Tse et al., 2018), but they also include wrongdoings on the part of management (Benediktsson, 2010) or breaches of norms related to corporate social responsibility (Eisenegger and Schranz, 2011) or the governance practices of firms (Dyck et al., 2008; Bednar, 2012).

In particular, the cases of large multinational corporations attract significant attention from researchers. Among these cases, the accounting frauds perpetrated in the USA during the early 2000s, namely the Enron and WorldCom scandals, gave rise to many studies and much conceptual work (e.g. Kuhn and Ashcraft, 2003; Hannah and Zatzick, 2008; Benediktsson, 2010; Ailon, 2015). As arguably the most prominent recent example, the Volkswagen diesel emissions scandal is currently being studied extensively (e.g. Clemente and Gabbioneta, 2017; Markowitz et al., 2017). Due to this focus on the scandals of large corporations, not all industries are equally well researched. The most commonly analysed cases include industries that are prone to scandals due to their production conditions (e.g. the fashion industry) as well as industries that produce goods that are harmful in general (e.g. the tobacco industry) or that can affect consumers’ health when instances of damage occur (e.g. the food, pharmaceutical or automotive industries). Following the events of the 2008 global financial crisis, the financial industry has also been studied to a significant extent (Vogler et al., 2016). While most research focuses on the causes and effects of corporate scandals at the organisational level, some studies place the spotlight on the role of the management. This includes research on fraudulent actions or misbehaviour on the part of managers (Hannah and Zatzick, 2008; Cohen et al., 2010; Ailon, 2015) or other elite actors (Jansson, 2016).

The literature is dominated by a focus on US and European corporate scandals. However, it also includes a growing body of research concerning scandals in emerging economies in Asia (Liu and Maa, 2016; Kim et al., 2018). Due to the mostly unique nature of scandals, comparative research regarding corporate scandals is difficult to conduct. Among the few truly comparative designs found in the literature, the works of Coffee (2005) and Soltani (2014) on the cultural differences between the USA and Europe, as well as the contribution of Lloyd et al. (2014) concerning nursing home scandals in five countries, can be mentioned. Further research in this regard includes comparisons of the same scandals in two different countries, for example, the study by Feng et al. (2012) regarding the differences in newspaper coverage of the baby formula scandals in China and the USA. Moreover, a recent study focuses on the differences between national and international audiences in terms of their perception of the Korean Air scandal (Kim et al., 2018).

Most research concerning corporate scandals refers to the media as an important factor in the dissemination of scandals. The influence of the media is mostly considered during discussion of the results or in the conceptual part of the work, but it is not always empirically analysed. Such studies reflect the watchdog function of the media or their role as a promoter for corporate governance (Miller, 2006; Brickey, 2008; Bednar, 2012). This includes the role of the media in cases of corporate fraud and whistleblowing (Dyck et al., 2010), as well as in implementing policies and regulations after scandals have taken place (Lloyd et al., 2014). Miller (2006) describes the press as an important factor in relation to rebroadcasting information derived from other intermediaries, such as analysts or auditors. Similarly, Greve et al. (2010) refer to the media as
an intermediary that can impose sanctions in the form of public scrutiny or humiliation. The authors argue that, although the media cannot directly impose legally binding sanctions, they can place pressure on social-control agents to put such sanctions in place. Other research studies the role of the media in the wrongdoings of companies, such as product recalls in the toy industry (Zavyalova et al., 2012). Further, some studies investigate the role of scandals from a reputational perspective and, therefore, focus on the effect of the media coverage of scandals on the behaviour of the general public or stakeholder groups (Conroy and Emerson, 2006). The results of such studies show that the media play an important role in the loss (Vogler et al., 2016) and restoration (Sims, 2009) of reputation.

When compared to research focusing on the function of the media during corporate scandals, studies analysing the content of the media coverage of scandals are less numerous. By using the content analysis method, the role of the media in socially constructing corporate violence as a crime (Wright et al., 1995; Machin and Mayr, 2013; Jansson, 2016) or the framing of corporate scandals (Feng et al., 2012; Clemente and Gabbioneta, 2017) can be examined. Due to their high news value, scandals are extensively covered by the media. Yet, according to the prior research, the amount and tone of media coverage depends on various factors. In a longitudinal study involving press data from 1998 to 2007, Zavyalova et al. (2012) show that the amount and tone of media coverage can be influenced by companies’ actions and peer behaviour. Benediktsson (2010) proves that the amount of media coverage depends on the political orientation of the examined newspapers. In their comparative study, Feng et al. (2012) provide evidence that the framing of authorities by the news media in the USA and China differs significantly.

The increasingly digitised media environment and social media offer new possibilities for research concerning corporate scandals. Such technological developments allow scientists to look not only at media coverage, but also to analyse user generated content. This includes, for example, car owners’ responses to the Volkswagen diesel emissions scandal (Markowitz et al., 2017), customer behaviour during the horsemeat scandal (Tse et al., 2018), responses of football fans to the FIFA scandal (Hölzen and Meier, 2018) and the influence of social media in constructing racism (Baker and Rowe, 2013). Scholars are also starting to investigate how scandals spread on social media from a network perspective (Yilmaz et al. 2012). This includes studies of the effects of online firestorms on corporations (Pfeffer et al., 2013; Einwiller, 2016).

The majority of prior studies have focused on firms as corporations. However, the general logic of the formation and dissemination of scandals also applies to non-economic organisations. Few studies so far have analysed the scandals of higher education institutions. The existing research concerning higher education institutions typically looks at cases in North America that mostly involve university sports teams (Lucas and Fyke, 2014; Teetzel and Weaving, 2014). One of the most studied events in this regard is the Duke University lacrosse scandal, which included false allegations of rape. In her paper on the case, Len-Rios (2010) shows that the local press affected the image restoration practices implemented by the university. The literature also includes research on media effects in cases of academic fraud or plagiarism. Such studies include, among others, the cross-cultural narrative analysis of newspaper coverage of the Hwang cloning scandal by Kruvand and Hwang (2007), as well as a study on the case of the German Federal Minister of Education and Research who resigned after the revocation of her doctorate due to plagiarism (Fähnrich et al., 2015).

Another field that has recently attracted the attention of scholars is that of sports management and communication. Related studies analyse the effects of scandals on the part of athletes, teams or coaches on their sponsors (Hughes and Shank, 2005; Osborne et al., 2016; Kelly et al., 2018), as in the Tiger Woods case (Knittel and Stango, 2013). However, sports organisations
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themselves, for example, FIFA (Baker and Rowe, 2013; Bayle and Rayner, 2018) or football clubs such as Juventus Turin in Italy (Baroncelli and Fella, 2006) are also studied in the context of scandals. Referring to the role of the media, Osborne et al. (2016) show that the frequency of newspaper coverage of athletes’ off-field misbehaviour depends on the person involved, since scandals involving famous athletes produce higher news values and thus receive more frequent media attention than cases involving unknown athletes.

In this literature review, we have highlighted the diverse and interdisciplinary interest in the role of the media in corporate scandals. Nevertheless, we would also like to point out some limitations in the existing research that we suggest as future research topics. We state that studies often focus on big scandals and are designed as case studies. Therefore, there is a significant amount of research available on easily accessible and obvious scandals, such as the Volkswagen and Enron cases. As a result, we know a lot about how specific scandals are covered in the media, but not very much about why certain corporate wrongdoings emerge as scandals and why others do not. Due to the very case-specific nature of scandals, comparative as well as longitudinal research is difficult to conduct. This leads to a lack of true comparative research and longitudinal studies. It is also important to note that more research is needed on the effects of digitisation and social media on the dissemination of corporate scandals. This should include conceptual and methodological work on how the changing media environment, for example the emergence of social media, affects the logic of corporate scandals. Although there is a growing body of research concerning firestorms on social media, the focus of such studies is mostly on social media itself, while the interaction between the different arenas (e.g. social media and legacy media) is neglected. Finally, we have identified a shortage of definitional work in the research concerning corporate scandals. Most prior studies do not use a clear definition of such scandals. The academic work on them is often related to research regarding the crisis communication of corporations. Often, the terms ‘crisis’ and ‘scandal’ are applied almost as synonyms without reflecting the specific natures of the two concepts. In the following section, we therefore suggest a framework for defining and analysing corporate scandals.

The public sphere: where corporate scandals unfold

Our literature review shows that the role of the media is decisive in terms of the dissemination and unfolding of corporate scandals. Without public knowledge of corporate misconduct, there is no scandal (Imhof, 2005). The main definitory element of a scandal is, therefore, publicity. The media hence serves to generate the publicity that turns the wrongdoings of corporations or individuals into scandals. Yet, the role of the media can only be fully understood in light of the function that the media has in modern societies. What makes the media so important is the fact that its outlets constitute the public sphere and thus fulfil two major functions in mediated societies. First, the media functions as a mirror for the members of a given society. Indeed, the general public increasingly follow procedures of societal relevance exclusively through new and old media. Due to the role of social media sites such as Facebook and Twitter, we argue that the importance of mediated procedures has increased dramatically. Second, the media also serves as a platform. That is, the media constitutes the arena wherein stakeholders articulate their ratings and judgements regarding corporations. Actors seeking to foster a corporate scandal will hence seek publicity in the media in order to disseminate their opinions. In the commercialised media, such actors find grateful recipients for their advances, since negativity serves as a main news value. When we position the public sphere and the media at the centre of corporate scandals, reputation becomes the principal measurement of such scandals, which we will demonstrate in the following section.
Three dimensions of corporate scandals

As stated in the literature review, relatively few studies concerning corporate scandals include a clear definition of a scandal. We hence attempt to fill this gap and suggest a definition based on reputation theory. Reputation can be simplistically described as the evaluation of a corporation by the public. Commonly, the concept of reputation is defined as the evaluation of a firm by its stakeholders (Fombrun, 1996) or in the media. The latter is usually referred to as media reputation, and it is defined as the overall evaluation of an organisation in the media (Deephouse, 2000). Reputation is, therefore, an indicator of how well respected (or otherwise) a particular organisation is. A scandal is an event whereby the reputation of a corporation is fundamentally at risk. We thus define a scandal as denial of reputation. Further, the term scandalisation refers to the communicative dynamics within the public sphere that lead to such a denial of reputation.

According to most theories, reputation is a multidimensional concept. Eisenegger (2016) states that scandals are also multidimensional and distinguishes between the three dimensions of scandals that are related to a corporation’s reputation. This approach is based on Jürgen Habermas’s (1984) theory of communicative action. His theory postulates that actors must prove themselves in three different realms: the objective-instrumental, the moral-ethical and the expressive-emotional. In modern society, corporations, individuals or institutions can gain and lose reputation within these three realms. During a scandal, as our definition suggests, reputation is denied due to failures in at least one of these three realms.

Initially, a corporation can be evaluated within the objective-instrumental realm. It is evaluated positively if it successfully fulfils the purpose that it was created for. In terms of modern firms, this means the production of high-quality products and the generation of stable shareholder value. We use the term functional reputation as an indicator of such professional competence. When a scandal threatens its functional reputation, the corporation is perceived as incompetent or lacking in professionalism. Examples of such scandals include product recalls in the food or automotive industries and medical malpractice.

When a corporation is evaluated within the moral-ethical realm, it must act in such a way that it conforms to societal norms and values. This refers to formal, codified rules (e.g. in the form of a regulatory framework) as well as informal, non-codified rules. We refer to this type of reputation as social reputation. Such reputation is awarded when a corporation acts responsibly and fairly while pursuing its primary goals. Social reputation is denied when a corporation deliberately breaches the prevailing norms and rules of society. Examples here include fraud or tax evasion as well as cases of sexual harassment or racism within a corporation.

Within the expressive-emotional realm, the profile or self-presentation of a corporation forms the basis for evaluations. The term expressive reputation refers to how emotionally attractive, unique or authentic a given corporation is. During a scandal related to its expressive reputation, the identity of a corporation is placed under scrutiny. A corporation discredits itself when it does not conform to what it has pretended to be. If a corporation does not ‘walk the talk’, then it is hence no longer perceived as trustworthy or credible. Therefore, a gap exists between the profile of a given corporation and the perception of others. Typically, a scandal concerning expressive reputation involves a lie, hypocrisy or deception.

A complete scandal consists of the denial of reputation in all three realms. It is a combination of a perceived lack of professional competence (functional failure), breaches of formal or non-formal societal norms (social failure) and the questioning of a corporation’s trustworthiness or credibility (expressive failure). The intensity of a scandal increases in exactly that order. This can be explained by means of the attribution of responsibility. In his situational crisis communication theory, Coombs (2008) shows that the reputational threat posed by a given crisis depends on the
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attribution of responsibility. When applied to corporate scandals, we state that functional failure is the least severe type of failure. A bad professional move will generate headlines, but the outrage will be limited if no deliberate act can be identified. Social failures usually weigh more heavily on a corporation’s reputation and cause far greater outcry among the public. Misdeeds such as fraud, greed, sexual harassment or racism can usually be linked to the intentional actions of individuals. The attributed responsibility is thus stronger in the case of social failure. Finally, expressive failures threaten the reputation of a corporation most severely, since they include deception, which implies a strong attribute of responsibility. Due to the stronger attribution of responsibility, the social and expressive failures of corporations have higher news values. Hence, the media also allows more room for such failures in news coverage. Actors seeking to generate a corporate scandal thus try always to emphasise social and expressive failures. Big corporate scandals often involve a combination of all three types of failures. For example, during the global financial crisis, the banks were accused of having miscalculated their credit risks (functional failure), with greed being suggested as the main motive behind the miscalculation (social failure). Additionally, the promises of high returns with only low risks for investors turned out to be a deception (expressive failure). In recent years, however, the denial of reputation in all three realms has become more frequent due to the changing structure of the public sphere. Digitisation and the emergence of social media in particular have led to more emotional communicative dynamics that regularly trigger harsh public outcry about corporate failures. The management of scandals has thus become part of the daily business of corporations rather than an exception.

Corporate scandals in the digital age

The combination of public sphere and reputation theories allows us to analyse systematically how scandals unfold in the media, as well as how changing conditions within the public sphere alter the logic of scandalisation. With digitisation, the public sphere is undergoing its latest transformation. Indeed, digitisation has fundamentally changed the way in which scandals evolve and disseminate. Further, it enhances already existing trends within media systems, for example, ongoing tabloidisation or personalisation. We identify two main aspects when it comes to scandals. First, due to the structural crisis within journalism, publishers are under increasing pressure to sell their products. Scandals with high news values hence represent valuable assets for the media. The media, especially tabloid newspapers but increasingly also other media types such as the subscription press, are therefore increasingly playing the role of the scandalising actor. This leads to a higher frequency of scandals, as well as a more aggressive and lurid tone in reporting. Second, in the ongoing process of platformisation of the web (Helmond, 2009) – i.e. the increased influence of global technology platforms on the logic of public communication processes – the role of the news media as gatekeeper is being challenged (Wallace, 2018). Although the legacy news media remain relevant as producers and disseminators of content, the processes of agenda building and agenda setting are changing. Digitisation changes the structure of the public sphere into a long-tail public sphere (Neuberger, 2009), wherein professional news producers are increasingly competing for attention with semi-professional news outlets, for example so-called alternative media or corporate public relations. By using social media, almost everybody can produce and distribute content without having to adhere to the professional principles of journalism or ethical guidelines and without clear accountability. Corporations themselves can potentially exert a direct influence on their audience and, therefore, they might have greater control over their reputation. However, this is just one side of the coin. It also means that pressure groups and the stakeholders of a corporation can directly influence the same audience, which actually leads to less control over reputation. During scandals, pressure groups
can articulate and disseminate their positions via social media without having to pass journalistic selection procedures. As social media sites are designed to trigger emotions and provoke user reactions, the public outcry as well as the tone of the scandals become harsher due to the lack of counterbalance traditionally provided by professional journalistic guidelines. This principle of emotionality also leads to an even more augmented focus on the social and expressive failures of corporations in the public sphere. Scandals thus become more severe, but also more frequent; they evolve faster and are less controllable as almost everybody can at least try to provoke a scandal or join the process of scandalisation. The new unleashed scandal (Poerksen and Detel, 2014) no longer follows the linear and unidirectional logic of the traditional mass media. New actors using new channels with a new spectrum of topics generate public outcry that oscillates between extremes, with only restricted possibilities being available for corporations to control and manage scandals. Our framework is thus also of practical relevance. It highlights the necessity for communication managers to monitor, categorise and assess systematically the risk of their public exposure. During this process, reputation monitoring based on (social) media data can be key to the early detection and successful management of corporate scandals.

References


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