Fight or Flight: How Americans React to Corporate Crises and Controversies

A study conducted by the Public Affairs Council and Morning Consult
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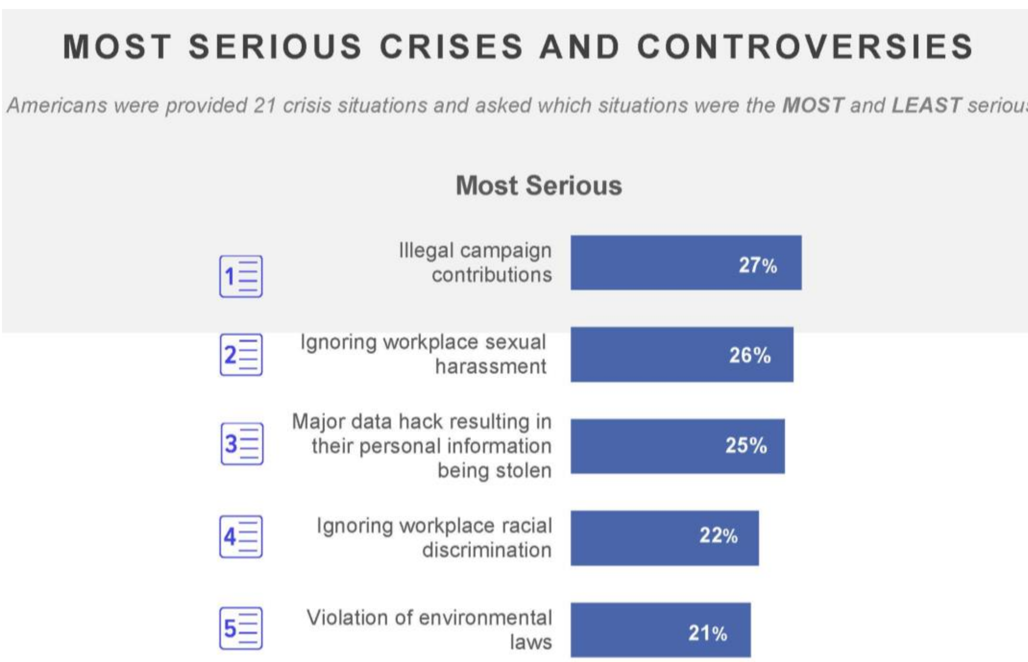
Corporate crises continue to feed the 24/7 news cycle. Americans often express their concerns - but how deep does their outrage go? Do we stay outraged about some issues more than others? Which crises should CEOs take most seriously? And which types of controversies and crises make Americans most likely to boycott a company or make negative comments?

To get to heart of these questions, the Public Affairs Council and Morning Consult conducted a survey of more than 2,200 Americans in March 2018 to gauge their perceptions of the most concerning corporate crises and controversies.

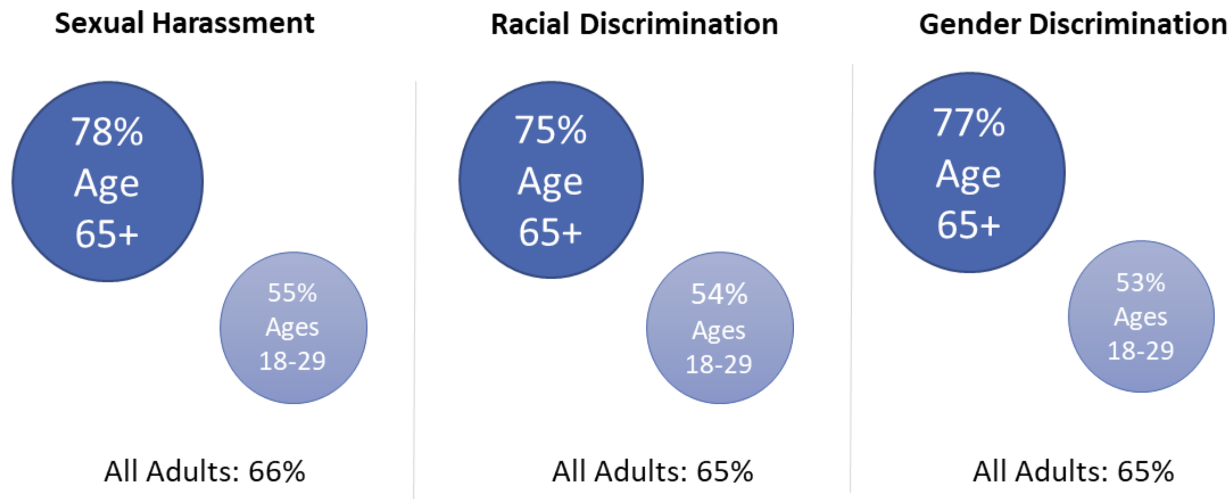
MAJOR FINDINGS

1. Although a corporate crisis typically lasts longer and is more severe than a corporate controversy, the American public — at least initially — perceives them in much the same way. Both can cause a large percentage of people to consider taking their business elsewhere, and both can cause a smaller percentage to make negative comments about the company to friends and family.
2. Of a list of 21 options, Americans considered the most serious crises and controversies to be: (1) companies that makes illegal campaign contributions, (2) companies ignoring sexual harassment or discrimination claims in the workplace and (3) companies experiencing a massive data hack resulting in the respondent's personal information being stolen.



3. When upset by corporate behavior, Americans are often more likely to quietly halt purchases from a company than to make negative comments about it. This is especially true for "high-intensity" issues such as illegal campaign contributions, sexual harassment and discrimination. Many people will take both actions, however. Persons age 65 and older are overall more likely than other age groups to stop doing business with a company than to make negative comments about it, especially in those cases of higher intensity.
4. Executive compensation can become a huge issue for companies that don't perform well financially. Older and wealthier Americans are the most outraged.
5. Public attitudes about companies accused of ignoring sexual harassment, or race or gender discrimination in the workplace were remarkably similar — and very negative. Surprisingly, older people were generally less tolerant of such bad behavior than younger people.

Older people have more unfavorable feelings about harassment and discrimination in the workplace



6. Older Americans were considerably more distressed about data hacks — whether their personal information was stolen or not — than younger Americans. They were also more intolerant of companies that violated environmental laws.
7. Controversy over legal corporate campaign contributions can be largely mitigated if companies say they support candidates "that share the same policy goals as the company" rather than insinuate their donations are designed to buy influence.
8. If a company demonstrates transparency and accountability in the face of a crisis, people are more likely to give it the benefit of the doubt.
9. Public reaction to major layoffs can be improved strongly if the company explains its rationale and demonstrates management's willingness to share the pain.
10. Americans are likely to give a company a pass when a natural disaster-related crisis occurs that is beyond its control.

CONTROVERSIES VS. CRISES

While a corporate controversy is, by definition, less serious than a corporate crisis, the public often perceives them in much the same way. Sixty-five percent (65%) said that, if given a choice, they would stop buying a company's products or services if it was facing a crisis in which it was alleged to have committed an act of serious moral or legal wrongdoing. On the other hand, if that same company took a disappointing stand on a social or political issue or was involved in some other upsetting controversy, 61% said they would likely stop buying the company's products and services. Similarly, 43% said they would openly criticize a company facing such a crisis and 44% said they would make negative comments if the company was dealing with an upsetting controversy.

WHAT ARE THE MOST SERIOUS ISSUES?

When asked their opinion about the severity of 21 different controversies and crises, Americans picked these three as the most serious:

- Companies making illegal campaign contributions
- Companies ignoring sexual harassment claims in the workplace
- Companies experiencing a massive data hack resulting in the respondent's personal information being stolen

In contrast, Americans picked these three controversies and crises as the least serious:

- Companies temporarily shutting down factories or stores because of a natural disaster
- Companies being criticized for not doing enough to protect the environment even though they are in compliance with environmental laws
- Companies making legal campaign contribution to candidates with whom they share the same public policy goals

WALKING OUT VS. SPEAKING OUT

When consumers see a major company doing something objectionable, they have choices. They can decide to ignore the crisis or controversy, they can complain about it or — if they have the option — they can decide not to do business with the firm. What's interesting is that people are often more likely to quietly halt purchases from a company than to make negative comments about it to friends or family. This is especially true for those age 65 and older, and for issues of high intensity.

For example, if a major company experienced a data hack and personal information of thousands of customers was stolen (including that of the respondent), 57% said they would not likely remain a customer. Yet only 50% said they would make negative comments to friends and family. Cross-tabulations of the data indicated that people with more education and higher incomes were more likely than others to make negative comments or stop buying a company's products or services following a corporate controversy or crisis.

The same rule applies to cases of discrimination or sexual harassment. Sixty-one percent (61%) said they would not likely remain a customer of a company accused of ignoring racial or gender discrimination or sexual harassment in its offices. Yet only 48% said they would criticize the company to friends and family. (Note that substantial numbers were uncertain if they would either walk out or speak out.)

It's noteworthy that in a world offering consumers lots of purchasing options and opportunities to complain about businesses through social media, many would rather shift their loyalties than post complaints for others to see.

GREED DOESN'T PLAY WELL

One of the surefire ways for a major company to damage its reputation is for its leadership to appear greedy — especially when a company isn't performing well. High executive compensation has stirred controversy in the U.S. for decades, but it becomes even more controversial during bad times.

In one scenario, a CEO gets a raise that makes them one of the highest paid executives in their industry, and it comes after a very successful year. In response, 43% of Americans feel less favorable about the firm and only 29% feel more favorable. If, however, the company loses money that year, this same CEO raise causes 64% of Americans to feel less favorable, and only 17% to feel more favorable. When asked how these scenarios would affect customer loyalty, a plurality (41%) said they would likely remain a customer if the company had a very successful year. But when told the company had lost money that year, only 19% said they were likely to remain a customer and a strong majority (58%) said they were unlikely to remain a customer. Similarly, people suddenly became much more likely to make negative comments about a company when they heard of the CEO's big raise after a sub-par year.

Higher age and income correlated with lower favorability for a company whose CEO got a big raise while the company lost money. Older and wealthier Americans were also more likely to make negative comments and stop doing business with a company in this situation.

The lesson here is that it's common for people to grumble about executive compensation. But when perceived CEO greed is combined with poor performance, the ingredients are in place for public outrage.

HARASSMENT AND DISCRIMINATION

Public attitudes about sexual harassment, racial discrimination and gender discrimination in the workplace were remarkably similar — and very negative. Roughly two-thirds of respondents (65-66%) said they would feel less favorable towards companies accused (not proven) of ignoring any or all of these problems. Only 14-15% said they had a more favorable view of such behavior. A slightly smaller percentage (61%) said they were unlikely to remain a customer of a business accused of harassment or discrimination. And 48% said they would likely make negative comments to friends or family about a company so accused.

While young people are often considered to be less tolerant of harassment and discrimination than their parents, the poll shows the opposite result. In all three harassment/discrimination scenarios, there was a direct correlation between age and lower tolerance for such bad behavior. While 55% of 18-29-year-olds felt less favorable about a company accused of ignoring a sexual harassment problem, 77% of 55-64-yer olds and 78% of those 65 and older felt less favorable. The spread was similar for scenarios involving racial and gender discrimination.

It's worth noting that the scenarios stated that the company was "accused of ignoring" harassment and discrimination issues in its offices, not condoning such practices.

WHEN THE CRISIS IS CLOSE TO HOME

The survey results showed that the personal impact of a crisis didn't necessarily affect its perceived seriousness. If a major company's factory experienced an accident that caused pollution to leak into a nearby river, 36% said they would have a less favorable view of the firm. If the now-polluted river were far away home, 34% would have a less favorable view. Under both scenarios, the company paid for the cleanup, so it's possible that its accountability for its actions also served to limit outrage.

Public disaffection was much worse in the case of a major company that experienced a data hack causing private information — including that of the respondent — to be stolen. Sixty-four percent (64%) said they would feel less favorable towards the firm. If the same data hack occurred but their information was not stolen, this percentage dropped to 58%. This decline was sufficient to demonstrate that the personal impact of this crisis did make a difference.

As they did upon hearing a company had violated environmental laws, older Americans were more distressed than other age cohorts about the scenarios involving data hacks. If the data hack affected them personally, 78% said they would feel less favorable about the company in question.

PUBLIC SCRUTINY OF CAMPAIGN CONTRIBUTIONS

Corporate campaign contributions, though tightly regulated, are often controversial. But the way in which a company talks about campaign contributions also affects public attitudes. And when a company knowingly or unknowingly crosses the line into illegal activity, well, watch out.

In one scenario, in which a company makes legal campaign contributions to political candidates “that share the same policy goals as the company,” public attitudes were modestly negative, with 32% viewing this action more favorably and 36% viewing it less favorably. When the company said, however, it makes legal campaign contributions to political candidates “hoping that they can be persuaded to agree with the company’s public policy goals,” only 23% viewed this action more favorably and 49% viewed it less favorably. Obviously, laws strictly prohibit *quid pro quo* deals with candidates or sitting politicians. But it seems that a company merely expressing the desire to make legal contributions in order to help it be more persuasive is asking for trouble.

Public outrage escalates to the crisis level when people hear a company has made illegal campaign contributions. Two-thirds of Americans (67%) felt less favorable and only 14% felt more favorable in this situation. In fact, of all the crisis scenarios tested in this study, the one involving illegal campaign contributions was rated the most serious.

Older Americans, in particular, said they wouldn’t put up with corporations making illegal contributions. Eighty percent (80%) of those 65 and older said they would have less favorable feelings toward a company that had broken campaign finance laws. As a matter of fact, a plurality of older Americans was against companies making legal campaign contributions.

ROLE OF PUBLIC CRITICISM

Views about a company’s environmental track record can be influenced modestly by public criticism. If a company was found to have violated environmental laws, 67% said they would feel less favorable about it. If the company complied with all environmental laws but had been criticized for not doing more that the laws require to protect the environment, this percentage dropped to 37%. Thirty percent (30%) said hearing this news would make them feel more favorable.

Young people may be the generation known for supporting a clean environment, but their parents and grandparents are less tolerant of companies that violate environmental laws. While 58% of 18-29-year-olds said they had a less favorable view of a company that didn’t comply with environmental regulations, 80% of those 65 years old and older had a less favorable view.

ACCOUNTABILITY AND TRANSPARENCY

If a company demonstrated accountability and transparency in the face of a crises, people were more likely to give it the benefit of the doubt. For example, in two scenarios a company executive was caught breaking the law and was quickly fired. In one case the company apologized to its customers and promised to provide an update once is resolved any problems resulting from the executive's actions. As a result, 58% of respondents said they would feel more favorable toward the firm and only 21% would feel less favorable. But, in the other case, the company said this was a "personal matter" and couldn't provide many details — and only 41% felt more favorable (35% felt less favorable). This was true even though the second company still promised to resolve any problems from the fired executive's actions.

The same pattern was evident when Americans were asked if either or both of these situations would cause them to remain a customer or make negative comments to family and friends. Fifty-two percent (52%) said they would likely remain a customer of the more accountable and transparent firm, and only 26% said they would likely take their business elsewhere. The company that called the case a "personal matter" faced the prospect of 39% remaining as customers and 39% switching to a competitor.

And while 40% said they would make negative comments about the less-transparent and less-accountable company to others, only 36% said they were likely to take this step if the company apologized and promised to be forthcoming as the issue was resolved.

Older Americans would be especially impressed by a company demonstrating transparency and accountability. Sixty-three percent (63%) of those age 55-64 and 66% of those age 65 and older said they would feel more favorable towards a company that handled a crisis in this way.

CANDOR AND EMPATHY

Public reaction to the announcement of major layoffs can be improved if a company explains the reasons for its decisions and demonstrates management's willingness to share the pain. A simple announcement of layoffs caused 32% of the public to feel more favorable about a company and 39% to feel less favorable. When the company took the time to explain that it was reducing head count and expenses to preserve other jobs and remain competitive, public reaction shifted to 36% each feeling more and less favorable.

However, when the company announced that the CEO and other senior executives would reduce their own salaries by 20% until business conditions improved, the percentage feeling more favorable shot up to 56% and the percentage feeling less favorable dropped to only 22%.

Positive feelings about executive pay cuts were especially pronounced among older and wealthier Americans. The percentage feeling more favorable about a company announcing this policy rose to 64% in each case.

When facing ongoing public criticism about an issue (i.e., executive compensation), having the courage to face it head on, in a bold way and at the right time may actually create goodwill.

WHEN THE COMPANY IS A VICTIM

The public is likely to give companies a pass when a natural disaster occurs. In fact, favorability levels go up dramatically because people view the company as a victim of the crisis. If a firm were to shut down its factories or stores because of a hurricane, flood or other natural disaster, only 15% would have a less favorable opinion while 52% would have a more favorable opinion. Even in situations in which the company is criticized for not being better prepared for a natural disaster, more people (35%) feel more favorable than less favorable (26%) about the company.

METHODOLOGY

This poll was conducted from March 13-15, 2018, among a national sample of 2,201 Adults 18 years and older. The interviews were conducted online and the data were weighted to approximate a target sample of adults based on age, race/ethnicity, gender, educational attainment, and region. Results from the full survey have a margin of error of plus or minus 2 percentage points.

QUESTIONS?

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