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An Empirical Study of Crisis Response Strategy Selection Based on Executive Perspective

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ABSTRACT. *How executives perceive a negative event is a fundamental component of how organizations respond after a negative event. In this paper, we empirically analyze the differences in the choice of crisis response strategies between acknowledgement and denial from the perspective of organizational executives after a negative report. The results show that SOEs prefer the "deny" strategy, which takes less responsibility, to the "acknowledge" strategy, which takes more responsibility, after a negative report. The study further finds that social status has an opposite effect on the choice of organizational defensive impression management strategies for both SOEs and private enterprises. Specifically, high-social-status SOEs prefer acknowledgement to low-social-status SOEs prefer denial, and high-social-status private enterprises prefer denial to low-social-status private enterprises prefer acknowledgement. The type of negative report plays a negative moderating role on the relationship between social status and strategy choice in SOEs and private enterprises. For high-social status SOEs, they prefer acknowledgement to indefensible negative stories and denial to indefensible stories, while the opposite result is observed for low-social status SOEs. For high-social status private firms, they prefer to deny the negative report when faced with a defensible negative report, and prefer to admit the negative report when faced with an indefensible negative report, while the opposite result is found for low-social status private firms. The findings contribute to the understanding of the differences in the choice of corporate impression management strategies of different controlling shareholders and fill the gap in the research on the differences in organizational behavior after negative reports.*

KEYWORDS: *executives,political purpose, reporting type, state-owned enterprises, private companies*

1. Introduction

Upper Echelons Theory states that how companies make decisions reflects the values and cognitive levels of executives (Hambrick and Mason, 1984). With stricter

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policies and regulations, increased media sensitivity, and the need for transparency and effective communication, organizations often issue statements, announcements, and other defensive impression management strategies after a crisis[1-3]. It is the direct managers of the organization - the executives - who respond immediately after a crisis. Executive values - defined as a broad tendency to prefer some states of affairs over others - reflect their preference for the order of decision-making and their attitude toward a particular strategic solution (Hofstede, 1980), so that some executives Preferring less responsible denial strategies such as justification and deniability in their statements, others prefer acknowledgement.

Due to the special identity of SOE executives[5] their personal goals and motivations are bound to be very different from those of their counterparts outside the system, and there is a lack of research on the differences between the image management behaviors of SOEs and private enterprises.Recently, scholars have studied the preferences of SOEs and private firms for silence and statement strategies[2], but did not divide the statements.This study investigates the differences in the motivations of corporate executives for impression management from the perspective of executives in different controlling shareholder backgrounds, and the resulting differences in the ultimate corporate preferences for recognition and denial strategies. Studying this issue will help to gain an in-depth understanding of the underlying mechanisms of behavioral differences between SOEs and private firms following negative reporting. This paper conducts empirical tests using micro data on the company homepages of Chinese FMCG-listed companies between 2009 and 2015[6-7], providing empirical evidence on the differences in organizational behavior after negative publicity and its underlying mechanisms.

2. Literature review

2.1 Research related to executive and organizational strategic decision making

Theories of organizational strategy choice have gone through the stages of "resource base theory", "new system theory" and "upper echelons theory". With the development of upper echelons theory (Hambrick and Mason, 1984), a large amount of research literature has emerged on the influence of the background characteristics of executives on the strategic choice of firms, for example. Personal characteristics of executives can cause differences in organization-specific strategic decisions such as corporate investment, socially responsible behavior, investment in innovation, and resource allocation. In the past, most studies have used demographic background variables as a proxy for psychological characteristics such as cognitive structure and values of executives, but such indirect measures and long causal chains result in a "demographic black box" that is difficult to explain (Priem et al., 1999; Wang Jinai and ZongFangyu, 2011). In recent years, research on how executives reflect their personal values (or how much they reflect their personal values) in their decision making has attracted much attention. However, there is not yet a wealth of discussions based on the psychological characteristics of executives, such as self-concept, motivational tendencies, individual traits or specific emotions on

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organizational decision making still need to be investigated.

The study of executives is mainly concerned with two issues, first, how executives influence strategic decisions and outcomes, and second, how personal traits influence executive decision-making. Based on this, according to the purpose of this paper, the domestic and international research on executive competitive values and strategy choice can be summarized into two main areas: first, the concept and measurement of executive competitive values, and second, the study of executive competitive values on strategy choice. The third is the research related to the influence factors of discretionary power.

2.2 Study of the influence of executives on organizational decision-making

Earlier studies have placed great emphasis on the role of managers' personal values in business choices. The literature has also directly tested the influence of executive personality on their behavior (Finkelstein et al., 2009). For example, Jemison (1988) argues that executive dismissal is influenced by, among other things, the values of the board of directors.Chin et al. (2013) found that executives inclined to liberal values were associated with advances in their company's corporate social responsibility (CSR) practices.Briscoe et al. (2014) examine the relationship between executives' competitive values and workplace activism strategic decisions, the results suggest that lesbian and gay employees are more likely to become full-fledged work members if the company's executives have liberal values.Chin and Semadeni (2017) demonstrate, in the context of executive competitive values and executive compensation plans, that CEOs who tend to be liberal are more likely to exhibit fairness in compensating members of the top management team.Köö nig et al. (2018) found that an executive's values can influence his or her use of metaphorical communication to control the content of information passed to the information broker.Gupta et al. (2018) argued that an executive's personal values regarding egalitarianism will lead to different ways of allocating resources, with liberal-valued executives being more fair and conservative executives tolerating greater inequality. Another article by the authors also found that executive competitive values influence corporate CSR behavior and employee management issues.

3. Current context, theoretical analysis and research hypothesis

3.1 Choice of defensive impression management strategies for SOEs and private companies

Executives of SOEs are strategic performers whose goal is to maintain their social status, gain access to the resources they need, and rise to political positions (Zhou Li'an, 2007).To summarize ABC's analysis, after the negative publicity, due to the monopoly of resources, SOE executives' salaries are set by themselves, and "political promotion" is an effective way to motivate SOE executives when the monetary incentive is insufficient, so that their earnings are not affected by the

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negative publicity. responsibility for the losses caused by the report. As a result, when dealing with negative reports and managing their own image, state-owned enterprise executives have the impression that the object of management is their superiors, the expected value of their impression is low, and their image is low in openness. "The truth of the matter is a way to reduce one's own responsibility and to "save one's own skin".

In private enterprises, unlike SOE executives who seek political promotion, the bottom line is the long-term prosperity of the company. Corporate performance and reputation are often one of the factors that keep executives competitive in the marketplace, so private enterprises often adopt a "low profile" to ensure that the organization has a "good image" with stakeholders. This is because, firstly, private enterprise executives participate in market competition, corporate image problems, executives in the market competitiveness will also decline, image problems caused by the decline in corporate performance will also affect the performance of highly related to executive pay and earnings. Studies have shown that when the business performance of private firms rises by one magnitude, the executive compensation of private firms will also be higher (Ding Min, 2013), negative reports more causing private firms performance decline will reduce the executive compensation, so the executive's gain from impression management is large and the expected target value is higher. Secondly, a decline in the image of private firms after negative reports can affect their ability to access resources (credit levels, consumer trust, etc.) and ultimately affect their performance (Oliver, 1991). In addition, private firms have to deal with supervision from government regulators and limits on bank credit lines, so the image of private firms is more public. In order to secure market share, promise dividends to shareholders, etc., to improve their competitiveness in the market, private enterprise executives prefer to use "good attitudes" to gain consumer recognition, price premiums, and as a buffer to the safety of corporate assets, i.e., private enterprise executives prefer to "acknowledge" negative publicity after it has been reported. In order to gain the sympathy of the "audience", the company uses a strategy with a high degree of responsibility, such as the "public" strategy, to show remorse and apology. The details of the comparison of the motivational factors of SOEs and private enterprises are shown in Table 2.

According to the "two-component model" of impression-motivation-determination impression construction, i.e., motivation determines behavior, the above results result in a negative report, the SOEs' impression management prefers the denial strategy that represents a low degree of responsibility, while the private enterprises prefer the recognition strategy that represents a high degree of responsibility.

H1: After negative reports, SOEs prefer the denial strategy compared to private firms, while private firms prefer the recognition strategy.

3.2 Organizational social status and defensive impression management strategies

It has been found that organisational status is seen as a relative position in terms

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of credit rating, and that the purpose of the organisation is to maintain its current image and reputational status, so that current reputational status influences executives' choice of specific response strategies (Fligstein and Mcadam, 2012).

For SOEs, those high social status organizations tend to be national or pillar enterprises that are strongly supported or backed by the government, and the relative position of the organization's non-credit rating. From a practical point of view, high social status SOEs often have monopolies in certain industries (e.g., telecommunications, petroleum, electricity, etc.), the public has no choice about the monopolistic industries, and current changes in the reputation rating cannot be reflected in the sales of the enterprise's products. (Shandong Mobile, which sells personal information), while at the same time giving the public the illusion of "knowing one's faults and being able to correct them", thus protecting the company's reputation, thus executives of high social status SOEs prefer the recognition strategy. In the case of SOEs with low social status and low productivity, which are on the verge of restructuring, the executives' first priority is to maintain their jobs and reduce their profits, and secondly, in order to benefit from state subsidies and special treatment in the event of bankruptcy, these low-status SOE executives try to deny the authenticity of the negative events in exchange for the protection of the higher government. Preference for denial strategies.

Conversely, in the case of private enterprises, high status private enterprises tend to be organizations that are more concerned about their reputation than low status firms, and belong to a group with high self-monitoring, due to the "good image" of their previous high credit rating (e.g., "the company is a helpful organization"). (Turnley and Bolino, 2001), the perception management strategy of high self-monitors is more likely to be accepted, and therefore, after negative publicity, the denial strategy of high-ranking private enterprise executives is more likely to be trusted by the public. If a high social status private firm adopts an acknowledgement strategy, the greater image contrast to the "audience" leads to a greater decline in the firm's reputation, and the executive's reputation declines, resulting in lower market competitiveness. On the contrary, for private enterprises with low social status, they have invested little in image management in the past and belong to the group with low self-monitoring, so if they adopt the denial strategy, they may be suspected by the public due to their low status in the industry, so they prefer the recognition strategy. Based on the above analysis this paper proposes the following hypothesis:

H2: After negative reports, social status has an opposite effect on the choice of organizational defense impression management strategies for SOEs and private enterprises. Specifically, high social status SOEs prefer recognition and low social status SOEs prefer denial; high social status private enterprises prefer denial strategies and low social status private enterprises prefer recognition.

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4. Method

4.1 Data Sources and Sample

The data used in this paper comes from "Announcements" and "Clarifications" on the Company's website. In order of the level of negative publicity and the severity of the event, in descending order, the means by which companies make statements are press releases, newspapers, third-party authority websites, company websites and annual reports.

The previous study found that most companies' corporate websites were active from around 2010, so this paper selects listed FMCG companies for the period 2009-2015.1 The keywords of consumer complaints against FMCG companies are collected from the "Analysis of Complaints Received by National Consumers' Association Organizations in the First Half of 2015" published by the China Consumers' Association.2 To prevent sample selection bias, it will be Baidu and Bing were used to search for 329 research samples, including 55 of the 106 listed FMCG companies in Shenzhen and Shanghai (including Hong Kong), as announced by the CSRC. (5 listed companies). Excluding incomplete data, the final sample of 287 remained (including 191 private companies and 96 SOEs).

The FMCG industry includes four categories: food and beverage industry, personal care products industry, home care products industry, and tobacco and alcohol industry, with food and beverage experiencing the most negative reports on product quality and care products the least.

4.2 Variable definitions

4.2.1 Independent Variables

With reference to McDonnell and King (2013), this paper uses explanatory notes from a company's website to measure an organization's defensive impression management strategy. Based on the previous definitions of complete denial, denial, justification, and apology, we use the following definition of a "statement," "press release," or "announcement" posted on a company's website after a negative report. A detailed reading. In descending order of the degree of responsibility of the organization, "1" stands for total denial, "2" for denial, "3" for justification, "4 "The organization fully acknowledges responsibility and apologizes.

Corporate social status. Reputation rankings are used to highly quantify status levels, following Washington and Zajac (2005). In this paper, the social status of listed companies in the FMCG industry is measured by the ranking of food and beverage brand value and alcoholic beverage brand value indexes published by Hurun Research Institute from 2009 to 2015. 42% of the sample did not make the list. Forty-two percent of the companies in the sample were not on the list. To order the variables, Stata was used to triangulate the brand value and assign a value to it,

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with 3 representing the highest brand value ranking, 2 representing the medium ranking, 1 representing the lowest brand value ranking, and 0 for those companies not on the list.

Type of Negative Reporting. With reference to Founder's definition, negative reports are divided into defensible and indefensible types, in this paper, defensible crises mainly refer to negative reports whose responsibility cannot be clearly defined, such as unexpired food and beverage decay, spoilage, insects, and the presence of foreign objects; indefensible reports refer to reports whose responsibility is clearly defined, including sampling failure, substandard, and raw material problems. The moderating effect of negative story type on social status and strategy choice was measured as the product of type and social status.

4.2.2 Control variables

The response to a negative event depends heavily on the scope of the media that can be mobilized by this negative event, so this paper controls for the level of negative coverage. For both SOEs and private firms, the more media attention a negative event receives, the more the target firm will perceive it as a reputational threat (Koopmans and Olzak, 2004). (The initial results of this paper show that the level of negative publicity is much higher for SOEs than for private companies). In addition, the natural relationship between SOEs and the government also leads SOEs to be more "face-saving" than private firms. Therefore, for both SOEs and private firms, increased media attention also requires the use of humble perception management strategies, i.e., acknowledgement of a "soft" attitude. strategy. Therefore, this paper controls for the level of negative reports. The number of negative reports is generally used as a measure of threat level in China and abroad. Therefore, this paper investigates the number of negative reports in news papers within three months after a company's report through the Full Text Database of Important Chinese Newspapers. Therefore, this study adopts the "WiseProsperity" Negative Reporting Level 3: Level 1 refers to negative reports that are first published through important media such as TV media and Class A print media (newspapers and journals) and then reprinted on the Internet; Level 2 refers to negative reports that are first published through portal websites (Sina and Sohu) or professional websites, and then reprinted on the Internet. The third level refers to industry or social commentary articles with neutral or negative references to the brand and other related reports. Assign a value of 1, 2, 3, and 1 for the highest level respectively. Financial data were obtained from the CSMAR database of GuotaianInformation Technology Limited. The definition and situation of the main variables of the organizational defensive impression management regression model after the negative reports are shown in Table 3.

4.3 ModelSpecification

In order to test the factors influencing SOEs and private firms to engage in defensive impression management, the remainder of this paper uses a cluster of

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SOEs and private firms using the following model test:

$$
\begin{aligned}
& DefensiveIM^{*} = \alpha_1 position + \alpha_2 type + \alpha_3 position * type + \alpha_4 level \\
& + \alpha_5 equity\_incentive + \alpha_6 other\_tactics + \alpha_7 industry + \alpha_8 subsidiary \\
& + \alpha_9 history + \alpha_{10} \log ged\_assets + \alpha_{11} return\_on\_assets
\end{aligned}
$$

In order to rule out the problem of multicollinearity, this paper examines the correlation coefficients of the independent and control variables, the coefficients are below the 0.7 threshold in the empirical literature, and the results of the variance inflation factor (VIF) test are much less than the standard VIF>10 for multicollinearity, so there is no multicollinearity in this study.

5. Results

According to model 1 established earlier, SOEs and private enterprises are introduced into the model with 1,0 variables, and Probit regression is used to validate hypothesis 1. The results of SPSS Modeler 17.0 processing are shown in Table 5: State-owned precoefficients indicate that there are significant differences in the choice of defensive impression management strategies between SOEs and private enterprises, considering that SOEs take the value 1 to be based on complete denial. The significantly negative coefficient indicates that SOE executives prefer to use denial strategies because, due to SOEs' monopoly of resources and improper government regulation, negative publicity does not affect SOE executives' earnings, SOE executives do not have to be responsible for changes in corporate image, and executives' short-sighted behavior, seeing only recent personal benefits, prefer to take denial to protect their own image and positions. In addition, executive incentives do not include corporate image and reputation as indicators to assess executive performance, which can easily lead to unclear rewards and punishments, making SOE executives indifferent to corporate profits and image, and prefer to consider issues from their own profitability. Private companies prefer to use an apology strategy after a negative report, because executive image and corporate image are significantly related, and a decline in corporate image due to negative reports will affect executive profitability and ultimately reduce executive competitiveness in the marketplace, so private companies prefer to use an apology strategy to maintain their "good image. Hypothesis 1 is therefore validated.

Considering the benchmark of "complete denial", the positive coefficient indicates that the more attention the media pays to both SOEs and private enterprises, the stronger the monitoring power it brings to the enterprise, and the more the enterprise will choose to "admit". " defensive impression management strategy. The regression result for whether there is an administrative agency involved is also significantly positive, considering that it takes the value of 1 if there is an administrative agency involved, indicating that the result is consistent with the reality that the perceived threat that forces SOEs and private firms to make an acknowledgement and apology as soon as possible after the administrative agency's involvement rises. Meanwhile, for private firms, other statements are significantly

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positively correlated with strategy preference after negative reports, indicating that overall, the more other impression management management strategies are preferred to acknowledge strategies to express their confessions and apologies after negative reports, and no significant pattern is found in the results for the other control variables.

Table 5 Regression Result of IM Strategy Selection

variable	LPM (1)	Logit (2)	Probit (3)
state-owned	-.143*** (.059)	-1.534** (.701)	-.899*** (.368)
level	.294* (.122)	.947* (.487)	.548* (.354)
Equity Incentive	.225** (.814)	.841* (.225)	.314** (.024)
Other IM	.065** (. 234)	.975** (.477)	.533** (.248)
Industry	-.244 (. 255)	-.651 (.792)	-.039 (.475)
Subsidiary	-.177*** (.044)	-1.248** (.470)	-.841*** (.291)
history	.025 (.046)	-.044 (.584)	.084 (.284)
Supervisory	.184* (.114)	1.405** (.658)	.849** (.304)
Logged assets	-.124* (.241)	-1.778* (2.441)	.899* (1.712)
Return on assets	.193 (.120)	1.485 (1.047)	-1.008 (.874)
constant	.147 (.147)	2.778** (.985)	1.482** (.570)
	F 17.541	Chi-square 91.557	Logpseudo-likelihood 101.544

Note: * denotes p<.05; ** denotes p<.01; *** denotes p<.001.

(4)-(7) grouped regressions on the data of SOEs and private firms to progressively test the moderating effect of social status and the type of negative report on the relationship between social status and the strategic preferences of SOEs and private firms' executives. Table 6 shows the results of the Probit regressions. In all models of (4)-(7), the coefficients on the level of negative reporting in private enterprises are larger than those in SOEs, indicating that private enterprises are more sensitive to different levels of threats than SOEs, and the results of the other control variables are the same as the results of the validation hypothesis one, so the results of the control variables are more stable regardless of whether the group regressions or talking about SOEs or private enterprises are introduced into the model as dummy variables.

In all models, the results of the coefficient before executive incentives show that for SOEs, a negative coefficient indicates that incentivized executives prefer the

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denial strategy ($p<0.05$), while the coefficient before private firms is significantly positive, indicating that the higher the incentive, the higher the preference for the "softer" strategy of acknowledgment and apology. The coefficients show that the higher the incentive, the more executives prefer to use the "softer" strategy of acknowledgement and apology.

In models (5)-(7), for private firms, social status has a negative and significant ($p<0.01$) relationship with statements after negative publicity, indicating that the higher the social status, the more private firms will prefer to use denial after negative publicity. On the contrary, the coefficient of this SOE is positive, indicating that high social status SOEs prefer to use the recognition strategy due to their unassailable status and contribution, which will not be questioned and speculated by the public. The above results validate hypothesis 2.

6. Conclusion

Based on the background and the review of relevant studies, this study uses the Two-Component model of impression management to analyze the differences in the motivation and the resulting behavioral differences between executives of SOEs and private enterprises. levels of negative reporting situations, differences in the choice of acknowledgement and denial defensive impression management strategies. The results show that there are significant differences in the stated defensive impression management strategies of SOEs and private enterprises after negative reports, i.e., SOEs prefer the denial strategy of defending, prevaricating, or even denying the truth completely, and are more aggressive towards the media and the public; on the contrary, private enterprises prefer to use the acknowledgment strategy to express their repentance and apology. This is mainly due to the fact that SOEs set their own internal pay for performance, which makes their executives' earnings immune to negative publicity, and their biggest incentive is "promotion," which, coupled with the government's weak regulation of their performance, leaves no one to limit or regulate executive responsibility. Therefore, according to the "two-component" model, the executive's motivation determines the construction of impressions, which ultimately results in SOEs' impression management being limited to their superiors after a negative report, focusing only on their personal interests and on solving the root cause of the problem. Meanwhile, the study also found that the impact of organizational social status on the post-impression announcement strategies of SOEs and private enterprises was reversed, with the higher social status SOEs preferring acknowledgement due to their strong roots and reputation, while managers of low social status SOEs preferred denial strategies because they prioritized their own careers after negative publicity. For private firms, high social status firms prefer denial, while low social status firms prefer acknowledgement and apology to gain public sympathy. Finally, the study also verifies that monopoly is not the main factor for the difference in impression management strategy preferences between SOEs and private firms.

Firstly, this study distinguishes organizations with different controlling shareholders, and investigates the differences in motivation and strategy preferences

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between SOEs and private enterprises after negative reports; secondly, it is the first time to analyze organizational image management behavior preferences after negative reports from the perspective of executive image management motivation, and reveals the fundamental reason why SOEs have strong impression management behavior and prefer to take less responsibility. Third, considering the complexity of the hypothesis, previous studies did not classify the content of organizational statements after a negative report. The two main categories of "acknowledgement" (including apologies on behalf of confessions) are also studied and analyzed, along with the reasons for the preferences of organizational image management strategies of SOEs and private firms of different social status in the face of different types of negative publicity.

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Table 6 Probit regression results for defensive impression management strategy choice

variable	(4)		(5)		(6)		(7)	
	state enterprise	private enterprise	state enterprise	private enterprise	private enterprise	private enterprise	state enterprise	private enterprise
position			1.458** (.598)	-1.308*** (.235)	1.401** (.587)	-1.143*** (.236)	1.376*** (.588)	-1.116** (.206)
type					-.287** (.559)	.131*** (.647)	-.226** (.554)	.157*** (.644)
position*type							-1.233** (.118)	1.549* (.249)
Level	1.321* (.443)	2.809** (.654)	1.258* (.439)	2.714** (.750)	1.119* (.456)	2.643** (.643)	1.020* (.444)	2.247** (.726)
Equity Incentive	-.015* (.013)	.294* (.455)	-.014* (.014)	.286* (.453)	-.014* (.013)	.254* (.451)	-.012** (.014)	.210* (.454)
Other statement	.221 (.022)	.901** (.198)	.281 (.021)	.884* (.201)	.207 (.023)	.845** (.199)	.254 (.022)	. 828* (.198)
Supervisory	.488** (.327)	.998*** (.658)	.475*** (.322)	.859** (.646)	.449** (.328)	.911*** (.650)	.457** (.326)	.876** (.640)
Subsidiary	.457 (.325)	-.711* (.241)	.421 (.218)	-.694* (.248)	.420 (.316)	-.595 (.241)	.369 (.202)	-.552 (.245)
History	.285* (.214)	-.204 (.354)	-.248 (.234)	.210 (.333)	.222 (.237)	.212 (.421)	.175* (.234)	-.242 (.418)
Education	.129 (.025)	.054 (.133)	.241 (.023)	.193 (.134)	.188 (.024)	.148 (.164)	.214 (.024)	.184*** (.147)
Logged assets	.322 (.051)	-.390 (.679)	.632* (.057)	-.364 (.756)	.508** (.055)	.017 (.887)	.491** (.054)	-.418 (.938)
Return on assets	.247 (.529)	.785 (.222)	-.342 (.586)	.755 (.250)	-.304* (.555)	.698 (.245)	-.264* (.545)	1.500* (.253)
constant	.547** (.021)	-.883 (.224)	.531* (.022)	-1.548** (.211)	.494** (.024)	-2.447*** (.227)	.464* (.023)	-1.574*** (.254)
Logpseudo-likeli hood	8.661	15.247	21.542	35.541	43.571	43.578	59.552	49.527

Note: * denotes p<.05; ** denotes p<.01; *** denotes p<.001.