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Transforming Scandals into Entrepreneurial Opportunities The Case of the Hospitality Industry

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Abstract: Scandals are frequently considered as detrimental for involved businesses. When hotels serve as a backdrop and are collateral victims of scandals caused by high profile individuals, we argue that entrepreneurial minded executives can envision scandals as an unexpected opportunity, likely to bring good news to the involved hotels. Tourism businesses offer supportive evidence. In a constructivist perspective, scandals and their consequences do not result from the transgression seriousness, but are socially constructed. Entrepreneurially minded individuals influence this social construction and seek to transform scandals into entrepreneurial opportunities. We analyze *whether* and *how* hospitality executives can channel the a priori destructive forces involved in a scandal eruption towards a direction aligned with their own interests. We identify three potential mechanisms by which hospitality executives can make the best of scandals, namely, by increasing exposure and attracting attention at a low cost, offering a basis for differentiation and innovation and generating useful marketing data. We identify some conditions that make this outcome more likely. Rather than just avoiding or containing the scandal consequences, we propose to equip hospitality executives with a scandal management plan that explicitly considers the bright side of scandals.

Keywords: constructivism; hospitality; hotels; scandals; tourism.

1. Introduction

Scandals are pervasive in the business world and sometimes inevitable. Tourism businesses are no exception. In most cases, the scandals' effects are detrimental, damage companies' reputation, decrease consumers' purchase intentions, and degrade businesses' performances (Groysberg et al. 2016, Zhang et al. 2019, Breitsohl and Garrod 2016, see also Jory et al. 2015 for a more nuanced analysis). These consequences frequently spill over to similar or related businesses, even if they are not implied in the considered scandal (Seo and Jang 2021). Rather than just enduring these detrimental consequences, we argue that tourism-based businesses, as collateral victims of scandals caused by others, can take advantage of the situation.

Let us be clear about an important caveat: we do not advocate in favour of scandals. Most of the literature focuses on the dark side of scandals, like the nature of transgressions, their attribution, circumstances transforming violations into scandals, detrimental consequences, and strategies to avoid or contain them or how to restore what has been lost after a scandal (see e.g., Hulpke 2017 who proposes to extend the 'death penalty' to the

organizational level). There is an important research gap regarding the possible bright side of scandals. This bright side can add a lot to the study of scandal consequences and scandal-driven entrepreneurship. We fill this gap by adopting a radically different perspective and examine whether and how entrepreneurially minded individuals in tourism-related businesses (e.g., hotels, restaurants) can make the best of scandals, *once they erupt* (Grolleau et al. 2020).

The originality of our contribution is twofold. Foremost, we go beyond the dark side of scandals and argue that they can offer entrepreneurial opportunities. Using a constructivist lens, we posit that effectual entrepreneurs (Sarasvathy 2001, 2008) participate in the creation of scandals-related opportunities. This theoretical perspective allows to consider these entrepreneurially minded individuals as proactive agents harnessing the involved destructive forces in a sense favourable to their interests rather than as passive scandal victims. Second, we identify three mechanisms by which this counterintuitive outcome could arise, namely (i) using ingeniously the media attention to increase exposure and awareness, and convey a low-cost publicity, (ii) transforming pre-existing products and services into innovative and differentiated ones, and (iii) providing unexpected marketing data to identify new consumers, notably on the basis of an (increased) congruence.¹ A better understanding of these mechanisms helps designing and equipping hospitality executives in advance with a ‘scandal management plan’ that explicitly considers the possible positive sides of an unforeseen scandal.

In order to address such ‘what’ and ‘how’ questions, we mobilize secondary data (e.g., media coverage, anecdotal evidence) in a variety of contexts (e.g., locations, type of scandals, type of high-profile individuals involved, chronology of events). Given that our focus is not on ‘how many’ or ‘how often’ issues, we selected examples in an eclectic fashion on the basis of two main criteria (i) they offer support for the existence of the considered mechanisms and (ii) they inform on how these approaches were developed in real-world circumstances. While the used examples differ on several dimensions, they share a common feature: they occurred in (or implied) hotels. This unconventional method has the potential of generating fruitful advances in social sciences (e.g., Earl 2011). Even if we apply the mechanisms to the hospitality industry, they can be applied in a variety of circumstances where businesses or other entities (e.g., restaurants, sport teams, universities) serve as a backdrop and are collateral victims of scandals caused by others.

In Section 2, we characterize theoretically the interplay between hotels and scandals. Noteworthy, for sake of exposition, we use the term ‘hotels’ although it encompasses tourism-related businesses. In sections 3 to 5, we develop the above-mentioned mechanisms allowing to transform scandals into value-creation opportunities and draw some propositions. We use real-world examples and provide practical suggestions to help executives harnessing these mechanisms. Section 6 concludes.

2. A constructivist approach to analyze the relationship between scandals and hotels

A typical scandal involves at least three kinds of agents: (i) a scandal target, frequently a high-profile individual who has really or presumably transgressed one or several morally or socially-accepted rules, (ii) media that publicizes the transgression, and (iii) a scandalized audience expressing outrage (Grolleau et al. 2020, Entman 2012, Adut 2005). The Merriam

¹ Similarities between a given celebrity and his/her fans or with the values challenged in the scandal can offer a way to target specific consumers. For instance, there are individuals who aspire to have similar values and lifestyles of a celebrity. When the latter is entangled in a scandal, the situation can create a dissociation or distancing need or sometimes a greater similarity with the celebrity’s transgression (e.g., defense of individual freedom, rebellion against the established order). In some situations, the scandal can also magnify some values that are defended by individuals, independently of any previous relationship with the involved celebrity. The scandal of secret diners organized by prestigious chefs in Paris during the Covid-19 lockdown can illustrate these various situations.

Webster dictionary (<https://www.merriam-webster.com/dictionary/>) defines scandal as ‘a circumstance or action that offends propriety or established moral conceptions or disgraces those associated with it’. Although scandal and crisis are frequently used interchangeably, we argue that there are some differences between the two terms. A crisis can be defined “as a sudden and unexpected event that negatively impacts on the organization, while a scandal is defined as a type of crisis (...) that is an unethical action or event that causes outrage and reaction” (Grebe 2013, p. 77-78). For instance, a crisis does not require that a social norm has been broken (e.g., a financial crisis) while it is a constitutive element of a scandal. The moral component implies more focus on individuals, given that individuals (not organizations) commit moral transgressions. Moreover, a scandal frequently requires a need for punishment which is not crucial in a crisis. A crisis can lead to a scandal, but all crises are not or do not become scandals, given the need of precise elements (media coverage, need for punishment, moral violation). Interestingly, the term *scandis* has been coined to represent “the intersection of a scandal and crisis, essentially when a crisis becomes a scandal” (Coombs and Tachkova 2019, p. 72).

Rather than equalizing scandals with the seriousness of the transgression as in the objectivist perspective, we adopt a constructivist perspective. Scandals are socially constructed notably by media or powerful groups (competitors, political opponents) attempting to transform a transgression into a scandal (Baugut 2017, Clemente and Gabbioneta 2017). Accordingly, a serious transgression can remain without scandalous consequences, because media and other powerful groups do not feed the scandalous process while a similar alleged one can lead to a scandal because it becomes highly publicized (Adut 2005, Hirsch and Milner 2017). Equivalently, for a scandal to occur, the situation must provoke a moral outrage, which is a response to a perceived violation of accepted societal norms and moral codes. While the eruption of a scandal is contingent on the extent to which media publicise the issue, it also depends on the response from the audience. Indeed, even if media publicize an event, but the audience fails to perceive it as a moral transgression, there will be no moral outrage and no scandal.

We advance that entrepreneurially minded individuals in tourism ventures can participate proactively in the construction of the scandal’s consequences because they aim at transforming them into entrepreneurial opportunities. We add to the literature that complements the discovery approach by alert individuals with the constructivist approach where entrepreneurial opportunities result from the actions of entrepreneurs (Wood and McKinley 2010). This transformation combines elements from the two approaches, because the scandal is a priori created independently of the actions of entrepreneurs, but once it becomes unavoidable, entrepreneurially minded individuals attempt to transform the impressive forces involved in the scandal eruption in a sense that will serve their entrepreneurial project. To qualify as unavoidable, the course of events should reach a point of no return, where the scandal will erupt whatever the efforts made by the protagonists to prevent this eruption. This unavoidability requires that the constitutive conditions of a scandal (e.g., a moral transgression by a high-profile individual, media coverage, an audience that is [will be] morally outraged) are met.

Most management research on scandals is related to non-tourism domains. While several highly mediatized scandals occurred in hotels, this interplay has not attracted much academic attention. We draw an important dividing line between (i) scandals related to hotel services and (ii) scandals caused by high-profile individuals or entities (stars, politicians, political parties) using hotels, as a location for the scandalous events. In the first category, the businesses have transgressed some norms like the Marriott data breach, the wage-theft scandal in the hospitality industry, or the hygiene scandal in some five-star hotels (Hancock 2018, Robinson and Brenner 2021). In the second category, there are the Watergate scandal (1972-

1974), the scandalous circumstances surrounding the accidental death of Lady Diana (1997), the Michael Jackson' baby dangling scandal (2002), or the Strauss-Kahn scandal (2011). Beyond the involved high-profile individuals, these scandals emphasized the locations (respectively, the Watergate in Washington, the Ritz in Paris, the Adlon in central Berlin, and the New York Sofitel) where they unfolded.

Without minimizing the first category, we are mainly interested in *the second category where hotels are collateral victims of scandals caused by others*. Hotels deliver services to guests that can inadvertently facilitate misconducts that can be transformed into scandals. For instance, they offer convenience, escape from home monotony, a sense of anonymity, soundproof rooms and freedom that can push individuals to behave differently, especially in the case of luxury resorts. Consequently, (high status) guests are more likely to engage in dubious conducts (Lugosi 2019) that can lead to scandals (Forbes 2002, Seidman 2013). For instance, the Hotel Meurice in Paris is known for the crazy behaviours of Salvador Dalí during his stay (Forbes 2002).

Proposition 1: In a constructivist perspective, effectual entrepreneurs attempt to transform scandals into entrepreneurial opportunities. By the very nature of the services they deliver (e.g., sense of anonymity and freedom), hotels involuntarily and frequently serve as backdrop for scandalous events caused by high-profile individuals. Entrepreneurially minded executives can seek to take advantage of these scandalous events by transforming a collateral victim status into a business opportunity.

3. Scandals attract attention and convey publicity

'The only thing worse than being talked about is not being talked about.' (Oscar Wilde)

Two fundamental components of scandals are (i) a transgression of a high-profile individual and (ii) wide media coverage and publicity (Grolleau et al. 2020). A well-known tenet in psychology is that negative information outweighs positive or neutral information (Baumeister et al. 2011, see also Pfarrer et al. 2010). Entrepreneurially minded executives could see this negativity bias as offering a leverage to exploit (see e.g., Segal 2010 for a real-world example of venture exploiting this feature). Scandals spread rapidly and occupy newspapers' headlines, TV news, and social media. This media coverage leads to the wide exposure and awareness of scandal collateral victims. Scandals provoke disturbances, e.g., policy investigations or temporary closures that could deteriorate, in the short term, the business profitability (see Jory et al. 2015). In 2011, when the scandal of Dominique Strauss-Kahn erupted, the New York Sofitel frequently appeared on major TV channels and newspapers worldwide, an unlikely exposure without the scandal outbreak. This involuntary publicity contributed to lifting the Sofitel among famous hotels and increasing its value (Serraf 2011, Karmin 2014). Spangler (1999) discusses the example where the Utah tourism industry benefited from the publicity caused by the Olympic bribery scandal. Similarly, the secret dinner parties in Paris during the Covid-19 lockdown generated substantial and free publicity for some involved cuisine chefs and restaurants.

Rather than being passive actors in the scandal dynamics, hospitality executives can influence what will be released regarding their hotel. Interestingly, Berger et al. (2010) argued that negative publicity can increase purchase likelihood and sales by increasing product awareness. They hypothesized that negative publicity should have differential effects on established versus unknown products and found empirical support for this prediction. For

instance, they found that a negative review in the New York Times hurt sales of books by well-known authors, but increased sales of books that had lower prior awareness. The negative publicity increased purchase likelihood by rising product awareness. In short, when consumers forget negative perceptions about a brand quicker than their general awareness, the net effect is positive. Their analysis suggests that less-known hotels could benefit the most from extra coverage, by increasing visibility and notoriety. Given that media coverage fades away over time, there is an opportunity window that hospitality executives can exploit.

Proposition 2: Hospitality executives can harness scandal-driven publicity to increase the visibility and notoriety of (less-known) hotels. Rather than being passive, entrepreneurially minded executives channel this media coverage and use it as a viral marketing strategy by creating online and offline buzzes.

A practical way to test and check empirical support for this proposition could be to examine the number of (viral) views to support the increased awareness and exposure of the hotel in the aftermath of a scandal. Indeed, internet and interactive media play an increasing role in eruption of scandals and their (mis)management (see e.g., Baugut 2017, Jourdan et al. 2019, Kintu and Ben-Slimane 2020). Interactive media can be used to accomplish this goal, e.g., by monitoring the social media profiles of audience members interested in this type of situations, or content that may prompt virality or by using early buzz detection systems to anticipate and adapt accordingly (see e.g., Jansen et al. 2021).

4. ‘If these walls can talk’: Scandals as innovation and differentiation opportunities

In a world overwhelmed with touristic offers, scandals can offer to executives an opportunity to innovate and differentiate a given hotel from its competitors. Innovative and scandal-related products and services can become a part of the guest experience like designing a specific journey, using scandal-related storytelling, and giving spaces a special cachet. These exceptional and valuable experiences can trigger customers’ responses. For instance, the Watergate Hotel in Washington D.C. has a renovated ‘Scandal Room’ decorated with Watergate memorabilia. Guests staying in this room enjoy drinks with the two arresting officers involved during the night of the scandal (Leasca 2019). Instead of music, hotel guests can hear Nixon’s speeches and so forth. In the case of the Sofitel New York, it constitutes a stop in several sightseeing itineraries and its porch serves as a photo background for tourists (Serraf 2011). Scandals can transform unlikely places into tourist attractions such as the Minneapolis airport after the scandal involving U.S. Senator Larry Craig. Tourists were flocking to the men’s room and some entrepreneurially-minded airport employees gained ‘collateral profit’ (Grooms 2007).

Scandals can help changing the image of involved hotels, making them more attractive and provocative, especially for some guest categories. A natural candidate can be the freedom of expression or rebellious dimension associated with some scandals. Some hotels can adapt their values and display the related scandal as a proof of their involvement on a specific value. For instance, by becoming the backdrop of a scandal where individual freedoms were challenged and reaffirmed can offer to these hotels a special cachet if the values emphasized correspond to those that have fueled the scandal. For example, the Mayflower Hotel in Washington DC is nicknamed the “Hotel of Presidents” or the “Second Best Address” (after the White House) and has served as the backdrop of several scandals involving presidents or other high profile politicians (Beckwith and Waxman 2017).

In some ways, entrepreneurially minded individuals can see an opportunity to associate their businesses with certain borderline behaviors that support their core service messages and meanings (Connor and Mazanov 2010). They can also capitalize on

polarization, where a scandal-driven dislike is directed at a specific customer segment to galvanize another one (see Sikorski and Kubin 2021 about the use of polarization in the context of political scandals). The changes subsequent to the scandal eruption can alter the perception of some tasks in hotels, possibly motivate frontline employees to play the game and consider their job and role differently. Although this insight is somewhat speculative, we contend that the scandal can lead to changes that will give more significance or meaning to jobs in this specific hotel and this evolution can be reflected in job titles (Grant et al. 2014).

Furthermore, a scandal can be used to generate a ‘second wind’, serve the long-term interests of the involved hotel, elevate it to “legendary” status by giving access to some immortality related to what happened within its walls (Forbes 2002). For instance, by embracing its scandalous past, the Watergate hotel reached the status of a place where history was made. It can lead to a legacy transcending the physical building (like various hotels related to the Al Capone history) and reach future generations, but elapsed time constitutes a crucial factor to avoid detrimental interferences with recent and vivid issues (Trope and Liberman 2010).

Proposition 3: Entrepreneurially minded hospitality executives consider scandals as an opportunity to innovate and differentiate themselves from competitors. They can enrol their collaborators, change their business image and polarize their potential customers to galvanize support.

5. Using scandals as an additional way to target consumers

Hospitality executives can also mobilize scandals to generate unexpected marketing data about people interested in what happened. A scandal conveys an unexpected parameter on which a segmentation refinement could be considered. This segmentation criterion makes more sense for independent hotels compared to hotel chains or luxurious hotels. For the latter, the benefits from attracting scandal-related customers can be counterbalanced by the risk of harming the portfolio of regular customers seeking discretion.

Identifying people interested in scandalous behaviours, history, or high-profile individuals embroiled in the scandal, offer relevant marketing data. These people can form social media communities, adhere to specific programs and outlets. Several movies or series are based on scandals such as ‘Room 2806: The Accusation’, a 2020 Netflix documentary about the Strauss-Kahn scandal in the New York Sofitel. Similarly, fans having congruent preoccupations and personality traits as their celebrities could be interested in following their footsteps or patronize the same hotel chains. The hotel staff can design tailored marketing messages, which in turn leads to higher conversion rates.

Proposition 4: Hospitality executives can mobilize scandals to produce relevant marketing data about non-originally considered customers’ segments. This scandal-related segmentation criterion can exploit congruency effects and allows reaching new prospects.

6. Conclusion

Rather than avoiding or containing scandals, we adopted a radically different perspective and argued that entrepreneurially minded executives can make the best of them. They do not just suffer the scandal as passive victims but transform the scandal into an entrepreneurial opportunity. Once the scandal becomes inevitable, we developed three mechanisms allowing hospitality executives, to transform the scandal consequences into value-creating opportunities.

Our analysis is not without limitations. Each scandal creates an idiosyncratic situation and while some general guidelines apply, a positive outcome is not systematic. While most

scandals are detrimental to involved businesses, we argued that the potential positive side deserves to be considered. Adopting an effectual approach (Sarasvathy 2001, 2008) can help entrepreneurially minded executives, managers or entrepreneurs to broaden their perspective and turn the unexpected into the profitable. All scandals and collateral victims are not created equal. Characterizing the scandals more amenable to drive innovation and value creation is challenging and promising. Sometimes, the destructive power of scandals is too high while in other cases a self-inflicted scandal makes sense to generate a *succès-de-scandale* (Grolleau et al. 2020). Quantification of scandals' positive and negative consequences on various dimensions would allow examining the evolution of hotel performance after a scandal. Further, time is a crucial parameter, given that the multidimensional consequences of scandals can vary at various time horizons, especially if short-term and long-term interests conflict.

Scandal manipulation strategy is unlikely to succeed systematically and is contingent to several scandal related characteristics such as subject, level of intensity, dynamics, and controllability of the event itself. These factors may have varying degrees of influence on a consumer's response towards an organization. Time also constitutes a crucial parameter. Assessing the (positive) impact of a scandal on hotel performance over time would be a promising extension and a more comprehensive study could address the short-term and long-term recovery mechanisms, and examine the change in public's attitude in the short-run and long term when publicity valence fades in memory with time. This examination could also consider the offline and online realms where time can play differently (Baugut 2017). For instance, while a scandal may become viral worldwide in a matter of hours (Piazza and Jourdan 2018), the internet has its own memory and could take more time to forget than human beings (Perryer 2018).

Another avenue would be to consider whether and how scandals, directly related to the core business services, can be exploited, once they become unavoidable. Among potential extensions, scandals can constitute a 'reset button' and offer learning opportunities for involved businesses. Indeed, the involved institutions can exploit the opportunity window created by the scandal and channel the social forces to provoke profound changes that will be very unlikely otherwise and enforce a 'never again' promise (Grolleau et al. 2021). Scandals also deliver a new reference point upon which future actions will be judged. In some cases, especially for consumers with a growth mindset, the progress made can be more appreciated than the absolute delivered performance (Septianto 2020).

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