SEX, DRUGS, AND ROCK N' ROLL: AN ANALYSIS OF THE IMPACTS OF
CELEBRITY SCANDALS ON BRAND VALUE

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SEX, DRUGS, AND ROCK N' ROLL: AN ANALYSIS OF THE IMPACTS OF
CELEBRITY SCANDALS ON BRAND VALUE

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Economics

Abstract

The use of celebrities to market brands is nothing new. In fact, companies have been
using celebrities to advertise their brands since the 1600s. Although celebrity
endorsements are ever increasing, is it still a viable marketing strategy for companies?
This study attempts to examine the impacts a celebrity scandal can have on the change in
brand value using regression analysis. This study includes professional athletes, movie
stars, and musicians and their various endorsed brands in the sample. The findings of this
study show that a celebrity scandal actually does not have an impact on the change in
brand value. In fact, scandal was the least significant variable in the regression analysis.
What this study did find was that celebrity net worth actually has a large and significant
impact on the change in brand value.

KEYWORDS: (celebrity endorsement, brand value, scandal, celebrity net worth)

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CHAPTER I

INTRODUCTION

Celebrities are spoken about, examined and heard every day through mass media. In broad terms, a celebrity is defined as an individual who receives significant media attention (Laczniak & Miller, 2011). The extensive amounts of attention they receive make them ideal spokespersons for companies trying to generate awareness of their product and opening a channel of communication to the consumer. High-profiled individuals include athletes, actors, actresses, chefs, politicians, musicians, models, authors, etc. For this thesis, high-profiled athletes, actors, actresses, and musicians will be used in my analysis, because these celebrities receive the most media attention and endorse the most products.

Although they are an extremely attractive option for communicating marketing strategies, celebrities can also bring a huge risk to companies when endorsing their product. In the past ten years, scandals have become very frequent among high-profiled celebrities. According to Forbes.com, Tiger Woods is the highest paid athlete in the world and holds the number 12 spot on its list of the Celebrity 100 and the number three spot on The World's Highest Paid Athletes, earning about $55 million in endorsement deals (Forbes, 2012). Tiger's endorsement amount is shocking, but it gives us a good idea of how much faith and money these companies invest in celebrity endorsers. However, in 2009, Tiger Woods was involved in what was arguably one of the biggest scandals of the

past decade and without a doubt, a scandal that received the most publicity. The domestic violence with his wife and numerous accounts of adultery were immediately publicized and forced many companies to re-evaluate their endorsement contracts with him. In fact, some even dropped him as an endorser.

In the brand driven market of today, companies are always striving to better their brand. Whether it is differentiating themselves from the competition or giving their brand a new dynamic to create awareness, every company's concrete goal is to increase profit. Celebrity endorsement is an extremely attractive option in trying to do so. Furthermore, analyzing the effects of celebrity endorsement is crucial for the future of advertising and the future success of companies. It is also important to know that as a consumer, you are bombarded by brands and advertisements on a daily basis, whether you realize it or not. Congruency between an individual's ideal self-image and the image of some consumer good will result in a motivation to purchase that good (Deuskar, Na, Marshall, & State, 2008). For example, when a celebrity is seen wearing or using a given product, people react and for the most part, people want what they have. They see a star athlete wearing a new Nike shoe, and they go out and buy that same shoe. Many people fantasize about being a celebrity; they want to dress like a celebrity, they want to perform like a star athlete and they want to live the lifestyle. This is where celebrity endorsement can give companies a huge advantage over others, as consumers want what celebrities have.

Events such as the Tiger Woods scandal receive an abundance of attention. However there is a lack of research examining how this scandal actually impacted the brand value of his endorsement companies. The objective of this study is to address this problem. I aim to study how scandals, such as the Tiger Woods scandal, impacted a

company's brand value. With the amount of money involved in celebrity endorsements and the mass media attention that these celebrities receive, much research has been conducted to analyze the impacts of celebrity endorsements. However, little has been done on the negative impact on brand value for celebrity scandals. The goal of this study is to answer the question: what is the negative impact on brand value when a celebrity endorser is caught in a scandal?

CHAPTER II

LITERATURE REVIEW

Background

In order to completely grasp the effects of celebrity endorsement, it is important to understand how it all started. Celebrity endorsements have been used as marketing strategies for a very long time. In fact, the roots of such endorsements began sometime in the 1600s. At first, the word "endorsement" was not used to define celebrities advertising brands. They were first defined as testimonials, where a known person would speak very highly of a brand. For example, the earliest testimonials seen in the 1600s were mainly people being quoted in newspapers stating that some new medicine cured them (Segrave, 2005). However, when the patent medicine industry began to receive much criticism these testimonials disappeared from the media. As the world developed over time and technology began to experience great advancements, testimonials began to convert into endorsements. However, celebrity endorsement did not see true growth until after World War I. This is mainly because the economy was improving, and mass production and mass consumption were established, especially in the United States (Segrave, 2005). Since then celebrities have been used continually to advertise products. In the past 30 years, companies have enjoyed the benefits from using celebrities as endorsers and celebrity endorsement has almost become customary.

Branding and Endorsement

Branding is a very important concept when introducing a product into a competitive market. What a brand means to the company and what the brand means to the consumer can be completely different. A brand has several different meanings to the company. Although there are several meanings of the brand to the company, there are more important aspects that go into branding. Branding is a sign of quality, distinction, securing a competitive advantage, increased financial returns, and high customer loyalty (Carrol, 2008). These aspects of branding are very important when marketing a brand and are also relevant when deciding to use a celebrity endorser.

As for consumers, the meaning of a brand is much more psychological and can have a cultural meaning. Consumers develop special relationships with brands, and these relationships can have a large influence on their purchasing decisions. Today, people aren't just buying products for their quality and reliability, but they are buying products for a much deeper reason. Over the years, brand consumption has evolved into a process based more on self-reference, self-identity, and self-articulation (Carrol, 2008). With that being said, the message conveyed to the consumer is crucial when advertising a given product.

One recent study examined the selection process of celebrity endorsements and proposed a model for selecting celebrity endorsers (Erdogan & Drollinger, 2008). Erdogan and Drollinger found that selecting celebrity endorsers should be a structured selection process and shouldn't just take place by chance. Their research gives us knowledge of how companies are going about selecting celebrities. Their study also gives a more complete knowledge of celebrity endorsement and demonstrates that companies

are actually looking at a celebrity's morals, behavior, and whether or not a celebrity is a good "fit" for the brand. Examining a company's ethics and moral code will be a small part of this study and the literature shows us that this is an extremely important part in the endorsement process. Furthermore, companies are aware of how the celebrity's behavior and morals can affect the brand.

A major factor that plays into the selection process of celebrity endorsers is source credibility. Although having multiple definitions, source credibility can be thought of as the extent to which a communicator's (endorser's) positive characteristics affect the receiver's acceptance of the message (Ohanian, 1990). Source credibility is extremely important when selecting a celebrity endorser because it can directly affect the buyer's attitude and possibly purchasing decision. Ohanian identifies three dimensions of source credibility. The first is trustworthiness, referring to the confidence and acceptance of the spokesperson. The second is expertise, which is the endorser's validation of his/her assertions and is assumed to have a positive effect on the buyer's attitude. The third dimension is physical attractiveness. Attractiveness has been researched and has been found to have positive impacts on the brand or product the spokesperson is affiliated with, which consequently will have a positive impact on the buyer's purchasing decision.

Ohanian's study on these three dimensions of source credibility gives important information on the selection process of celebrity endorsers and a better understanding of why celebrity endorsements work. Furthermore, there is a psychological framework behind the source credibility aspect of celebrity endorsement. The consumer will respond to an advertisement, which involves celebrities thought to have high-credibility, meaning

they have all three dimensions of the source credibility model. If the endorser influences

the consumer, they will probably want the product they are endorsing.

The Celebrity Endorser

As stated before, celebrities are attractive spokespersons for companies when

marketing a brand or given product. A celebrity endorser is defined as any individual

who enjoys public recognition and who uses this recognition on behalf of a consumer

good by appearing with it in an advertisement (Laczniak & Miller, 2011). Why do

companies use celebrities to endorse their products? Celebrity endorsement is one of the

most powerful marketing strategies and can be an extremely successful investment

(Elberse & Verleun, 2012). There is speculation that people who follow celebrities also

follow the brands with which these celebrities are affiliated. In a 2011 online survey by

The Neilson Company, 64% of adults who follow celebrities also follow a brand (Miller

& Washington, 2011). There are estimates showing that as much as 25% of all television

commercials involve celebrity endorsements (Ding, Molchanov, & Stork, 2011).

Therefore, companies are always searching for new celebrities to endorse their products

because people will respond to the advertisement.

In today's diverse marketing world, increasing awareness, improving image, and

influencing consumers to buy products are crucial to a successful marketing campaign.

Using celebrities is a gateway to creating this awareness for a particular product. For this

reason, celebrity endorsement is thought to be a channel of communication between the

brand and the consumer (Ogunsiji, 2012). Evidently, this channel of communication is

key when advertising a product, but if the celebrity acts in an inappropriate manner, the

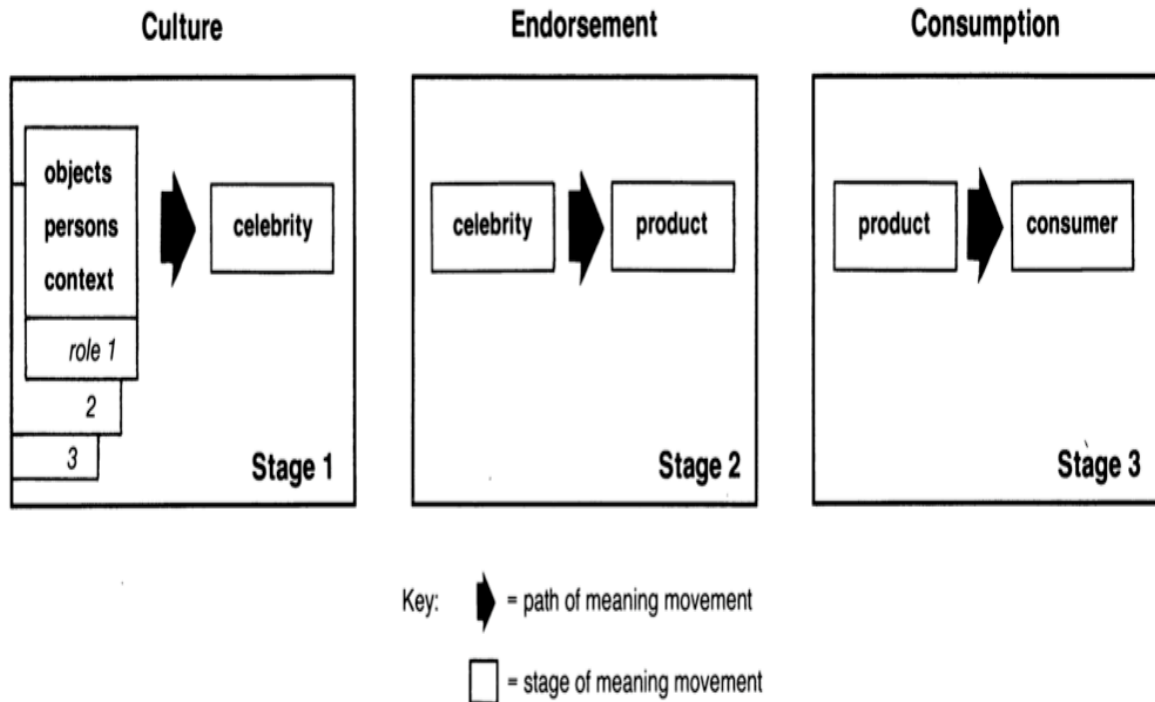company's ideal message being given to the consumer could be jeopardized. Consequently, the consumer could then receive a false message and the celebrity's bad behavior could negatively affect the consumer's feelings, loyalty and purchasing decision.

Why Celebrity Endorsements Work

In order to fully grasp the process and effectiveness of celebrity endorsement this section examines why celebrity endorsements work. The literature offers various explanations about how and why celebrity endorsements work. The main argument on why these types of endorsements work is mostly due to the psychological framework behind it all. This means that there is some type of meaning transfer from the celebrity to the product and from the product to the consumer. In one of his many studies, Grant McCracken has explained that it is not so much the source credibility and source attractiveness models that explain the effectiveness of celebrity endorsements, but rather the cultural meaning and meaning transfer that make celebrity endorsements so effective (McCracken, 1989). This meaning transfer begins when a company identifies the cultural meaning intended for the product, and consequently, consumers will ultimately receive this message and will base their buying-decision from that.

FIGURE 2.1

MEANING MOVEMENT AND THE ENDORSEMENT PROCESS

Culture   **Endorsement**   **Consumption**

| objects persons context | → celebrity | | celebrity → product | | product → consumer |

role 1 / 2 / 3

Stage 1   Stage 2   Stage 3

Key: ▸ = path of meaning movement

□ = stage of meaning movement

Source: (McCracken, 1989)

As shown in figure 2.1, McCracken breaks down this meaning transfer into three stages. In stage one, he explains that the roles these celebrities have in their respected careers, whether it is an acting career, a musical, or an athletic career, directly transfer to the product they are endorsing. Not only do their roles as professionals have a cultural meaning transfer to the product, but their actions as a professional and as a citizen can transfer to the product as well. Stage two of the meaning transfer process is simply assuring that there is coherence between the meaning of the product and the meaning the selected celebrity portrays. Finally, stage three in the meaning transfer process includes the consumer's acceptance and choice to buy the product and its meaning (McCracken,

1989). This cultural meaning transfer process is a great explanation of why celebrity endorsements work. The main point in McCracken's argument is that there is, in fact, a psychological framework that is involved. When the consumer labors for many hours and then invests in a product that is endorsed by a celebrity, the consumer is buying the lifestyle and meaning that the celebrity is portraying.

The Benefits of Celebrity Endorsement

In order to examine the risks of celebrity endorsements, one first needs to understand the importance of celebrity endorsements and how they can benefit a company. This section will explore the benefits of using celebrities as endorsers. Sola Ogunsiji (2012) illustrates how celebrity endorsement is beneficial. Ogunsiji discusses the importance of celebrity endorsement on strategic brand management. Ogunsiji's research is relevant to this study in that he finds that not only are celebrity endorsements extremely useful for marketing strategy, but he also concludes that marketing teams should seriously consider multiple endorsements.

Throughout the literature, one major study examines the impact of celebrity endorsement on company sales (Elberse & Verleun, 2012). This research provides a platform for my study, as I wish to study the impacts of celebrity endorsement on brand value. Their focus examines the positive impact that celebrity endorsements have on company sales, at the time of announcement. Elberse and Verleun also find that high-end brands such as Nike could generate a 4% increase in sales after an endorsement announcement. Elberse and Verleun's research is a major influence for this study because they examine the impacts on company sales. Although this study is extremely relevant to

my research, there are differences. Unlike Elberse and Verleun, I will be studying the negative impact on a company's brand value after a celebrity is caught in a scandal. The celebrities they used in their study are primarily athletes; as for my study I will be including actors, actresses, and musicians along with athletes and I will then compare the differences between them. Although there is existing research examining the positive impacts of celebrity endorsements, there still is a lack of research on the negative impacts. More specifically, there is a lack of research on the negative impacts on companies' brand value, which this study will examine.

The Negative Impacts of Scandals

This section discusses the negative impacts of celebrity scandals. Before grasping the idea of how scandals can negatively impact a brand and its value, it is necessary to establish the definition of scandal. According to the Merriam-Webster dictionary, a scandal is a circumstance or action that offends propriety or established moral conceptions or disgraces those associated with it. With this definition in place, I think it is important to understand that celebrities are at the will of our culture, meaning that the general public holds them to a higher standard. For the sake of this study, any event in which a celebrity's reputation is damaged and is publicized will be considered a scandal.

Research regarding the negative impacts of celebrity endorsements on brand value is extremely limited, however there are studies that examine these negative impacts on the different aspects of companies. One recent study, similar to that of Erdogan and Drollinger (2008), examines how the ethics and virtues of a company should be directly correlated with their actions involving celebrity endorsements (Laczniak & Miller, 2011).

Looking at the risks of celebrity endorsement, Laczniak and Miller discuss the importance of implementing company virtues and ethics when deciding whether or not to keep or drop a celebrity endorser after that celebrity misbehaves. Therefore, tying in the possible negative impact of celebrity endorsement to a company's ethics is extremely important for my research. What a company does after a high-profiled celebrity is caught in a scandal can directly affect brand value.

Recent studies have also researched the negative publicity of celebrity endorsers and how this negative publicity impacts the company's reputation and consumer attitude towards the company and the celebrity. One of these studies, an experiment, using three hypothetical incidents involving adultery, drunk driving, and criticism of professional integrity, examined how the negative publicity or scandal affected the endorsed brand (Barnes, Lowe, Monkhouse, & Thwaites, 2012). They found that in all three cases, negative attitudes from the consumers towards the endorser developed. Interestingly enough, they found that there was no difference in the negative impact among these three incidents. This meant that it did not matter what incident the endorser was involved in, negative attitudes still surfaced. The negative attitudes that can develop after a scandal can directly affect the purchasing-decisions of consumers, which can ultimately affect brand value.

Throughout the existing literature, there are studies involving consumer behavior towards the endorsed brand and how a celebrity's negative publicity can affect the consumer decision. If consumers' attitudes towards the brand negatively change, then what happens to the brand value? If people hear or see celebrities caught up in a scandal

and that directly affects their relationship with the endorsed brand, the consumers will not want to purchase their products and profits can potentially decrease.

Summary

The literature provides valuable background for this study, as these recent studies examine all aspects of celebrity endorsements and the significant impacts that they can have on a company and its brand. However, literature examining the negative impacts that celebrity endorsements can have on a brand is particularly limited, but more importantly it also shows that there is not much research showing a negative impact precisely on a company's brand value. The ultimate goal of this study is to determine whether celebrities' scandals can directly affect the brand value of the product they endorse. Furthermore, this thesis will be extremely valuable for companies considering celebrity endorsements when marketing their product.

CHAPTER III

METHODOLOGY AND DATA

This chapter will discuss the methodology used when examining the negative impacts celebrity endorser scandals can have on brand value. Furthermore, this chapter will discuss the details and time frame of the data collected. When thinking about celebrity endorsements, it is easy to think that the impacts are all positive. However, thinking about what happens when these celebrities are caught in a scandal and examining the negative impacts that these scandals can have on brand value are very intriguing. Recent studies have included different methodologies when examining the impacts of celebrity endorsements on consumer behavior, brand image and brand sales. There is however, a lack of literature using a regression approach. For this thesis, regression analysis is used to examine the significance a celebrity scandal has on the change in brand value. Regression analysis is the method used for this study, as it will give the best explanation of my data and how the scandals affect the dependent variable, change in brand value. Furthermore, regression analysis is the best approach because this study will be using multiple celebrities and multiple endorsement deals. This study examines one model:

Δ Brand Value = f [celebrity net worth, scandal, ΔGNP, Δ brand value$_1$]

The equation of the model is:

$$\Delta \text{ Brand Value} = \beta_0 \text{constant} + \beta_1 \text{celebnetworth} + \beta_2 \text{scandal} + \beta_3 \text{changeGNP} + \beta_4 \text{changebrandvalue}_1 + e$$

Sample

The sample used for this study includes celebrities from various careers. To be more precise, professional athletes, actors, actresses, and musicians are the celebrities used in this sample. To begin this study, researching celebrities who have experienced a scandal at some point in their careers was needed. Before researching for scandalous celebrities, I already possessed some knowledge of celebrities who have misbehaved from recent media I have read or have seen. From knowing a few scandals already, I began researching for more celebrity scandals on the internet, and various entertainment websites gave numerous celebrities who were caught in scandals. Most of this information was gathered from websites such as, abcnews.com, Enews.com, Yahoo.com, thehuffingtonpost.com, celebrityendorsementads.com, SI.com (Sports Illustrated), Forbes.com, and ESPN.com. The most common scandals included drugs, adultery, steroid abuse, and/or some type of sex scandal.

Although searching for enough celebrities with scandals was not troublesome, gathering enough celebrities with enough scandals and enough endorsed brands was tricky. Through researching celebrities and their scandals, I found that many of these scandals occurred throughout the last three decades, however, the majority of the scandals have taken place during the most recent decade. Consequently, celebrities who have had scandals from years 2003 to 2010 are included in this study. After gathering

enough scandalous celebrities, similar celebrities who have not had any scandals were gathered for matching purposes. By matching "good" celebrities with the scandalous celebrities there will be a better explanation of how a scandal can affect brand value, if at all. I attempted to match on the basis of occupation, as well as time period. For example, Tiger Woods is matched with Phil Mickelson and Kobe Bryant is matched with LeBron James. Woods and Mickelson are both top ranked professional golfers, and Bryant and James are both top ranked professional basketball players. Furthermore, the matching principle also ties in the time period for which the scandals took place. For example, Wood's scandal took place in 2009, at which point Phil Mickelson was a rival professional golfer. Table 3.1 is an example from the sample that shows how I matched up celebrities and their endorsed brands. As you can see, celebrities will be matched with another who shares similar careers and/or similar popularity within their respected careers. Table 3.1 does not include every celebrity used in the analysis, however it is an example.

TABLE 3.1

Sample: Celebrities and Brands

Non-Scandal Celebrities		Scandal Celebrities	
Celebrity	Brand	Celebrity	Brand
Phil Mickelson	Barclays	Tiger Woods	Accenture
	Exxon		American Express
	Rolex		AT&T
	Amgen/Pfizer		Gillette
Lebron James	Nike		Nike
	McDonald's		Gatorade/PepsiCo
	Coca-Cola	Kobe Bryant	Nike
	Samsung		McDonald's
Dale Earnhardt Jr.	Adidas		Coca-Cola
	Chevrolet	Lance Armstrong	Nike
	Budweiser	Michael Vick	Nike
	Gillete		Powerade/Coca-Cola
Manny Pacquiao	HP		Kraft Foods
	Nike	Brett Farve	Nike
Peyton Manning	Sony		MasterCard
	Gatorade/PepsiCo	Alex Rodriguez	Pepsi
Eli Manning	Reebok		Nike
	DirecTV	Michael Phelps	Kelloggs
	Samsung		Visa
	Toyota		McDonald's
Derek Jeter	Gillette	Wayne Rooney	Nike
	Ford	Andre Agassi	American Express
	Nike		Nike
Ryan Lochte	Gillette		Kia Motors
	Ralph Lauren	Chris Brown	Wrigley's
	Nissan	Kim Kardashian	MasterCard
	AT&T	Britney Spears	Pepsi
	Gatorade/PepsiCo		Target
Lionel Messi	Addidas	Kate Moss	Louis Vuitton
	Pepsi		Chanel
David Beckham	Adidas		Bvlgari
	Gillette	Angelina Jolie	Louis Vuitton
	Motorola	Lindsay Lohan	The GAP
	Pepsi		Kraft Foods
	H&M clothing	Roger Clemens	AT&T
			Coca-Cola

The sample includes 37 celebrities, most of which have several endorsement deals, for a total 105 observations. For example, Tiger Woods has several endorsement deals and 7 of his endorsements are included in the data set. With most of the celebrities in this study endorsing multiple brands, the sample size totaled to 105 various brands. However, many of the celebrities endorse the same brand, even with different careers. For example, Tiger Woods, Kobe Bryant, Michael Vick, Lance Armstrong, and Alex Rodriguez have all endorsed the brand Nike. This is where the match-ups help with accuracy and precision for the regression analysis.

Change in Brand Value

Change in brand value is the key variable, as this study attempts to find out if a celebrity's scandal affects brand value. The year of the scandal was the base for finding brand values of both the scandalous celebrity and the celebrity who has had no scandal. The data used for this variable were gathered from two websites. The first website, www.interbrand.com, is a website ranking the top 100 brands for a given year. The website includes brand rankings and brand values for years 2000 to 2012. The second website, www.brandirectory.com, is similar to the Interbrand website, however, the Brandirectory website ranks the top 500 brands for a given year, but only includes years 2007 to 2012. All brand values recorded in this study are in millions of dollars. For the sake of this study, three years of a company's brand value was used. The time frame for this variable includes brand values the year before the scandal, the year of the scandal,

and the year after the scandal. For example, Tiger Woods endorses Nike and his scandal occurred in 2009. I found the brand values for Nike in years 2008, 2009, and 2010.

From these three figures, I calculated the change in brand value by using simple subtraction. Thus, the dependent variable (ΔBV) is a numerical value calculated from the values of the year after the scandal minus the year of the scandal. Calculating the changes in brand value from year to year, I chose to use another change in brand value as an independent variable. This independent variable (ΔBV_1) is important because it will explain how the brand value is trending from year to year. This also helped with accuracy.

Scandal

This study uses both celebrities who have experienced scandals and celebrities who have had no scandals. Matching the "good" celebrities with the "bad" will give greater accuracy when examining the impact a scandal can have on brand value. For this reason, a dummy variable is included in the regression analysis. The dummy variable used in this study is scandal. As stated previously, a scandal is any event in which a celebrity is caught doing something immoral and damages their reputation as a professional and as a person. For the sake of this thesis, any celebrity who has experienced a scandal was given a 1. The celebrities who have had no scandals were given a 0. This independent variable is vital to this research, as this study will examine how scandals can affect brand value.

Celebrity Net Worth

Celebrity net worth is an extremely important variable for this study. It is important to understand that the celebrity net worth variable can affect brand value. The celebrities

used in this study all have different amounts of endorsements, salaries, power, and popularity. For the sake of accuracy and precision, a type of ranking needed to be incorporated in the regression analysis. Hence, the independent variable, celebrity net worth, is to be considered a type of ranking in which is considered a measure of power. The numerical values used for the celebrity net worth were found on www.celebritynetworth.com and are recorded in millions of dollars. This website gives the present value for each celebrity's net worth. For example, Tiger Woods' net worth value is $500 million as of today.

Control Variable: Gross National Product (GNP)

In order to control for the impacts of the economy in the regression analysis, the need to incorporate a variable that would explain the behavior of the economy during the three-year time frame for each celebrity scandal was necessary. This independent variable is the change in gross national product. According to the U.S. Department of Commerce, GNP is the market value of the goods and services produced by labor and property supplied by U.S. residents (www.bea.gov). The numerical values used for this independent variable were found on the U.S. Bureau of Economic Analysis website and are recorded in billions of dollars. Much like brand value, GNP values from the year before the scandal, the year of the scandal, and the year after the scandal were used to calculate the change in GNP. For the sake of this study, the change of GNP from the year before to the year after the scandal is the value used as an independent variable (ΔGNP) in the regression analysis.

Previous Change in Brand Value (ΔBV_1*)*

An independent variable that also was included that controls for the behavior of brand value is the previous change in brand value (ΔBV_1). The previous change in brand value is important because it will give an indication as to how a company's brand value is changing from year to year. For example, I used the brand values the year before the scandal and the year of the scandal to calculate the change in brand value previous to the year after the scandal. I calculated this variable by using simple subtraction, in which I subtracted the brand value of the year of the scandal minus the brand value of the year before the scandal. Not only does this variable give indication of how a company's brand value is trending from year to year, but it also can have high significance on the change in brand value after a scandal.

CHAPTER IV

RESULTS

This chapter provides a summary of the study's findings. The regression results and correlations are illustrated in tables provided in this chapter. The means, standard deviations and correlations of the dependent and independent variables for the endorsed brands included in the sample are shown in Table 4.1. The regression analysis results are shown in Table 4.2.

The correlation matrix provided is fairly consistent with low correlations among the variables. This means that the possibility of multicollinearity problems is highly unlikely. However, the highest correlation occurred between the independent variable ΔBV_1 and the dependent variable ΔBV (r = .973). This is not a bad thing or a sign of multicollinearity because the correlation is between the dependent variable and an independent variable. The remaining independent variables actually show low correlations, which is encouraging. In fact, celebrity net worth and scandal had the highest correlation among the independent variables (r = .169), which is still low.

TABLE 4.1

Means, Standard Deviations and Correlations Among the Variables

	Means	Std. Dev.	ΔBV	Celeb Net Worth	Scandal	ΔGNP	ΔBV₁
ΔBV	-539.692	11504.730	1.000				
Celeb Net Worth	144.125	122.483	-0.121	1.000			
Scandal	0.346	0.478	0.064	0.169	1.000		
ΔGNP	581.127	612.911	-0.113	-0.036	0.066	1.000	
ΔBV₁	1451.596	11661.080	-0.973	0.080	-0.047	0.160	1.000

Source: Author's calculations

The results of the regression analysis are shown in Table 4.2. The regression

analysis offers intriguing results. However, it was necessary to test for heteroskedasticity,

which was a possibility. The tested yielded a chi square of 6.15, which was much lower

than the r-squared multiplied by n. In this case, the regression showed signs of

heteroskedasticity. After fixing this problem in Stata, the results of the new robust

regression analysis did not differ much from the original regression analysis, which

means that the heteroskedasticity problem did not have a large impact on the regression

results.

After fixing the heteroskedasticity problem, the regression analysis yielded an

adjusted R^2 of .945, meaning that about 95% of the variance of the dependent variable is

explained by the regression. The ultimate goal of this study was to see if there is any

significance a celebrity's scandal has on an endorsed brand's value. Interestingly enough,

scandal is the least significant independent variable with a p-value of .310. The most

significant independent variable in this study is ΔBV_1 with a p-value of .000, which is remarkable. However, this significance can be explained because of the variables' high correlation to the dependent variable. Keep in mind that this variable is the change in brand value the year before the scandal and the dependent variable is the change in brand value after the scandal. With that being said, it makes sense that it is highly significant because of the trend of the change in brand value from year to year.

The other most significant independent variable in the study is celebrity net worth. With a 95% confidence level, celebrity net worth has a t-statistic of 1.98. Although this variable is significant, it is fascinating that it has a negative relationship with the dependent variable with a coefficient of -4.222! This means that the higher the celebrity net worth value grows, the endorsed brand's value will likely decrease by 4.222 million. This is very intriguing because it tells us that the more powerful a celebrity is, the more likely the brand value will decrease at some point.

TABLE 4.2

Results of Regression Analysis

(Dependent variable is change in brand value; t-statistics reported in parentheses)

	Model 1
Intercept/Constant	841.606**
	(2.44)
Celeb Net Worth	-4.222*
	(-1.85)
Scandal	555.489
	(0.86)
Change in GNP	0.740+
	(1.64)
Change in BV_1	-0.962***
	(-24.51)
Adjusted R-Squared	.949
F-Statistic	159.63***

Source: Author's calculations $+ p > 0.1$ $** p \leq 0.5$ $*** p < 0.01$ $* p < 0.1$

The original hypothesis of this study was that a celebrity scandal would have a negative impact on an endorsed brand's value. According to the regression analysis, scandal actually has a positive relationship with brand value, but is insignificant with a p-value of .310. This could mean that when a celebrity is caught in a scandal and receives publicity it is not necessarily a bad thing for a company who is endorsing that celebrity. The most intriguing result from the regression analysis is that of celebrity net worth. It is interesting that the regression analysis shows that the higher the net worth, the more likely brand value will decrease. Celebrity net worth also had a p-value of .067, meaning

that it is highly significant and celebrity net worth has much more of an impact on brand value than a celebrity's scandal. Thus, a celebrity's scandal may have little effect on brand value, whether it is positive or negative it is insignificant on the change of brand value.

CHAPTER V

CONCLUSION AND IMPLICATIONS

Companies are always searching for ways to market their products. Celebrity

endorsements have been used in marketing for hundreds of years, however in the past

decade they have become a staple in marketing strategy. Utilizing celebrities to endorse

products is a great way to promote products and to create a channel of communication

with consumers. Today, companies are investing millions of dollars into these celebrities

to endorse their products. Although celebrities are an extremely attractive option when

strategizing for a successful marketing campaign, it can be a huge gamble. Over the past

decade, the number of celebrity scandals has escalated. One could argue that celebrity

scandals have become a common occurrence. This may be due to the development of

technology and multi media. With these new developments, the public is reading and

seeing stories much more quickly than ever before. This study analyzes the impact a

celebrity scandal has on the brand value of an endorsed brand.

Using regression analysis, this study examined multiple celebrities and their

endorsement deals. Furthermore, this study uses 15 celebrities that have experienced

scandals from 2003 to 2010 and matched them with celebrities who have similar careers

and who have had no scandals. By matching celebrities who have had scandals with

celebrities who have not, this study examined how much of an impact a scandal really has

on brand value. Although hypothesizing that a scandal would have a large impact on brand value, this study has given strong evidence that scandals have little significance on the change in brand value, whether it is a positive or negative affect. However, the regression analysis finds that other independent variables such as, celebrity net worth, have much more influence on the change in brand value. For example, the regression analysis suggests that with a higher celebrity net worth, the brand value will actually decrease by $4.222 million. This study suggests that the more power and money a celebrity has, the risk of decreasing brand value increases.

Does a celebrity's behavior really have an effect on brand value? According to this study, it may not. Ultimately, this study has suggested that the success of a company's brand value may not rely so much on an endorser's behavior, but may rely more on other aspects of marketing strategies. In any event, celebrity scandals are neither good nor bad. Celebrities are always being watched in their everyday lives and their behavior is extremely important to keeping or retaining their good image portrayed to society. Although bad behavior may damage the reputation of a celebrity, it does not have much significance on damaging an endorsed brand's value.

The analysis also examined type of celebrity (i.e., athlete, movie star, singer/performer) to determine whether or not it had an impact on the change in brand value. The type of celebrity was examined by using dummy variables and implemented in the regression, however they were not significant and one type of celebrity was omitted from the regression results. The type of celebrity endorser has not been a focus of previous research and is not discussed in existing literature. The additional analysis

performed, as part of my thesis research provides no basis for believing that the type of celebrity has a significant impact on the change in brand value.

Theoretical Implications

The theoretical framework of examining the impacts of celebrity endorsements has implemented different methodologies that have focused on various business aspects. Furthermore, most of the past literature on celebrity endorsements has focused on the positive affects that it can bring to a company. Literature regarding celebrity behavior and the negative affects of celebrity endorsements is extremely limited. This has proven that this study is somewhat pioneering in this field.

One major recent study examines the economic value of celebrity endorsements and the positive impacts they have on company sales (Elberse & Verleun, 2012). Their research uses a regression analysis approach and incorporates intervention models that adjust for seasonal sales and time of endorsement announcements. Their study finds that celebrity endorsements can actually help companies generate a 4% increase in company sales after an endorsement announcement has been made. Elberse and Verleun's research is similar to this study as they use a regression analysis that includes a large sample size of various celebrities and endorsement deals. Although sharing similarities, there are major differences. One major difference is that this study examines the negative impact a scandal has on brand value, not company sales. Due to this difference, this study involves a simple linear regression model to examine the impact of scandals on brand value. This study also did not need to implement an intervention model for seasonal trends or time of

announcements. In any case, Elberse and Verleun's study is the most relevant to this research.

Through the existing literature, most studies involving celebrity endorsements do not use regression analysis to examine the impacts of celebrity endorsements. Many studies involving celebrity endorsements have used case studies, event studies, and experiments as a theoretical framework. More importantly, the literature using regression analysis to examine the impact of a scandal on brand value is non-existent. What this means is that this study is one of the first of its kind in this area of celebrity endorsement research. With that being said, the theoretical implications of this study suggest that regression analysis is an important, yet new approach to celebrity endorsement research.

Practical Implications

Celebrity endorsements have been proven to have positive effects for companies. More precisely, they can increase company sales and help brand image. However, celebrities are in a spot light all the time. They are watched, heard, and examined every day though mass media. Their behavior is closely examined at all times whether it is during competition, on stage, in movies, or in their daily lives. Thus, using celebrities as endorsers may bring risk to a company. This study has examined the impact a celebrity scandal can have on brand value.

The findings of this study suggest that scandals actually have little affect on the change in brand value. However, the existing literature suggests that a celebrity's bad behavior can damage the brand image and the image of the company. Although a celebrity's scandal can bring bad press and negative consumer attitudes towards a brand,

companies should still consider using celebrities to endorse their products, as the findings of this study suggest that celebrity scandals have little impact on brand value.

Endorsing celebrities may bring a large risk to a company's brand, however the positive effects outweigh the negative. Companies should consider all aspects of celebrity endorsement before choosing an endorser. Celebrity power, which in this study is their net worth, has much significance and actually has a negative relationship with brand value. If this is the case, companies need to consider how powerful a celebrity they wish to have as an endorser. There could be multiple reasons for the negative relationship between celebrity net worth and brand value. Companies need to examine every aspect of the celebrity's life and career before signing an endorsement deal. This will be crucial for the future success of their brand value. According to this study, scandals are not as important as a celebrity's net worth. However, a company should still evaluate its morals and standards, which should ultimately have a huge role in choosing a celebrity endorser. Furthermore, a company should re-evaluate its endorsement contract with a celebrity who does get involved with a scandal, but the company needs to realize that the scandal may not be too damaging to its brand or brands.

Future Research

Looking ahead to future research, adding more independent variables should be considered. By adding more variables, the regression analysis will be able to examine the influence of more factors on change in brand value. This study implemented four independent variables: celebrity net worth, scandal, change in GNP, and change in brand value from the year before to the year of the scandal. Although these variables were enough to retain significant results, more variables could be added to guarantee better

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accuracy. For example, data on celebrity endorsement deals could be added as additional independent variables. These variables could replace or could be added as measures of celebrity power. Another independent variable that can be added is a company's advertising expense. This will also help with accuracy and would likely be a significant influence on brand value. An additional dummy variable examining whether or not a company decided to keep or drop a celebrity after being involved in a scandal could also be added. All of the additional variable above may add more significance and help with accuracy. These considerations for future research may be find results that will help companies when choosing celebrity endorsers.

Summary

Celebrity endorsement is a viable marketing strategy for companies when thinking of increasing profits and promoting products. Existing studies show the success of celebrity endorsements, in fact finding that celebrity endorsements can actually increase company sales, product awareness and helps open a channel of communication with the consumer. However, with the vast amount of media exposure these celebrities receive they can be a risky advertising strategy. Whether it is on the field or off the field, on set, or in their personal lives, the public closely examines their behavior at all times. Furthermore, the general public, the consumers, hold these celebrities to a higher standard and expect them to act accordingly as role models and as leaders. When these celebrities are caught up in scandals, it is immediately publicized and can be detrimental to companies' reputations.

When a celebrity is caught in a scandal, what happens to a company's brand value that endorses them? This study has attempted to answer that question. The findings of this study have proposed that a celebrity scandal actually has little impact on the change in brand value. Thus, companies should still consider using celebrities as spokespeople and endorsers, even if they are a bit scandalous. As the saying goes, "There is no such thing as bad publicity" (anonymous). According to the findings of this study, this statement may be more truthful than people think. Although these scandals may damage the reputations of the company and of the endorser, it does not negatively effect the change in brand value. Consequently, companies should not worry about their brand value decreasing when their celebrity endorser is caught in a scandal. Celebrities are still assets to companies when marketing their brand or brands and their scandals should not have a significant impact on the change in brand value.

CHAPTER VI

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