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VALUE AND RISKS OF ATHLETE ENDORSEMENTS

Case study on NIKE, Inc. endorsed athletes Tiger Woods and Lance Armstrong

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1 INTRODUCTION

1.1 Athlete endorsement deals are an enormous business

Companies have used celebrities to endorse their products and services for decades as an important part of their marketing strategy. It is believed that seeing a well-known and liked public figure endorsing a product or service makes advertisements more believable, strengthens consumer recognition and creates a positive attitude towards the endorsed brand (see Ding et al. 2010, 148). Elberse and Verleun (2012, 157, 159) have also found that athlete endorsement deals generally generate an actual positive impact on the sales of the endorsed brand regardless of the athlete's success in championships. As a company's share price mirrors the expectations of future discounted economic profits, retaining a valuable endorser should have a positive impact on the company's share price (Knittel and Stango 2014, 23).

Celebrity endorsements are used widely across all industry fields and with all kinds of celebrities. One of the biggest types used is athlete endorsement deals (Elberse and Verleun 2012, 163), meaning a deal where the enlisted endorser is a professional athlete. This study focuses on athlete endorsements and specifically on a situation where there is a match-up between the endorser and the endorsed brand, so the endorsed brand operates in the sporting industry. This focus has been chosen because athletes are excellent examples for a study – their performance statistics are easily accessible and that performance can fluctuate dramatically in a relatively short time period. Furthermore, athletes are also often followed closely by the public outside the playing field. The case company – NIKE, Inc., referred to as Nike during this study – operates in the sporting industry. A sport company was chosen since the effectiveness of a celebrity endorsement deal is seen to be more beneficial if the endorsed brand and endorser have a match-up (Elberse and Verleun 2012, 151).

Even though information regarding the fees paid to the endorsers tends to be closely guarded – Nike, for example, isn't obliged to disclose information on any individual endorsement contract it has – estimations of the magnitude of athlete endorsement deals can be made. In 2016 the estimated total yearly amount of endorsement fees paid to the top 100 highest-paid athletes was over $924 million (Top 100 highest-paid athlete endorsers of 2016). According to Elberse and Verleun (2012, 163) in 2006 Nike alone was estimated to have spent around $475 million annually on athlete endorsements as part of their $1.7 billion advertising budget, which further underlines how big of a business endorsement deals are. According to the estimations these investments also pay off: Cristiano Ronaldo, the world-famous football player who is also the world's most followed athlete with over 255 million followers on his Twitter, Instagram and

Facebook accounts, was estimated to have generated around $474 million in advertisement value for his main sponsor, Nike, in 2016 (Kylmänen, 2017).

To further present the significance of athlete endorsement deals, the following table shows the revenues and demand creation expenses for Nike during the last five fiscal years. Demand creation expense consists of advertising and promotion costs, including costs of endorsement contracts. The proportion of demand creation expenses from revenues and the relative yearly change in demand creation expense have also been calculated. The numbers are shown as dollars in million.

Table 1 Revenues and demand creation expenses of NIKE, Inc. for past five fical years (Annual 10-K Forms for fiscal years 2012–2016, NIKE, Inc.)

In millions $	FY2016	FY2015	FY2014	FY2013	FY2012
Revenues	$32.376	$30.601	$27.999	$25.313	$23.331
Demand creation expense	$3.278	$3.213	$3.031	$2.745	$2.607
% of revenues	10,1%	10,5%	10,8%	10,8%	11,2%
% change in relation to last FY	+2,0%	+6,0%	+10,4%	+5,3%	+11,2%

As can be seen from the above table, demand creation expense is a significant expensem for Nike. Annually about 11% of the revenues have been spent for demand creation. Demand creation expense has also been growing every year for the past five fiscal years. According to their 10-K Forms, Nike allocates this growth largely to higher spending in sports marketing, and mentions that a significant portion of the demand creation expense relates to endorsement contract payments. This further underlines the strategic importance of athlete endorsement deals for Nike. The right choice of an endorser is an important one as it can substantially drive the changes both in sales and stock market numbers; because of this it's often justifiable to pay a premium for the most sought-after endorsers (Elberse and Verleun 2012, 163).

The firms that use celebrity endorsements as a marketing strategy must determine whether the value generated from these contracts are sufficient to offset the possibly considerable costs and risks. According to Elberse and Verleun (2012, 151) any event improving the enlisted athlete's reputation should reassure consumers of the quality of the endorsed brand. By extension, it could be assumed that the contrary would also be true and that any undesirable event – be it on the personal or professional side – would result in a negative attitude towards the endorsed brand. This has been researched multiple times in relation to athlete scandals, and the studies have shown that a statistically significant negative impact can be seen in the endorsed firm's share price due to loss of corporate reputation, especially when the athlete is seen to be to blame (Elberse and Verleun 2012, 151).

The companies and investors should see and price the reputational risk related to athlete endorsements as they would any other risk component (Knittel and Stango 2014, 23). This reputational and financial risk is in fact also noted by Nike in their 10-K Form's Risk Factors: "--- actions taken by athletes, teams or leagues associated with our products that harm the reputations of those athletes, teams or leagues, could also seriously harm our brand image with consumers and, as a result, could have an adverse effect on our sales and financial condition."

1.2 Research objective and methodology

This research will be conducted as a case study focusing on the athlete scandals of Tiger Woods and Lance Armstrong. Both are or were well-known, top-ranked athletes in their respective fields. Both of their public images also came crashing down as scandals damaged their reputations. Eldrick "Tiger" Woods was – and largely still is – considered to be the world's best golf player and he earned far more endorsement income than any other athlete. However, in 2009 his personal life was publicly dismantled after he was involved in a car crash, was uncovered to have had multiple affairs and eventually stepped away from golf for a while due to the scandal. On the other hand, Lance Armstrong, the seven-time consecutive winner of Tour de France, had to watch his professional career slip away in 2012 when he was found guilty of long-term doping offenses and was stripped of all those titles. The way these scandals were broadcasted all over the world and on different channels shows how the audience craves for drama. Top-rank athletes are constantly under the radar, both in and out of the field.

Both Woods and Armstrong were widely and visibly sponsored by Nike, which is the focus company for this case study. As shown earlier, Nike uses athlete endorsements as an important marketing strategy and judging by the expenses, is widely seen as the front-runner of athlete endorsements both inside and outside sporting industry. When these scandals surrounding Woods and Armstrong unraveled, Nike had to make the decisions of keeping or dropping their endorsement deals and ensuring the least amount of harm possible to its own public reputation and firm value.

These two scandals are excellent examples for a case study when researching if the news surrounding the events had any effect on Nike's share price and thus the firm value. Generally, when researching celebrity endorsements and stock market value, researchers encounter the issue of anticipation problem: if initial endorsement announcements are used, they are likely to be at least partially expected by traders and thus already incorporated in the share prices to some extent. When looking for the purest kinds of stock market reactions, the triggering event has to be as complete a surprise as possible because surprises by nature avoid the anticipation problem. (Knittel and Stango 2014, 22.) The scandals and shocks of both Woods and Armstrong were certainly not anticipated and thus they offer near-ideal circumstances for research from the stock market's and Nike's share price's perspective. It's also beneficial for this research that both of these scandals happened on a tremendous scale, as according to Elberse and Verleun (2012, 159) minor events do not trigger significant changes on the endorsed company's share price.

Celebrity and athlete endorsements and their financial impacts in positive and negative situations have often been researched in academic literature and their link on corporate reputation has been established. However, even though corporate reputation is viewed as a strategic asset both inside and outside of companies and reputational risk management is constantly ranked as requiring critical managerial attention, concrete approaches and tools for measurement and management are rather poorly undertaken and most of them only developed in the last decade or so (Gaudenzi et al. 2015, 249). Thus, with qualitative empirical research this study can try to understand how companies using athlete endorsement deals can manage a critical risk factor with limited tools.

The goal of this case study is to:

- Gain a deeper understanding of the concept of athlete endorsements and their financial implications, possibilities and risks.
- Understand how an endorsement company can proactively and reactively protect itself from these possible financial and reputational risks.

Because this research only focuses on two athletes and the effects of their scandals on one case company, the goal of this study is not to extrapolate the findings to a larger population or to other types of scandals. This study will research how Nike's share price reacted to the scandals of Woods and Armstrong and some estimations will be made if athlete endorsements can have significant effect on firm value and reputation. However, creating large-scale generalizations is not a goal for this study.

The chosen methodology for this empirical study is qualitative research, conducted as a case study through semi-structured research interviews. The research approach is action oriented. Qualitative research was chosen as the goal is to define the character of the researched phenomena without any attempt to produce quantifiable results. Case study is a fitted method as this study aims to enhance the description of athlete endorsements. The data is collected primarily by interviewing four employees inside the case company, Nike, all of who have expertise and interest in Sports Marketing. The interviews are conducted as semi-structured, as that leaves room for elaboration and discussion while still following the theoretical framework.

1.3 Structure of the research

This study is divided into six parts. The first part presents the research topic and the concept of celebrity endorsement is introduced. The overall goal, focus and execution of the study are explained and the case subjects are introduced.

The second and third part are based on a literature review of earlier research and aim to provide the reader with an understanding of the concept of athlete endorsements and the related possibilities and risks. The second part provides a deeper understanding of what athlete endorsements are and why using them is such a popular marketing strategy. The financial impacts associated with athlete endorsements are introduced, both in the sense of possible gains and losses. Existing ways to identify, measure and manage reputational risks are introduced in the third part and are reflected to the environment of athlete endorsement deals.

The theory introduced in the second and third part is deepened in the fourth and fifth part with a qualitative empirical research. The fourth part introduces the methods and execution of this empirical research as well as provides deeper information on the case selection. The goal of the empirical research is first to study the market reactions on Nike’s share price in relation to the case scandals and then, with the help of gathered information and existing literature, conduct interviews inside the case company to gain further understanding of the importance of athlete endorsements and the risk environment they create. In the fifth part the findings are analyzed and discussed, with the goal of finding out if athlete endorsement scandals cause financial risk and how that possible risk is measured and managed. The findings of this study are reflected and compared with the existing research.

Lastly, in the sixth part overall summary and conclusions are stated. Theoretical contribution of this research is estimated and further research possibilities are considered and introduced.

2 FINANCIAL IMPACT OF ATHLETE ENDORSEMENTS

2.1 Defining the concept of athlete endorsements

2.1.1 Why companies use celebrity endorsements

Using celebrity endorsements is a marketing strategy that has been used for decades by companies. Whenever you open a magazine or a television, you're bound to see a familiar face convincing you that you should be using whatever it is they are endorsing. It has been estimated that advertisements with celebrities account for at least about 20% of all television commercial (Agrawal and Kamakura 1995, 56). Endorsements are popular in advertising as famous people catch consumers' attention and are believed to help create perceptions towards the brand based on existing knowledge of the endorser (Keller et al. 2008, 330). This is based on *meaning transference* where perceptions of the endorser are transferred to the product and brand (Zarriello 2015, 396).

Because of admiration, one of the main goals of using celebrity endorsements is the process of *identification* – when consumers see a celebrity endorsing a product or a service, the goal is that they'll change their behavior because they aspire to be like that celebrity (see Lee et al. 2016, 178). Companies themselves say they use endorsement deals for example to develop, evaluate and promote products and to build product credibility (Annual 10-K form for fiscal year 2016, Nike, Inc.).

According to existing literature, celebrity endorsements are used mainly because of three potential benefits. First, using a celebrity endorser can create greater brand awareness. Second, a dynamic, well-liked and credible celebrity endorser can help create positive attitude towards the brand and its products. Third, the famous endorser's personal characteristics can become associated with the brand and thus create positive attitude and possible behavioral changes from the consumers, as they look up to the celebrity. (Batra et al. 1996, 401.) These reasons underline how important the right choice of endorser is for the company.

Some additional objectives for using celebrity endorsements, although similar to what Batra et al. noted, have been introduced. Celebrity endorsements aim to (see Kraft and Lee 2009, 113):

- capture consumer attention
- strengthen brand name recollection
- reinforce product image
- increase message credibility
- increase product attractiveness

- increase recollection and admiration of the advertisement
- increase purchase intention.

Higher endorser credibility typically leads to a more persuasive and influential message and thus to higher endorsement effectiveness. Credibility is usually seen as a combination of endorser attractiveness, trustworthiness and expertise. Thus naturally, the ideal endorser would be perceived as simultaneously trustworthy, attractive and an expert. Nevertheless, effectiveness may still be achieved even if the endorser falls short on some areas if the combined credibility is still high enough. Out of the three, trustworthiness has long been viewed as the most important factor. (Parker and Fink 2012, 71.) Trustworthiness is also the component which can be most harmed if the endorser engages in immoral behavior and that damage can lead to lower purchase intentions and negative attitudes towards both the athlete and the endorsed brand (Carrillat et al. 2013, 22).

2.1.2 Athlete endorsements

A celebrity endorsement deal is called an athlete endorsement when the endorser is a professional athlete (Elberse and Verleun 2012, 163). Overall, of all celebrity types, athletes are the most used endorsers (see Carrillat et al. 2014, 1027). As Nike is arguably the front-runner as a utilizer for endorsement deals, it is no surprise that specifically athlete endorsements are a widely-used type of celebrity endorsement deals. As the fit between the endorser and the product is an instrumental factor for consumer purchase intentions, it's natural that a sporting brand uses mainly athletes as its' endorsers (Parker and Fink 2012, 78). Athletes are wanted celebrity endorsers since consumers don't only observe them in controlled situations, such as movies or red-carpet events, but also on their field of play in the heat of the moment. This spontaneity creates special authenticity and could make athletes more believable as endorsers. (Boyd and Koernig 2009, 26.)

Athlete endorsements should not to be confused with athlete sponsorship, even though the terms are sometimes used interchangeably. In athlete endorsements, the athlete becomes a spokesperson for the company and its brand and receives monetary compensation for it. In athlete sponsorship, the brand supports the athlete's career goals to promote specific products and consumers' goodwill perceptions. In sponsorship, the brand usually covers the athlete's training and competition expenses. In both situations, the athlete receives compensation and the brand receives some sort of publicity. However, in sponsorship the athletes don't necessarily express their association with the brand through advertisements. Athlete endorsements forms a business relationship between the athlete and the company, whereas in sponsorship the common goal is to enhance the athlete's performance. Nike uses more athlete endorsements than athlete sponsorships as a marketing strategy. (Carrillat and d'Astous, 2014, 1070-1073.)

Athlete endorsements focus more on using the athlete as a spokesperson for the brand and thus suggests that the more famous an athlete, the more can be achieved from an endorsement deal (Carrillat and d'Astous, 2014, 1073). For example, when Nike signed a deal with LeBron James, one of the greatest basketball players of all time and National Basketball Association's number one draft pick at the time of signing the contract, Nike stock rose by 0.75% on the day the deal was reported. This indicates that investors saw the signing of James as a profitable strategy for Nike. Earlier research has addressed the question whether only news concerning very widely known "mega-stars" would generate a kick in the endorsed company's share price, and is there therefore a point in enlisting smaller endorsers. (see Fizel et al. 2008, 248.) Many companies do, however, have a wider portfolio of endorsers than just a few mega-stars, and it seems that for the smaller, more conventional athletes the market finds the return to just justify the cost of obtaining the endorsement deal (Fizel et al. 2008, 255).

Even though it is easy to track the professional success of an athlete, the success of an athlete endorsement deal isn't necessarily tied to that. It's not entirely uncommon for an athlete to be an important endorser because of the unique associations people have with them, even if the athlete is already past his or her career's prime time or hasn't won any notable prices (Carrillat and d'Astous 2014, 1076). Elberse and Verleun (2012, 159) noted the same effect that athlete endorsements tend to boost company's sales regardless of the athlete's professional success. This shows that companies can't choose their endorsers purely based on athletic performances and that the company may be rather dependent on their endorser.

The business relationship with athlete endorsers needs to be tended with much attention as equally favorable alternatives are not that easy to find, and there is a fierce competition for the most sought-after athletes. Cristiano Ronaldo, for example, allegedly turns down 90% of the endorsement offers he receives. (Carrillat and d'Astous 2014, 1076.) Nike has understood this, as they have signed lifetime endorsement deals with some athletes. This means that even after the athlete retires from their professional athletic career, the partnership with the endorsed company remains. (Badenhausen 2017.) This shows that the companies expect to benefit from these relationships for a long time, but then again, they also expose the company to significant risk should anything scandalous happen to any of these athletes.

Athlete endorsements are an enormous business both to the athletes and the sporting industry as a whole. Prior to information regarding his indiscretions becoming public knowledge, a full 92% of Tiger Woods' earnings came from endorsements rather than sports achievements (The Fortunate 50). Widely known athletes such as LeBron James, Maria Sharapova, Kobe Bryant and Roger Federer also earned more from their endorsement contracts than their actual sport achievements in 2016 (8 athletes who earn more money from endorsements than their sports career). In 2016 the estimated total yearly amount of endorsement fees paid to the top 100 highest-paid athletes was over $924 million (Top 100 highest-paid athlete endorsers of 2016). As shown earlier, during the past five years Nike’s expenses related to sports marketing and athlete endorsements have been growing steadily. From all this it can be concluded that using athlete endorsements is a significant marketing strategy for companies and one that they believe to be profitable. Thus, as they take on a more dominant role in the strategy, the deals and their costs should be closely monitored and measured.

Even though companies are not required to disclose details concerning their individual endorsement deals, it is clear that they are ready to put quite large sums into this advertising strategy: Nike, for example, spends over 10% of their revenues in demand creation, an expense group which includes all endorsement payments (Annual 10-K Forms for fiscal years 2012–2016, NIKE, Inc.). It has been researched multiple times whether these athlete endorsements actually have impact on market value of the endorsed company, and if they do, can that impact be both positive and negative depending on the situation. Whatever the case, it is certain that using a celebrity as an endorser is a significant expense for the company and the management should be confident that the investment can be offset and justified with greater future profits (Agrwal and Kamakura 1995, 56).

2.2 Possible gains

2.2.1 Market value

Generally speaking, previous studies have found that investors view celebrity and athlete endorsements as a profitable advertising strategy. Agrawal and Kamakura (1995, 57-60) used an event study methodology to research whether the decision to incur celebrity endorsement expenditure and these announcements generated abnormal returns in the company’s share price. They found that investors tend to value these deal announcements positively and on average, on the date of announcing the endorsement deal the endorsed companies recorded a gain of 0.44% excess returns in their market value. According to them, the market has a general expectation that the expected future profits gained from the endorsement deals will exceed the incremental costs of these contracts. However, even though the market tends to view celebrity endorsements as a positive advertising strategy, companies shouldn’t rush to just sign as many as possible.

Already two decades ago Agrawal and Kamakura (1995, 60) noted that returns from these deals might be decreasing, as the costs are rising and negative publicity is a significant potential risk.

Previous research has indicated that athlete endorsements announcements usually impact the firm value in a positive way, but Reiser et al. (2012, 233–234, 246–247) conducted a more detailed research to study which are the factors that actually affect the possible abnormal returns. Their rather extensive study of 629 endorsement announcements looks into if there are differences if the endorsed entity is on the company or brand level, if the audience reach of the deal is national or international and if it's a completely new deal or a renewal of an existing one. They found that generally the announcements triggered a positive market reaction on the announcement date, and that the returns on deals signed on brand level and deals reaching a national audience were significantly higher. Their research didn't provide explanation to why exactly these factors generated higher returns, but it does underline again the very dynamic nature of athlete endorsement deals.

However, there is also contradicting evidence for stock market returns generated by athlete endorsements. Cohoon and Extejt (2007, 3, 7) studied news announcements about Nike's athlete endorsers and found that out of the 30 athletes researched, only the news regarding Tiger Woods generated significant excess stock market returns. This raises a question if endorsement deals are able to generate a positive kick in the stock market only when they are announced. Then again, Elberse and Verleun (2012, 157) found that athlete endorsement deals had positive impact on the endorsed companies' sales, which might be a more practical measurement for the success of an existing endorsement deal.

Using athlete endorsements is a marketing strategy that aims to benefits running much longer than just the initial announcement. The first announcement of a new athlete endorsement deal often generates a boost in the endorsed company's value. This is in line with the classic theory that all new public information should be reflected immediately in the company's share price. Endorsement deals are generally viewed as a positive thing, but it is also expected that the possible gains will continue long beyond the moment of the initial announcement. Then again, as the possible market value impact could also be negative, continuous monitoring is necessary. (Farrell et al. 2000, 12.)

Some companies are trusting that their most successful endorsers will generate them additional value for years to come – even for the rest of their lives, as Nike has some athlete endorsement deals signed for the endorsers lifetime. Michael Jordan is one of those, and Nike has their own Jordan brand built around the athlete. The brand's sales have been growing despite Jordan's retirement from the sport over 10 years ago and it has the dominant share of the basketball shoe market. Nike's co-founder Phil Knight has stressed the impact of Jordan’s contract and its co-investments, not just as an endorsement deal for Nike, but as an influence for the whole sport: “Some kids won’t even know who he was. It just became a brand. It went from an endorsement into a brand.” (Townsend 2017). The strategy of lifetime deals might be especially fruitful nowadays since with a strong social media presence it’s easier for the athletes to claim the publicity for themselves over longer time. According to Hookit, Cristiano Ronaldo created almost $500 million for Nike in media value in 2016 (Badenhausen 2017). Then again, a long endorsement contract with a superstar is not enough to guarantee profit: in 2016 Nike exited the golf category after being closely involved for 20 years. The company’s co-founder admitted that they didn’t even break even on golf equipment business during those years despite the endorsement contract they had with the sport’s biggest and brightest star, Tiger Woods. (Townsend 2017.)

When assessing the possible financial gains of celebrity and athlete endorsement deals, one can’t bluntly look only at the share price reactions or changes in sales. Even if an endorsement contract generates a positive impact in the endorsed company’s firm value, the real question is if these gains are enough to offset the costs of the endorsement deal in question. Especially in the case of mega-stars companies have to be ready to put a lot of money on the field even to enlist the celebrity as a spokesperson. Despite the importance of these expenses, there isn’t that much research about forecasting these costs. To fill this gap, Jensen et al. (2016, 282, 291–292) conducted a research to better predict these sports marketing costs. Their findings show that as expected, an athlete or a sports team with higher on-field success and viewer demand generally means higher predicted affiliation costs. Quite surprisingly though they also found that the athletic apparel’s market leader, in this case Nike, when compared with Adidas and Under Armour, can benefit from their dominant position and pay less than expected for several affiliations, whereas their competitors have been forced to incur higher than expected costs to sign their deals. Even though the research of Jensen et al. focuses on athlete sponsorship, the same logic can be extended to other sports marketing costs, such as those of athlete endorsements, which shows that a dominant market position may transfer to higher negotiation power and cost savings.

2.2.2 Significant factors

It has been stated in existing literature over and over again that the effectiveness of a celebrity endorsement deal is generally seen to be more beneficial if there is a match-up between the endorser and the brand (Elberse and Verleun 2012, 151). This means that for celebrity endorsement to be successful, there should be a match-up between the characteristics of the endorser and the attributes of the endorsed brand and products. For example, professional athletes are seen as authorities who have expert knowledge about the products used in their sport, which means that athlete endorsement contracts should be more beneficial for sporting goods companies than for non-sporting goods companies. (Fizel et al. 2008, 252.) Farrell et al. (2000, 2, 10) researched how athlete endorser's sports performance affects endorsed companies. The athlete they used as a case subject was Tiger Woods, who at the time of the study endorsed multiple firms from different fields. The study found that the only endorsed company to gain positive and significant excess stock market returns was Nike, which was the only one that had a clear match-up with Woods. They also concluded that Nike was the only company in the sporting industry field to gain positive impact from Woods' successful performance on the golf course, suggesting that to enjoy the added value benefits of a sports star's performance, the company has to incur the costs and have an endorsement relationship in place with him or her on top of the match-up.

Although the general view among the studies seems to be that a match-up between the endorser and the product generates a more fruitful deal, contradicting findings do exist. For example, Fizel et al. (2008, 252) also tested the importance of the match-up theory with 148 less-known conventional athletes and their endorsement announcements, and didn't find any significant abnormal returns when comparing the sporting and non-sporting goods contracts. Then again, Boyd and Koernig (2009, 34) conducted a study with an anonymous spokesperson as an endorser and found strong support for the match-up theory as the endorsement was viewed more efficient when the spokesperson was depicted as an athlete endorsing a sports brand. Using a less-known endorser that has a match-up with the company could be at least as successful as using a mega-star with no match-up, even though consumer recognition might be lower.

However, it seems that in addition to the match-up, visibility plays a large role. Quite similarly as Elberse and Verleun (2012, 159) noted that athlete endorsements' positive effect on endorsed company's sales isn't tied to winning championships, Farrell et al. (2000, 11–12) found out that even though Tiger Woods' success in golf and added media coverage had an positive impact on Nike's firm value, it didn't matter if his wins came from smaller games or major tournaments. What mattered was the additional publicity that Nike got when a successful golfer was wearing their apparel during the games. It seems that this visibility adds Nike's shareholder's wealth and thus the endorsement contract between Nike and Woods creates significant additional firm value for the company. They note that thus it's possible that contracts with athletes who compete in sports with higher visibility may have higher positive market value impact, as those usually also provide higher visibility for the athlete and his or her endorsement relationships. Then again, Elberse and Verleun (2000, 159) also found out that minor events regarding the athlete endorser do not trigger significant changes in the endorsed company's share price. This indicates that even though championship wins aren't necessary for a successful endorsement deal, something has to bring large enough media publicity to create significant changes in the share price.

Endorser credibility seems to be an important factor when forecasting the success of endorsement advertisements. Seeing a well-liked celebrity using a specific product or brand is not enough as the consumers need to actually believe in the product and the authenticity of the endorser's feelings. Austad and Silvera (2004, 1521–1522) actually found out that the prevailing inferences towards the endorsed product played a larger role than the characteristics of the celebrity endorser, indicating that using a celebrity endorser might not be that significant. However, if the consumer believed that the endorser truly liked the product, they were more likely to favor it as well. The endorsers have to be able to strongly argument why they prefer the product, and not just trust that their charisma is enough to sell it: consumers tend to be cynical towards the endorsers' motives, knowing that they are gaining monetary compensation from the endorsement. Again, the match-up hypothesis seems to play an important role, as there have been studies showing that less-known athletes endorsing sports products have higher credibility than a more widely-known Olympic star endorsing a non-sports product (see Boyd and Koernig 2009, 28). Even though a match-up doesn't necessarily affect the purchase behavior of a consumer directly, it does increase the trust in the endorser, and consumer acceptance of the advertisement is more likely (Boyd and Koernig, 34–35).

Although match-up between the celebrity endorser and the endorsed company seems to be one of the most critical factors when forecasting the success of the endorsement deal, the bigger picture is anything but that simple. The effectiveness and success of the endorsement deal is a very dynamic combination of the endorser's characteristics, the product and even the surrounding environment and society at the time and place of the advertisement. (Austad and Silvera 2004, 1510.) Agrawal and Kamakura (1995, 60) also noted that sometimes celebrities endorse the products of several brands and might even move between competitors, which could hurt the credibility of the endorsement. Thus, we can't for example assume that all Nike's athlete endorsement deals would be automatically fruitful just because they meet the match-up condition.

What can be concluded from the existing research on athlete endorsements is that even though they can have significant positive impact on endorsed company's value and stock market returns, a correct match-up between the company and athlete is critical. Only 20% of commercials with celebrity endorsers end up meeting the strategic expectations set out by the endorsed company (see Boyd and Koernig 2009, 26) showing that the right fit between the product and the endorser is crucial. It's also worthwhile to examine whether the positive gains from endorsement deals can turn to risks and losses if negative publicity regarding the endorser occurs. This will be done in the next chapter.

2.3 Possible losses

2.3.1 Market value

Companies use celebrity endorsements with the obvious hope that the positive attitudes consumers have towards a celebrity will transfer into the company's brand, sales, and firm value. However, sometimes the celebrity endorsers may end up in the middle of negative publicity due to a personal or professional scandal, and the collateral damage might turn the once prosperous investment into a liability for the endorsed company. Negativity effect, which means that individuals typically give more attention and place more importance on negative than positive information, can mean that these unfavorable effects may have more severe consequences in the eye of the public than possible successes of the endorsers (see Parker and Fink 2012, 71).

Bartz et al. (2013, 131–133, 140) conducted a rather extensive event study investigating 93 celebrity endorsement disgraces over 25 years to see how they affected the firm value of the endorsed companies. Their research concluded that there is some evidence of significantly negative share price reactions when an endorser disgrace is announced. The negative effects were stronger if the scandal received greater media attention and involved a more famous celebrity. This could also be due to the fact that to acquire an endorsement contract with more prominent celebrities, companies usually have to pay a larger cost, meaning that it can be seen as a larger investment, thus having a larger effect also in case of an endorser disgrace.

A negative public event surrounding an athlete endorser can significantly impact the market values of his or hers endorsement companies. In the aftermath of Tiger Woods' scandal, the full portfolio of the companies he endorsed lost more than 2% in market value. During the week preceding the scandal no abnormal returns were observed, which indicates that the financial losses were strongly due to Woods' disgrace. The losses for brands that had made complimentary coinvestments that were associated specifically with Woods suffered even higher losses. (Knittel and Stango 2014, 21, 28.)

There are contradictory researches of how the match-up between the endorser and the brand affects the company's situation in case of an endorser scandal. Carrillat et al. (2013, 16) stated that if a match-up between the two exists, the brand can sustain negative effects more efficiently than if the match is poor. Then again Cohoon and Extejt (2007, 1) found that Tiger Woods' scandal only affected adversely one of his endorsed brands: Nike. Nike was the only brand with which Woods had a match, and their golf ball sales significantly dropped during the scandal.

When Knittel and Stango (2014, 21) researched the same scandal of Tiger Woods, they found that all of his three core sponsors (Nike, PepsiCo and Electronic Arts) suffered losses on the stock market during the first 15 trading days after the scandal, not just Nike that had a match-up with him. They tied these abnormal returns to the negative events surrounding Woods by finding a strong relationship between the stock market changes and news and Internet searches relating to the scandal. This relation is presented in the following figure. “All firms” refers to all companies that were sponsoring Woods, “primary” refers to five companies that had the largest endorsement contracts with him (Nike, PepsiCo, Electronic Arts, Accenture and Gillette) and lastly “Tiger brand” refers to three core sponsors that had specific products and co-investments that were tied specifically to Tiger Woods (Nike, PepsiCo and Electronic Arts).

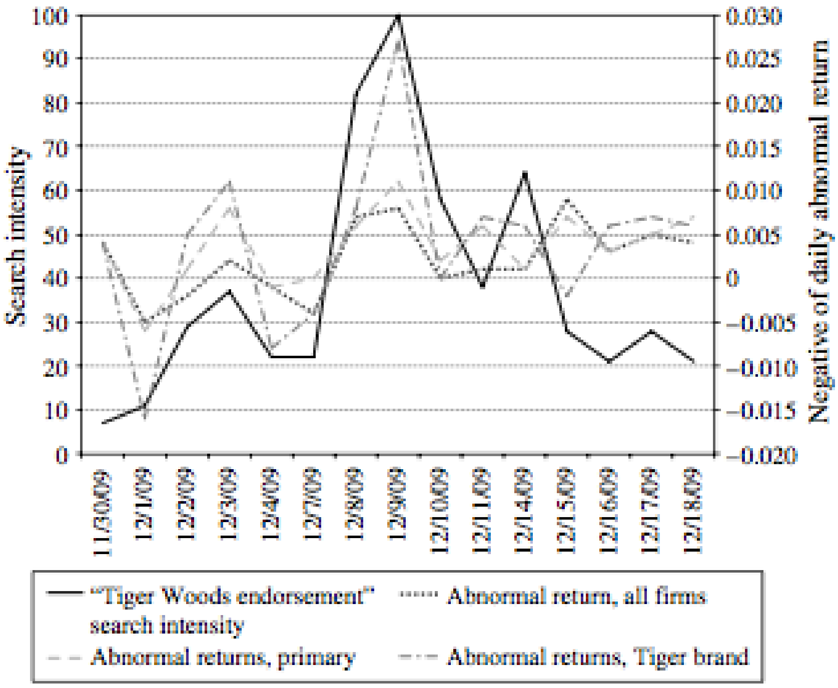

Figure 1 “Tiger Woods Endorsement” search intensity and daily abnormal returns (Knittel and Stango 2014, 30)

As can be seen in Figure 1, the abnormal returns of Woods’ endorsement companies are strongly in line with the search intensity related to the scandal, which indicates that the scandal had a significant link to the stock market changes of the endorsed companies. This is especially true for the “Tiger brand group” consisting of Nike, PepsiCo and Electronic Arts, all three of which had made complementary co-investments strongly tied to Woods (for example the “EA Tiger Woods” line of video games) and thus to his reputation. Knittel and Stango’s study shows that the stronger the link between the endorser and the company is, the more likely they are to suffer more significant losses if the endorser’s reputation is damaged.

On the contrary to positive effects of athlete endorsements that only affect the brand directly involved in the deal and not the competitors on the same industry (Farrell et al. 2000, 10), a scandal involving an athlete endorser can have a negative impact on attitudes towards both the endorsed brand and their direct competitors due to the spillover effect (Carrillat et al. 2014, 1024). The severity of this could also be linked to the size and type of the scandal, as Fong and Wyer Jr. (2012, 893) found that the larger the consequences of the negative event are, the more likely the consumers are to attribute more blame to the endorser. If the endorser is seen blameworthy, the likelihood of negative impacts for the associated brands also increases. As Carrillat et al. (2014, 1024, 1028) show, in case of a scandal the spillover effect may make even unassociated brands vulnerable if the disgraced endorser is strongly linked to their product category. This was true for example in the case of Lance Armstrong – his doping scandal shook the entire sport of professional cycling, and companies that weren't directly associated with Armstrong but had been supporting cycling for years decided to pull out. However, this spillover risk is higher for brands that are strongly associated with one specific sport. In case of a scandal affecting a tennis player who has signed athlete endorsement deals, brand associated with specifically tennis (such as tennis brand Wilson) has a higher risk than for example Nike which is associated with multiple sports even though tennis is one of them.

Contradicting the study of Carrillat et al. (2014) of negative spillover to direct competitors in case of an athlete endorser scandal, Knittel and Stango (2014, 22, 33) found that competitors could actually gain market value during a negative event like this. They researched how Tiger Woods' scandal affected the market value of his endorsed companies and their competitors, and found that if the competitor had not invested in celebrity endorsements at all, their market value increased. If the competitor was endorsement-intensive themselves, even if their endorsement deals had nothing to do with Tiger Woods, their gains were significantly lower than those of the non-endorsement-intensive competitors. This shows that a major endorsement scandal sends investors a negative market-wide signal of the risk. The unpredictability a human endorser with his or her own mind possesses is risky, and thus during the storm the investors seem to prefer companies that don't encounter this risk at all. Knittel and Stango do, however, admit that sometimes one athlete's and the endorsed company's losses could have a spillover effect of negative impacts on competitors too, but this is more likely only for specific products as categorical effect.

2.3.2 Significant factors

In athlete endorsements, the consumer recognition often follows a forward memory path from the athlete to the brand. A forward memory path is more accessible for the consumer, meaning that it is easier to link a certain athlete to a brand than the other way around. To elaborate, when seeing Nike, your first thought isn't necessarily "Tiger Woods", but for many people the first thought or brand they associate with Woods is Nike. Spreading activation is easier when following a forward memory path, which is what companies aspire to gain from endorsement deals when those flowing thoughts are positive. Unfortunately it also means that any negative information regarding the more dominant node is easily transferred to the less dominant one. In our example this means that if something negative is associated with Tiger Woods, it's also easily associated with Nike, as the forward memory path flows from Woods to Nike. (see Carrillat and d'Astous 2014, 1077.) This shows that possible scandals or questionable ethical behaviors concerning the athlete endorsers – which, as history has shown, may happen as the endorsers are humans who make mistakes – can create significant risks for the endorsed company,

The association between a brand and a celebrity gets stronger every time they are paired with each other, and the stronger the association link, the more likely it is that information regarding one will also influence attitudes towards the other (Till and Shimp 1998, 69). However, if the association set is large, meaning for example that the celebrity is associated with multiple different companies, the intensity of this effect is reduced (see Till and Shimp 1998, 69). This is also what Agrawal and Kamakura (1995, 60) noted with their observation that some celebrities endorse several products, which might decrease their credibility. As companies wish their endorser to be as trustworthy as possible, they are often prepared to pay more for a stronger association, but this does also increase the risk of negative associations in case of a scandal.

Till and Shimp (1998, 72, 80) tested how negative information affects associated brands in case of an endorsement. They found that negative news about an athlete endorser can have strong adverse effects on the endorsed brand if the endorser and the brand are viewed as strongly linked to each other by the consumer. These results were, however, only reached when they used a fictional celebrity and a fictional brand to have more control over the test environment. When they repeated the test with a real athlete instead, they found that the test subjects did not lower their views as much towards the endorsed brand. One possible explanation is that as the subjects had more prior information about the real athlete, they didn't link him as strongly to the endorsed brand used in the study. It is necessary to mention that their comparison test study with a real athlete did still use a fictional brand and a fictional scandal, and therefore does not entirely represent a realistic situation.

This research conducts a case study with athletes that encountered different types of scandals; Tiger Woods' scandal was about his personal life and Lance Armstrong's about his professional career. Till and Shimp (1998, 71) created a fictional athlete endorser for their research and gave two types of negative information about the athlete for their study subjects, one being negative news about his athletic career and the other about his personal life. Both types resulted in virtually identical results, showing that consumer reactions don't necessarily differ based on the type of the scandal. However, it has also been shown that consumers perceive the seriousness of a scandal based on how badly it goes against social norms and what is the extent of harm to other individuals (see Bednall and Collings 2000, 48). Bednall and Collings' (2000, 52–54) own study also showed that an athlete endorser's likeability decreases significantly based on the type of public disgrace, illegitimate child being the most tolerated and rape the least. On more tolerated scandals that did not revolve around the athlete's professional career (illegitimate child and fraud), the athlete was still seen somewhat suitable to continue endorsing sports gear, but not products that he didn't have a match-up with. This shows that if the scandal didn't endanger the athlete's perceived expertise related to the endorsed product, the customers would still find him or her as an expert endorser, even if likeability was questioned.

As mentioned earlier, identification is one of the major reasons why celebrity and especially athlete endorsements work. However, as the fan aspires to be like the athlete he or she identifies with, possible scandals surrounding that athlete can send the fan in the middle of a moral dilemma: What to do when someone you don't just look up to but also identify strongly with does something that conflicts with your own moral code? A previous study has actually shown that if there is a strong identification link towards the athlete, the fan tends to regulate possible negative emotions and in the end still view both the athlete and the endorsed brand in a positive light. If the endorsed brand is able to enforce the identification process between their endorser and consumers, the likelihood of forgiveness during possible endorser scandals increases. However, during a possible scandal the endorsed company needs to closely monitor the consumers' sentiments towards the scandal since the more negative their feelings towards the incident, the less likely they are to regulate their feelings and turn them into more positive ones even if they identify with the scandalous athlete. (Lee et al. 2016, 176–178, 186–187.)

When the existing studies have tried to understand how negative events can affect celebrity endorsements, researchers have often used fictional endorsers to enable control over specific variables. However, this doesn't necessarily capture the actual consumer responses to real incidents, as the study subjects for example don't have prior feelings of identification or liking for the fictional endorser. This is why Fong and Wyer Jr. (2012, 885–887, 891–892) conducted a study investigating changes in consumer attitudes in relation to a real celebrity scandal. They did find that attitude change toward a celebrity could significantly affect also the purchase intention of a product or brand they endorsed, thus influencing the company's revenues. However, their study especially focused on who the consumer sees is to blame. They found that if the consumer attributes the responsibility of the scandal to the celebrity and in addition has a strong positive attitude towards the endorsed company, he or she is more likely to sympathize with the company and not change his or hers views of them.

If the athlete endorser faces negative publicity where he or she is accused of something, his or her actions also affect the attitudes towards the endorsed company. If the athlete acknowledges the allegations instead of denying them, the consumers view him or her as more trustworthy. This perceived trustworthiness has positive impact also on how the consumers view the endorsed brand and their purchase intentions for that brand. However, if the athlete denies the charges, this perceived insincerity has a significant negative impact on consumers' brand attitude and purchase intention. As this effect is created by the athlete's actions and might be completely out of the endorsed company's control, this can create significant risks. (Carrillat et al. 2013, 22–24.)

Quite logically, as most previous studies have shown that celebrity and athlete endorsements can have positive effects on firm value, most of them also agree that a scandal or public disgrace can have negative effects. If the consumers are familiar with the brand or the athlete and have positive views of them, the scandal is less likely to affect brand attitude or purchase intention negatively.

3 RISKS OF ATHLETE ENDORSEMENTS

The earlier chapters have shown that even though celebrity and athlete endorsements may be a value-adding marketing strategy, the endorsed companies also risk rather worrisome and severe financial losses. Most of these financial losses stem from deterioration in corporate reputation. The next chapters will offer insight how existing research defines corporate reputation and suggests the risks associated to it to be measured and managed. Specific focus is also given to how companies can protect themselves from risks that athlete endorsement scandals bring.

3.1 Defining corporate reputation and reputational risk

3.1.1 Corporate reputation

Corporate reputation is a combination of internal and external perceptions of a company's factors such as its ethics, attractiveness and financial stability. Reputation is not static and can change rapidly, for better and for worse. From the perspective of senior management, strong corporate reputation helps with recruiting and maintaining the most sought-after employees and establishing important strategic partnerships, but it should be remembered that a positive reputation typically also boosts sales, enhances share price and provides some shelter against possible crisis. (Resnick 2004, 33–34.) Corporate reputation can also be described as the stakeholders' multidimensional aggregate perceptions of both financial and non-financial aspects, such as financial performance, product quality and social responsibility (Gatzert 2015, 486). However, some definitions don't see corporate reputation as an aggregate of all perceptions, but actually claim that a company has as many different reputations as it has stakeholders. As perceptions between different stakeholders might differ, it might be problematic that aggregate definitions don't consider these differences. (see Eckert 2017, 147.)

From an organizational viewpoint, corporate reputation forms from corporate identity and image. In order to achieve good corporate reputation, a company should have good core characteristics that form the internal corporate identity. Then based on the internal view the company should consider how it wants external stakeholders to view the organization and reflect those intentions on actual external perceptions. In an ideal situations, stakeholder perceptions match the company's intentions and thus provide a good corporate reputation and competitive and financial advantages (see Eckert 2017, 148–149).

Corporate reputation has been called “the ultimate intangible”. As it’s formed as a combination of the perceptions of a variety of people, it’s harder to assess. There is also information asymmetry between these different stakeholders and the company – unless you’re more involved, such as an investor, your knowledge of the company is mainly based on general public information instead of strong solid insider facts. Even those more involved will still have to rely on external sources of information, such as auditors and regulators. This information gap, generated from the lack of inside knowledge, is what corporate reputation generalizes and fills. (Scandizzo 2011, 44–45.)

Corporate reputation is hard to define unambiguously due to its intangible nature, but it’s generally agreed that reputation is a strategic asset for a company because reputation is hard to duplicate, it develops over time instead of in an instant and it constitutes a barrier to entry (Scandizzo 2011, 42). However, even if it takes a long time to build a good reputation, it only takes a moment to destroy it, which also explains why reputational risk is so significant (Gaudenzi et al. 2015, 250).

It has been shown that there is a significant positive relationship between good corporate reputation and financial performance due to higher revenues (higher customer purchase-intention), competitive advantage and lower cost of capital. Likewise studies have shown that events damaging reputation generally lead to financial losses due to customer sanctions and higher contracting costs. However, prior positive reputation may help a company in a reputational crisis as they may be granted the benefit of the doubt. All this underlines that reputational losses can create significant risks. (see Gatzert 2015, 488.)

3.1.2 Multi-stakeholder approach

Corporate reputation is not only consumers’ view of the company. It is the confidence of investors, analysts, customers and all other stakeholders alike, and it is vital if the company wants to make it in long-term. Still, even though senior management have started to underline the importance of corporate reputation, only up to 5% of US retail investors are very confident that senior managements and CEOs of publicly traded companies engage in ethical business practices. This reinforces that it’s necessary to measure and manage corporate reputation from multiple angles. (Resnick 2004, 31.) The following figure illustrates the primary stakeholders that are key components in forming a company’s reputation.

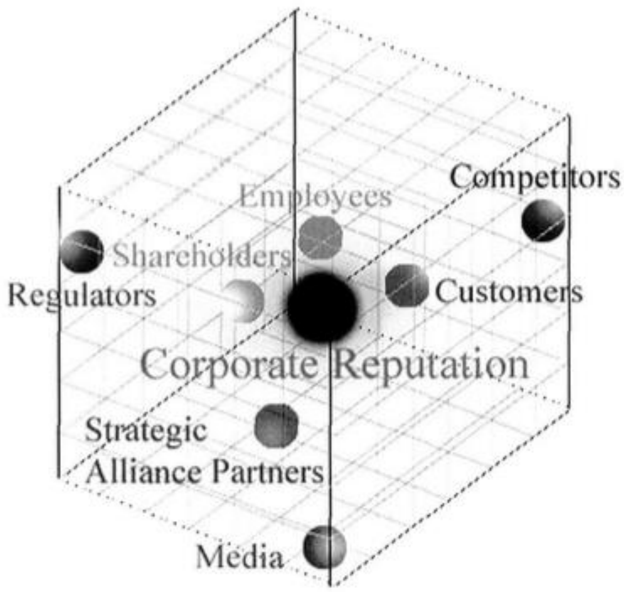

Figure 2 Stakeholder reputation matrix (Resnick 2004, 32)

Figure 2 presents the key stakeholders forming corporate reputation for the majority of companies and shows the importance of a multi-stakeholder measurement approach when gathering information of public perceptions. Losing the positive perception of even one of these key stakeholders could potentially damage corporate reputation severely, and thus it is necessary to pay attention to each of them when making executive decisions. The perceptions may differ between different stakeholders; for example, customers may see the company in a positive light, but the regulators not. In an ideal situation, all stakeholders have a positive attitude towards the company. (Resnick 2004, 33.) It's also important to note that corporate reputation is not only created by external stakeholders, but that people inside the company, specifically the employees, are another key group. Actions aimed to maintain or enhance corporate reputation should be directed both internally and externally. (Resnick 2004, 33.)

In a literature review about corporate reputation, Gatzert (2015, 488–490) concluded this same importance of the multi-stakeholder approach. She lists customers, suppliers, employees and investors as the most strategic stakeholders. Corporate reputation has direct impact on the behavior of these various stakeholders, which makes guarding and enhancing it such a high priority. Better corporate reputation increases customer loyalty and purchase intention, has a positive impact on suppliers' credit risk perception and enables access to lower bank and institutional loan spreads from investors. All of these can have a direct impact on a company's financial performance.

3.1.3 Reputational risk

Companies face many kinds of operational and strategic risks that they have to manage every day – everything from global financial conditions to failures in product delivery – but nowadays the risk often seen as most worrisome by management level is the loss of reputation. The reason for this lies behind the multiplier effect and loss of control. The multiplier effect indicates that actions of just a few can be seen by the market as a signal of the whole culture of the company, meaning that potentially everything can threaten reputation. These effects can be amplified with large media coverage and lead to severe reputation-damaging consequences, and these processes are usually out of the company's control, It creates a new kind of vulnerability and a need to make this risk manageable. (Power 2004, 61.)

Reputational risk is most often defined either as the risk that stakeholder perceptions deteriorate or as the risk that stakeholder behavior changes for the worse due to deteriorated corporate reputation. In a way both definitions are saying the same – if corporate reputation deteriorates, it is likely the same will happen to the stakeholder perceptions and they too will change their behavior. (see Eckert 2017, 151.) In a study conducted by Gaudenzi et al. (2015, 255), managers considered reputational risk more critical than financial and strategic risks. They also didn't find relationships between reputational risk and other risk categories, which suggests that reputational risk can be considered as a category of its own.

Asymmetric information pushes a person to generalize, which in case of reputation also creates risk. If you hear of dangerous chemicals in one brand of corn flakes, you may start to suspect all breakfast cereals. A reputation-damaging event may not be directly linked to a company, but the impact reaches it due to the category or sector effect. (Scandizzo 2011, 45.) Reputation damage is also the main risk with endorsement scandals – even though the firm is not the one engaging in immoral behavior, the strong link to the disgraced endorser can be generalized and multiplied to affect the entire endorsed company in the eyes of the market, as discussed earlier in this theoretical review.

In today's fast-paced, ever-changing environment of social media it's even harder to manage reputation. Negative posts or comments are easy to express even anonymously and could be seen instantly by millions, and thus the multiplier and spillover effects of reputational crises spread worldwide even faster across product categories. (Gaudenzi et al. 2015, 249.) Companies have taken a note of this, and Nike for example mentions in their annual 10-K form (2016) that negative publicity on social networking websites could seriously damage their reputation and eventually financial condition.

As company's share price reflects all available information and expectations about the company's discounted value for future profits, any negative information, such as scandalous news about the endorser, might lower those expectations and the company's share price. Investors should consider this reputation-damaging risk as they would with any other risk factor and price it accordingly. (Knittel and Stango 2014, 23.) Companies themselves also recognize loss of reputation being a significant risk; Nike for example lists failure to maintain reputation as one of their major risk factors, and recognizes that reputation loss could hurt consumer confidence, reduce product demand even in the long-term and eventually materially and adversely affect their results (Annual 10-K form 2016, Nike, Inc.).

3.2 Measuring and managing reputational risk

Even though the importance of corporate reputation and the perceptions of a company are receiving increased focus from manager level, reputational risk management is a relatively new practice, created only around 1995 after a badly handled reputational scandal and boycott left Shell, a multinational oil company, with significant economic losses. This means companies are trying to tackle their worries with rather new tools and sometimes poorly developed approaches. The main trouble with reputation management is that a reputational crisis can kindle from small events even outside the company's own actions and then be multiplied by processes out of their control. Companies are however naturally looking for ways to shield themselves, and it can be argued that corporate social responsibility (CSR), which is nowadays highly demanded by consumers, is simply a defensive strategy to protect the company from reputational risk. (Power 2004, 61–62.)

Most models for measuring and assessing corporate reputation have only been created in the last 10 years or so (such as The Reputation Quotient, The Brady model and The SPIRIT model). All of these models are based on the multi-stakeholder approach (but might be limited to only include some stakeholder groups instead of all key stakeholders) and identify multiple sources or categories for corporate reputation. Examples of these categories are emotional appeal, financial performance, leadership, social responsibility and ability to attract talented employees. Even though these models identify similar sources and stakeholder groups, the lack of a dominant, generally accepted model shows how reputation assessment is relatively new and highly multi-dimensional. (Scandizzo 2011, 43.) It has been studied that although most companies consider reputation as a strategic asset that should be protected, they don't adopt specific tools to identify and measure reputational risk. This mismatch between expressed managerial priorities and actual actions could be due to limited number of models available. (Gaudenzi et al. 2015, 257.)

The most commonly used measure for corporate reputation is the annual ranking of the Fortune magazine for both USA's and the World's largest companies. The companies are evaluated and ranked (with a score of 0 to 10 on each category) by executives, directors and analysts on nine different categories: innovation, people management, use of corporate assets, social responsibility, quality of management, financial soundness, long-term investment, quality of products or services and global competitiveness. Even if Fortune's rankings are the most popular measurements due to their understandability and accessible nature, they are highly criticized; it is argued that the ranking overweighs the financial aspects and is not holistic as it is only based on the perceptions of some of the stakeholders. Many of the newer models have been developed because of this criticism. (Eckert 2017, 151–152.)

Reputational risk is harder to measure and manage than for example normal financial, operational, and technological risks due to its more intangible nature. Most of the existing models are not able to provide a monetary measure for corporate reputation or reputational risk. Normal methodologies of assessing the difference between book and market value of an intangible asset or calculating the net present value of returns is not sensible as it's extremely difficult to isolate reputation impact of other intangibles and would require too many strong assumptions. Furthermore, due to multi-stakeholder approach on corporate reputation, obtaining all relevant perceptions of all stakeholder groups requires an extensive data collection exercise. (Scandizzo 2011, 44.)

All of the above-mentioned methods to measure corporate reputation result in an aggregated indication for each category instead of showing the possible varying perceptions that might occur between different stakeholder groups. Eckert (2017, 153–154) updates the previous methods, as his method includes a more holistic view of all key stakeholder groups as well as an indication of how individual groups view the company instead of one aggregated number describing corporate reputation per category. He suggests the following survey approach for measuring corporate reputation:

- First, conduct stakeholder analysis to define relevant stakeholder groups and define the relevant issues (such as the categories presented in the Fortune ranking).
- Second, create questions for each issue as well as a weighting system to average each issue.
- Third, find a satisfactory number of participants in each stakeholder group to complete the questionnaire.
- Finally, present the results in a matrix showing the combination of each stakeholder group/issue. The matrix represents corporate reputation in different categories as perceived by different stakeholders instead of one stakeholder-aggregated number per category.

The method presented above for measuring corporate reputation by Eckert can also be used for measuring reputational risk. If reputational risk is defined as a risk of stakeholder perceptions deteriorating after a reputation-damaging event, the model above can be used to measure perceptions in each stakeholder group before and after such an event with the results showing possible reputational losses. Based on this historical observation a model for reputational risk can be created. However, if reputational risk is defined as a risk of stakeholder behavior changing after reputation-damaging event, measurement of reputational risk is more difficult as isolating and measuring the exact amount of reputational losses from all operational losses is hard.

Scandizzo (2011, 59) introduced a governance structure for effective reputational risk management, which is shown in Figure 2. He argues that a well-established decision process and clarity of responsibilities are essential for good reputational risk management, as even though reputation is everybody's responsibility, its importance creates a need for a clear governance structure.

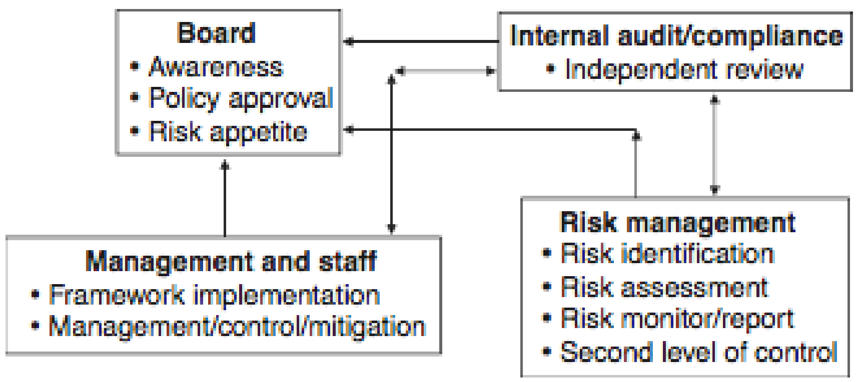

Figure 3 Governance of reputational risk (Scandizzo 2011, 59)

As shown in Figure 3, an efficient reputational risk management requires engagement of multiple internal parties, not just of the senior management, and there are multiple key relationships between these different parties, as reputation is creation and management is a shared responsibility. However, the identification, assessment and monitoring of reputational risk should be clearly assigned to a separate unit, as corporate reputation is a strategic asset and risk associated should be governed by a dedicated unit.

Reputational risks are not only born from major scandals, but instead they might often creep up over a longer period as one or more of the key stakeholders slowly grows dissatisfied with the company. Thus it is critical from a risk management perspective to have a system for continuously and thoroughly monitoring corporate reputation. (Resnick 2004, 35.) Although there is no general agreement on how to define and measure corporate reputation and reputational risk, it is commonly agreed that those two represent the first steps in reputation management (Eckert 2017, 146). Gaudenzi et al. (2015, 249) suggest the four steps below to companies for protecting reputational risk:

- Address the importance of corporate reputation and the associated risk.
- Define risk and how to assess it on a general level.
- Compare reputational risk to other risk categories.
- Identify the main reputational risk sources.

The following steps introduced by Resnick (2004, 35–36) for senior management to effectively assess stakeholders' attitudes provide additional steps after the initial reputational risk identification. Thus, combining the below steps with those of Gaudenzi et al.'s could offer companies a more wholesome approach:

- Identify areas of reputational risk for example through internal discussions, industry associations and media analysis.
- Identify key stakeholders for your business and link the previously identified areas of reputational risk to each stakeholder.
- Establish systems to assess the company's relative standing with each critical stakeholder. Assessment systems can be for example internal discussions or wide-range surveys and the gathered information should guide directly to actions. Most importantly, the assessment system needs to be independent and objective, and carried out by an outsider if those traits can't be guaranteed with internal execution.
- Ensure that stakeholders' attitudes result in actions that prioritize the most significant reputational weaknesses, develop action plans on how to improve those weaknesses and create a plan on how to act in case of reputational damage that can not be stopped before it happens (for example unpredictable major scandals).

The obvious problem with the above models (and generally speaking most of the existing ones) on reputational risk management is the lack of a concrete system to assess reputation perceptions within different stakeholder groups. There are suggestions on how to manage corporate reputation once it's been effectively measured, but the ways for the actual measurements are often vague, which might make it difficult for the companies to approach the issue. Most measurement methodologies suggest engaging different surveys and offer different models of analyzing the results, for example by comparing the gap between stakeholder expectations and company performance. Gathering these large amounts of data and analyzing them requires high efforts from the company and monetary measurements are extremely hard to create, but as it's agreed that corporate reputation is a critical strategic asset, the whole process is nevertheless worthwhile.

3.3 Shielding from athlete endorsement scandals

3.3.1 General risk management of athlete endorsements

As shown earlier, endorsement deals might be a vital part of a company's marketing strategy but they do not come without risk. Companies have recognized that events harming their endorser athletes' reputations could also have an adverse effect on their brand image with consumers and result in decreased financial condition (Annual 10-K form 2016, Nike, Inc.). There are also studies showing that the endorser's scandals can cause deterioration of corporate reputation for the endorsed company (Knittel and Stango 2014, 34). Thus it is necessary that they have ways to protect themselves from possible endorser scandals, both proactively and reactively. It is important for an endorsement company to actively measure and manage their corporate reputation to understand the possible reputational risks and financial damages related to endorsement scandals. Ensuring good corporate reputation is also crucial, as it has been shown that good reputation may soften the blow of a scandal.

If the outcome of one party is perceived as being controlled at least partly by another, there is a power imbalance in favor of the party with more control. Power imbalance is seen to be in favor of the athlete in the case of an athlete endorsement, because it is perceived that the brand needs the athlete's image and is thus at least partly controlled by the athlete. In athlete sponsorship the power imbalance is often seen to be the other way around, as the athlete needs the help of the brand to cover his or her expenses. (see Carrillat and d'Astous, 2014, 1071.) Then again, it could be argued to be the other way around also in the case of athlete endorsements, because for many athletes, endorsement deals are their main source of income (Freedman 2009). If a negative event affects the more powerful partner, such as a scandal concerning the athlete in the case of athlete endorsements, it is probable that the other partner with less power will also suffer due to the negative spillover (see Carrillat and d'Astous 2013, 1072). This makes it necessary for the company to find means to protect itself from potential endorser scandals when using athlete endorsements.

Miller and Laczniak (2011, 507) suggest it's important for the endorsed company to monitor their endorsers' behavior continuously to estimate the likelihood of scandals, were they of personal or professional nature. However, this can be rather extensive if the company for example has multiple endorsers. This is why they also highlight the importance of proactive planning and suggest the companies should have an "exit strategy" defining clearly which actions are to be taken in case of negative endorser publicity and if those actions will be different depending on the type of the scandal.

Due to the spillover effect shown by Carrillat et al. (2014,1032, 1035) brands might need to have a plan of how to react in case of an athlete scandal even if the athlete in question is not endorsing them. Their study showed that the spillover of negative impacts of an athlete scandal might not reach only the endorsed brand but also its direct competitors for the same product category. However, an athlete scandal concerning someone who’s not associated with their product category does not have adverse attitude effects. This is also true for multisport brands, so brands associated with multiple sports are less likely to suffer from the spillover risk. The risk is also smaller for a less-familiar brand, even if it focuses only on one sport, meaning that the threat is rather minimal for a new brand but it does become more vulnerable and needs to consider the spillover risk if the brand gains more recognition.

Companies react to the possibility of endorsement scandals and the actual scandals in different ways: some might add legal clauses to their contracts, some choose to immediately end the contract if a scandal arises and some might do the exact opposite as they think the endorser effectiveness will not suffer because of negative publicity. (Carrillat et al. 2013, 15–16.)

3.3.2 Effects of contract termination or continuation

Companies often choose to cut ties with their celebrity endorsers if the endorser ends up in the middle of a public disgrace, as the companies don’t want to be associated with the scandal. Lance Armstrong lost multiple endorsers, including Nike, in the aftermath of his doping scandal; Michael Phelps, an American Olympic swimmer lost his deal with Kellogg’s after a picture of him smoking marijuana emerged; multiple fashion brands dropped supermodel Kate Moss when she was photographed snorting cocaine. The companies were able to do this based on the morality clause in the endorsement contracts (Zarriello 2015, 390).

It has been researched that the market reacts neither positively nor negatively to these contract terminations, as any abnormal stock market returns researched around termination dates have been non-significant. (Bartz et al. 2013, 132, 137.) This does not mean that scandals like these couldn’t cause significant losses both for the athlete in question and the companies they endorse – as an aftermath of the Tiger Woods’ scandal, it has been estimated that the athlete himself lost 35 million dollars in endorsement revenue and Nike lost about 1.3 million dollars in profits (see Parker and Fink 2012, 70).

Sometimes, instead of terminating the contract, some firms choose to continue the endorsement deal despite the scandal, and some might even think “any publicity is good publicity”. For example, even though Accenture, AT&T and multiple others chose to terminate their contract with Tiger Woods after his personal scandal, Nike and Electronic Arts stuck with him through the crisis. Sometimes, even if the athlete ends up in the middle of a scandal, companies decide to continue their contract because termination could give competitors the opportunity to sign a sought-after endorser. (Carrillat et al. 2013, 15–16.)

Even though terminating the contract with the scandalous endorser might often be the fastest way out of the spotlight for the endorsed company, it might not be the best decision. Carrillat et al. (2013, 23–24) found that if there is a high congruence between the brand and the endorser – such as with for example Tiger Woods and Nike – consumers' purchase intention was actually higher if the brand maintained the association and supported the athlete during a public disgrace than if they revoked the contract. This was true regardless of how the athlete himself reacted in the scandal and if the consumers viewed him as trustworthy or not. This same reaction was noticed by Miller and Laczniak (2011, 505), who researched three athlete scandals and if their endorsed brands chose to maintain or end their relationship. In all three cases, the sports brand decided to continue their endorsement contract, whereas some other non-sports brands dropped the athlete, usually because the actions of the athlete was against the brands ethics and moral code. It should be noted, however, that all of the three scandals were about the athletes' personal lives instead of being directly related to their career (such as using performance enhanced drugs), in which case it could go against the sports brands' moral codes and they could have chosen to take a different course of action.

3.3.3 Contractual solutions or insurance

Adding a morality clause to the endorsement contract is the most commonly used way of protection for endorsement companies. Their use has exploded after the turn of the 21st century, mainly due to the increased investment in athlete endorsements. A morality clause prohibits immoral conduct, such as behavior that causes a public scandal or criminal action and allows companies to quickly disassociate themselves from the disgraced athlete. However, morality clause only protects companies (at least partly) from future losses as they are able to terminate or suspend the contract, but it does not offer any way to recoup prior investment. (Zarriello 2015, 390–391, 395–396.)

Because morality clauses can only protect future losses after the scandal, there has been discussion about a clawback clause being a more optimal solution. Clawback clauses, more commonly used in the securities world, allow recouping prior compensation if prohibited acts as listed in the clause are engaged, but they're seen as too strict and impractical for athlete endorsement contracts and have not been adopted.

In all cases of legal clauses, heavy negotiations are required as the athlete strives for very objective and specific language and the company prefers broader expressions to maximize their protection. If the athlete is more famous and/or has a clean track record, he'll have more leverage in these negotiations. (Zarriello 2015, 393, 397–398.)

One suggested contractual solution to minimize the endorsed company's financial losses is liquidated damages provision. It is a contract clause that sets a predetermined sum that must be paid in case the contract is breached. Liquidated damages provisions can be used in cases where it's difficult to estimate the value of the damages in a possible breach of contract. Implementing these provisions to endorsement contracts would require more negotiations and higher contracting costs than morality clauses but would also offer more protection. (Zarriello 2015, 409, 427.)

A traditional solution could also be to sue the disgraced celebrity to redeem parts of the prior investment, but usually companies don't wish to bring more attention to an already troublesome situation, and would on the contrary wish to cut ties quickly and with as small losses as possible. One proposed way of protection is a disgrace insurance, which would entitle the endorsed company to reimbursement in case of an unlawful act or offensive statement by the endorser. It could offer a safety net in case of scandals where a clean and appreciated endorser ends up in the middle of a shocking scandal – which is what happened for example with Tiger Woods – as the insurance policy usually doesn't offer coverage if the offensive act is seen to be within the endorser's public persona. However, insurance would add cost to already high endorsement expenses. (Zuccarello 2014, 13.)

Zarriello (2015, 428–429) also suggests that restructuring the typical endorsement contract could offer more protection. Many companies using athlete endorsers tend to sign a limited number of the most popular stars with the attempt of a long-term contract. This technique exposes the endorsed company to significant risk, and with some changes that risk could be diminished. Zarriello suggests spreading the compensation over an extended period of time instead of large one-time signing bonuses, basing the compensation more on performance than base salary and signing shorter-term contracts. Of course, this could make it easier for competitors to snatch athlete endorsers with better terms and result in higher negotiation costs. Nevertheless, restructuring athlete endorsement contracts could act as a more proactive risk management method than actions that are taken when an actual scandal hits.

Zarriello (2015, 430) also notes that signing multiple mid-level athletes instead of just a couple superstars could increase protection, as a wider portfolio could soften the blow of one athlete's scandal. With wider portfolio it is also easier to divert attention from the disgraced endorser to someone who is not amidst of negative publicity. Bartz et al (2013, 140) concluded the same thing when they researched how announcements of a celebrity endorser's disgrace affected the endorsed company's firm value. They found stronger market reactions if a company only employs a single endorser, which shows that a wider endorsement deal portfolio might offer some protection for the company against endorsers' missteps and could soften the blow of an individual scandal. This could actually be one of the main reasons for Nike's arguably market-widest endorsement portfolio.

4 EMPIRICAL RESEARCH

4.1 Qualitative research method

The research method is determined by the purpose of the study, which in this case is to gain a better understanding of the concept of athlete endorsements and the financial possibilities and risks they possess, with the empirical focus on the sports industry. The objective of the research is to define the character and quality of the phenomena without attempting to produce quantifiable results. Thus, the type of research for this empirical study is qualitative. (Kvale 1996, 67.)

The selected method is case study. Case study is a research strategy that focuses on the dynamics existing within the settings of a selected scene. It can have various objectives, for example generating and/or testing theory or providing description. (Eisenhardt 1989, 534–535.) As the main interest of this study is to enhance the description of athlete endorsements and their qualities, case study is a suitable method.

Case study also offers the reader the possibility to use their tacit knowledge to interpret the situationally described phenomena and judge the interdependency between the interviewer and the interviewees. This allows the reader to better evaluate the researcher bias. (Lincoln and Guba 1985, 359–360.) As the interviewer and the interviewees in this study have an earlier relation, case study provides the reader with the best opportunities for researcher's role evaluation.

The primary data is collected through qualitative research interviews within the case company, Nike. Qualitative research interviews aim to obtain descriptions from the real world for the researched phenomena with respect to interpretations. The method has received critique for being neither objective nor scientific; research interviews are considered trustworthy, valid and reliable but strongly biased and dependent on subjective impressions. (Kvale 1996, 30, 59, 64).

The goal is to find out how the interviewees assess the possible risks of athlete endorsement scandals and the possible ways to manage that risk. The researcher is employed by the case company, so the findings can be complemented with informal conversations that have happened within the case environment. As the researcher is a part of the case environment through employment, common language and definitions are easily achieved, allowing more focus on the actual topic. The interviews are based on prepared but not highly structured questions, and thus the form of the interviews are semi-structured (Kvale 1996, 27). Semi-structured interviews leave room for elaboration and discussion although interview themes follow the theoretical framework.

To prepare for the interviews and to assess the significance of the two case athlete endorsement scandals for the case company, the changes in Nike's share prices around notable events have been researched. In order to conduct this analysis, timelines for the significant events of the scandals have been created.

4.2 Introducing the case selection

Both the scandal of Tiger Woods and Lance Armstrong were unexpected shocks to the general audience. Tiger Woods was widely seen as everyone’s dream son-in-law until he was revealed to be a serial-cheater. Lance Armstrong defeated cancer and rose to the top of the cycling world, and even though many people did accuse him of using performance-enhancing drugs, multiple tests, reports and statements consistently contradicted them. Pure shocks like these offer an ideal situation for examining stock market reactions, because they remove the anticipation problem (Knittel and Stango 2014, 22). Both Woods and Armstrong were to blame for their scandals, and if consumers view that the celebrity is to blame for the negative event, it is more likely that the celebrity’s image will suffer more (Fong and Wyer Jr. 2012, 887). Both scandals also received major media publicity and both athletes were important endorsers for Nike, which is the market-leader for using athlete endorsements. At the time of the research the case company employs the researcher, but the case company has not ordered this research. The research is conducted independently and aims for objective results.

The introductions below are based on multiple references, such as several news articles, press releases, financial releases and a documentary. The full list of used references is presented in Appendix 1.

4.2.1 NIKE, Inc.

NIKE, Inc. is largest seller of athletic footwear, apparel and equipment in the world. The company was established in 1964, originally under the name Blue Ribbon Sports, and is headquartered in Oregon, USA. Nike has products under NIKE Brand as well as Jordan Brand and has two wholly-owned subsidiaries, Converse and Hurley. Today Nike operates all over the world, having e-commerce websites in over 40 countries and a total of 362 physical stores inside the United States and 683 outside. Their products are also sold my multiple distributors. Nike employs around 70,700 people worldwide and in 2016 Nike’s net revenues were $32.4 billion. Nike aims to be and is often seen as the front-runner in athletic product innovations and has been able to grow even in the tough economic environment of recessions and extensive competition.

Nike is arguably the market leader in athlete endorsements. They also note themselves in their annual statements that using athlete endorsements is one of the ways used to develop consumer connection and affinity for the brand and the products. There are risks involved using athlete endorsements, both in the sense that inability to maintain these relationships could result in a loss of product-associated authenticity and loss of reputation due to endorser scandal could harm brand, sales and profitability.

4.2.2 Tiger Woods's scandal

> *"It's no secret that Tiger Woods is a marketer's dream. No company has capitalized on the appeal of the good looking, clean-cut, articulate, scandal-free golf whiz more than Nike"*
> DiCarlo (2004)

Eldrick "Tiger" Woods is commonly considered as the best golfer of all time and has been playing golf professionally for two decades. With his 79 PGA Tour wins and 14 major championships he is the first thing that comes to mind for many people when you mention golf. He has been one of the world's highest-paid athletes for multiple years, and in 2015 Forbes estimated his net worth to be $700 million. During his professional career Woods has earned $1.35 billion, and only about 10% of that is prize money. Majority of his earnings is generated from endorsement deals with companies such as Nike, PepsiCo and Accenture. Before his scandal he was estimated to earn about $100 million a year in endorsement deals, and even though that number has dropped significantly, he was still in the top 5 of the world's highest-paid endorsers in 2016 with yearly endorsement earnings of $45 million.

Before November 2009, Tiger Woods was generally perceived as a superstar and an attractive athlete with a healthy personal life. He was even described as the ultimate role model. With his spotless reputation, it's no wonder that he had more endorsement contracts than any other athlete. However, in late 2009 he ended up in the middle of a scandal, as it was unveiled in just a couple weeks that he had had extramarital affairs with at least seven different women. The scandal seriously harmed his public image and resulted in many of the companies he endorsed to completely cut ties with him. As a result of the scandal, he lost at least $22 million in endorsements, when comparing his endorsement earnings of 2009 and 2010. The following table illustrates the timeline of the major events regarding Woods' scandal and the reactions of the companies he endorsed.

Table 2 Timeline of Tiger Woods' scandal

Date	Description of the event
25.11.2009	The National Inquirer -magazine leaks a story saying that Tiger Woods is cheating on his wife.
27.11.2009	Tiger Woods crashes his car right outside his house, rumors claim his wife was chasing him in fury.
29.11.2009	Woods releases a statement taking fault of the car crash and asking respect for his and his family's privacy.
30.11.2009	Woods announces he won't be playing tournament golf for the rest of the season.
1.12.2009	A woman steps forward, admitting she had an affair with Woods in 2007.
11.12.2009	Woods announces that he'll take an indefinite leave from golf to work on his marriage.
14.12.2009	Accenture drops their deal with Woods, saying he is “no longer the right representative" for them.
14.12.2009	Nike announces they'll continue to support Woods.
31.12.2009	AT&T also completely cuts ties with Woods.
19.2.2010	Woods gives his first public speech after the scandal and the rumors of him attending a sex rehab clinic. He apologizes to his wife and says he's not returning to golf anytime soon.
16.3.2010	Woods announces he'll return to golf to play in the Masters in April 2010.

Tiger Woods' scandal got a tremendous amount of public exposure. As seen in Table 2, reputation damages caused many of his major endorsement partners to drop the deal, but Nike wasn't one of them. It's important to note that Nike was and is a highly congruent partner for Woods, whereas Accenture and AT&T are not, and previous research shows that in case of a match-up, the brand should support the endorser during negative publicity (Carrillat et al. 2013, 24). This is exactly what Nike did, and they stated that endorsements always come with a risk, but Woods is still the greatest golfer of all time. “When his career is over, you'll look back on these indiscretions as a minor blip”, said Nike's chairman and co-founder Phil Knight.

4.2.3 Lance Armstrong's scandal

> *“If you consider my situation: a guy who comes back from arguably, you know, a death sentence, why would I then enter into a sport and dope myself up and risk my life again? That's crazy. I would never do that. No. No way.”*
>
> Lance Armstrong to CNN, 2005

Lance Armstrong started his career as a professional cyclist in the beginning of the 1990s when he was about 20 years old. He was seen as a promising upcoming athlete, but in October 1996 he was diagnosed with testicular cancer that had spread around his body. He underwent multiple surgeries and in December 1996 he was announced to be cancer-free. Following his illness, he establishes the Lance Armstrong Foundation to benefit cancer research and patients.

Armstrong returned to professional cycling after overcoming cancer and won his first Tour de France, the world's most known and appreciated annual multi-day bicycle stage race, in 1999. For seven consecutive years, from 1999 to 2005, Armstrong won Tour de France. Armstrong was perceived as one of the best cyclists of all time and an amazing inspiration due to his medical history. During these years he was accused several times of using performance-enhancing drugs, but multiple investigations found no evidence of illegal actions and cleared his name time and time again despite the accusations of former teammates. Even though Armstrong was retired from cycling in 2010, he still earned $21 million that year, the majority of the earnings coming from endorsement deals.

In 2012 The US Anti Doping Agency started a new investigation against Armstrong. He protested and filed a lawsuit asking the court to halt the doping case, but the complaint was dismissed and in October 2012 the report of Armstrong was released. The 202-page report showed strong proof that Armstrong had used performance-enhancing drugs throughout his career. Most of his endorsement contracts were cut, including the one he had with Nike, who in their statement said that Armstrong "misled Nike for more than a decade". Armstrong announced that he's stepping down as chairman of his cancer foundation, which also removed Armstrong's name from its title. Armstrong was stripped of his seven Tour de France titles and banned for life from competing in professional cycling. Finally, in January 2013, Armstrong himself admitted to the doping. It was estimated that due to the scandal Armstrong lost over $150 million in future earnings due to his sponsors cutting ties with him. The following table illustrates the main events regarding Armstrong's scandal.

Table 3 Timeline of Lance Armstrong’s scandal

Date	Description of the event
12.6.2012	The US Anti Doping Agency (USADA) announces a new investigation against Armstrong.
9.7.2012	Armstrong files a federal lawsuit to drop the doping case against him. The lawsuit is dismissed.
24.8.2012	Armstrong announces he'll no longer fight the charges of illegal doping against him.
10.10.2012	USADA releases its report, accusing Armstrong of doping during his golden years, showing strong proof.
17.10.2012	Nike terminates its contract with Armstrong in entirety.
22.10.2012	The International Cycling Union announces That Armstrong is stripped of all his Tour de France titles and banned from professional cycling for life.
17.01.2013	In an interview with Oprah Winfrey Armstrong admits to using illegal performance enhancing drugs during his career.

Whereas Nike chose to support Tiger Woods during his tough times, they terminated Armstrong’s contract immediately after it was released that he had used doping. The important difference between the scandals of Woods and Armstrong is that while Woods’ was about his personal life and he committed no actual crimes, Armstrong’s questioned the entire integrity of his performance as a professional athlete. Nike has often stated that it wants to keep the game clean, and Armstrong’s scandal about using illegal performance enhancements was strictly against their moral code.

Lance Armstrong’s scandal shook the entire cycling world and the sport. The sport’s hero came crashing down, and the entire sport was questioned, as one of Armstrong’s defenses after the scandal was ”everyone was doing it, it was part of professional cycling”. It has been found that the attribution of blame towards the celebrity in case of a scandal increases the larger the consequences as a whole are (Fong and Wyer Jr. 2012, 893). This might be why Armstrong got so badly blamed even if he wasn’t the only one breaking the rules: he was such a major figure to the sport that his downfall brought the entire cycling world down with him.

4.3 Data analysis

The primary research method used in this study is qualitative research interviews. Four employees of the case company were interviewed to gain a deeper understanding of the concept and management of athlete endorsements and their financial possibilities and risks. As this is also the main goal of this study, the most important criteria when choosing the interviewees was broad professional expertise and personal interest in sports marketing and its financial aspects. The interviewees are:

- Matthew Day – Sports Marketing Manager in the Finance department
- Jeroen van den Hoek – former Sports Marketing Manager in the Controlling department
- Tina Salminen – Sports Marketing Director for African Football Players
- Fiona Ball – Sports Marketing Associate Counsel in the Legal department

Although all interviewees are Nike employees, it is important to note that the views expressed in this research are either their own views on the research subject or the interviewer's interpretations of those alone, and do not necessarily reflect the views of Nike as a company. A list of the conducted interviews and interviewees can also be found in Appendix 3.

The form of the interviews was semi-structured, and the interview themes followed the theoretical structure of this study. However, although the interviews were planned to follow prenominated themes, they were not restricted to them. The predefined questions were used to reach the proper topic, but follow-up questions are possible to find answers. The interviewees are given the possibility to speak their thoughts and views on topics aside from the predefined questions. Interview themes are presented in Appendix 2.

The interviews were conducted as depth interviews, where the interviewer and the interviewee are seen as equals (Lincoln and Guba 1985, 269). As the research interviewer is employed by the case company, trust and common language were easy to achieve. Due to this background knowledge, the interviewer can more easily focus on the actual topic instead of time spent on clarifying definitions. The interviews were conducted as one on one sessions where only the interviewer and the interviewee were present.

All interviews were recorded and transcribed. The collected data was analyzed and the relevant themes for the topic are included in the findings. Chapter 5 will present these findings of the empirical research. Information gathered from informal discussions, as the researcher and the interviewees both work in the same case environment, may complement the data. It is important to remember that the findings are interpretations made by the researcher, based on how the interviewees described the discussed topics.

5 FINDINGS

5.1 Analyzing the scandals' effects on Nike's share price

As discussed earlier in this research, existing literature and studies suggest that reputation-damaging events can affect a company's market value. When using athlete endorsements, the endorsed company links the athlete's image and reputation to its own. Thus, as scandals revolving around the endorser may also deteriorate the endorsed company's reputation, they can result in a drop in the company's share price.

To evaluate if Tiger Woods and Lance Armstrong's scandals had effect on Nike's share price, the historical share prices for Nike, it's main competitor Adidas AG, and the US stock index Nasdaq Composite index were extracted from Bloomberg's database and evaluated. As the purpose of this evaluation is to gain a bigger picture to see if endorsement scandals can have clearly visible effects on endorsement companies' market value, but not to deep-dive and produce quantifiable results, no quantitative analysis methods were used. This analysis serves more as a high-level sanity-check and was created before conducting the interviews so that the results could be used during those discussions. The following time frames were used:

- Woods: 19.11.2009 – 21.12.2009. Woods crashed his car on 25.11.2009 and Nike announced their support for Woods on 14.12.2009. The chosen period focuses on the trading days between and slightly around these events. During this time frame Woods' scandal was most visibly presented in the media. The chosen time frame also includes the period that Knittel and Stango (2014) used in their study, which allows comparisons to their findings.
- Armstrong: 5.10.2012 – 31.10.2012. USADA released its report condemning Armstrong on 10.10.2012 and very shortly after, on 17.10.2012, Nike dropped him as an endorser. The chosen period focuses on the trading days between and slightly around these events. The events gained a lot of publicity also afterwards – especially when Armstrong himself admitted to doping in Oprah Winfrey's talk show in January 2013 – but for clarity purposes, this study focuses on the shorter period where Armstrong was found guilty of doping by USADA, dropped by Nike and stripped of his Tour de France titles.

Nike's share price (NKE) was compared against Adidas' (Nike's main competitor's) share price (ADDYY) as well as the Nasdaq Composite index. Nasdaq Composite index contains all companies that trade in NASDAQ, one of the largest stock markets in the U.S. and the world. This means approximately 3,100 companies, including Nike. It's a market capitalization-weighted index measuring the combined performance of the stocks listed in NASDAQ. Although the index is heavier on tech-related companies, it does offer visibility on possible market-wide changes that could have also influenced Nike's share price apart from the scandals of Woods and Armstrong. Both Nike and Adidas' extracted share prices were in USD. For clearer visual representation and easier comparison, the historical market values were all indexed to 100 on the first date in the time frame as the starting point. It should also be noted that based on a check of news headlines during both chosen timeframes, no other significant abnormal events occurred that could have affected Nike's share price.

5.1.1 Tiger Woods' scandal

The comparisons of the share prices as explained before are presented in the following graph. The aim is to see if the changes in Nike's share prices can be explained with general industry- or market-wide shifts and trends. The next figure addresses changes in the market values of Nike, Adidas and Nasdaq Composite during Tiger Woods' scandal.

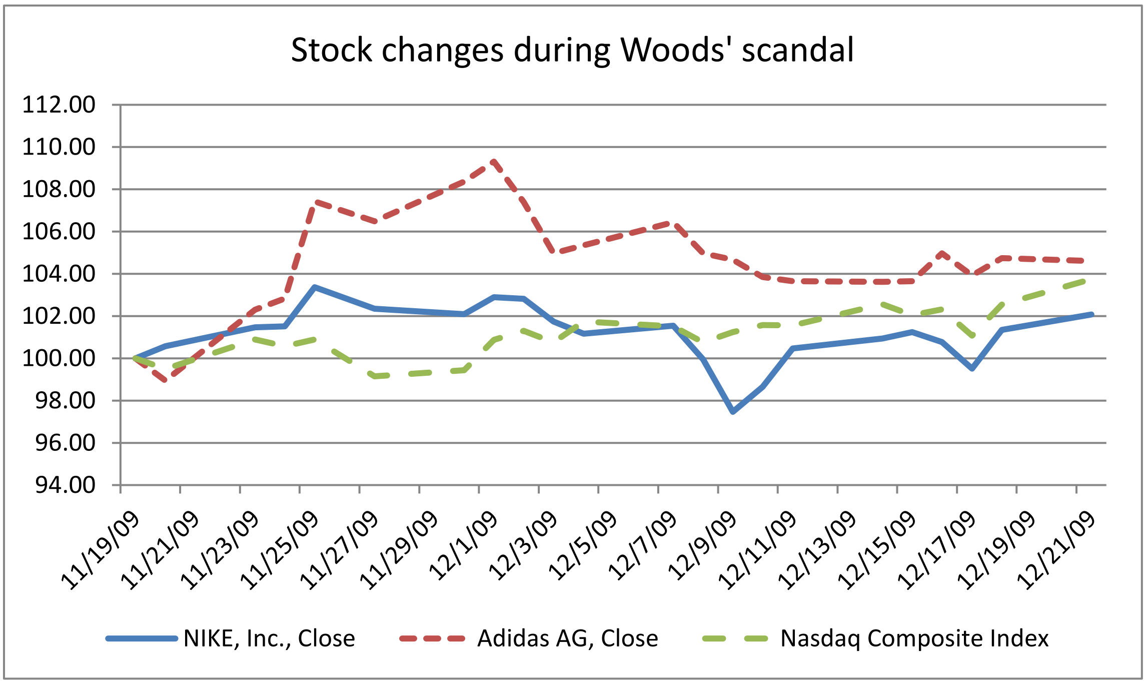

Figure 4 Indexed Changes in Nike and Adidas' share prices and Nasdaq Composite Index during Tiger Woods' scandal

Figures 4 represents the changes in Nike's share price during Woods' scandal, also presenting Adidas' stock and the Nasdaq Composite Index for the same period. Possible similarities between Nike and Adidas' share price shifts can be interpreted to show general trends in the sports industry. This will eliminate the interpretation that changes would be only attributable to negative publicity surrounding Woods. Similarly possible congruence between Nike's share price and Nasdaq Composite Index's changes represents possible general, non-Woods related, market-wide changes.

There are two sharp declines in Nike's share price during Woods' scandal; around 8th to 9th of December 2009 and around 16th to 17th of December 2009. The comparison between Nike and Adidas in figure 4 shows that the clear drops in Nike's market value after Tiger Woods' car crash are not related to general shifts in the sports industry, as Adidas' stock has not changed similarly during those days. This also indicates that Adidas didn't suffer from Woods' scandal, as they didn't have an endorsement deal with him, contradicting the study of Carrillat et al. (2014, 1024) about the spillover effect. If anything, it is possible that Adidas actually profited from the negative publicity that was surrounding one of Nike's endorsers, as also Knittel and Stango (2014, 22, 33) suggested.

The later Nike stock decline is likely related to a general shift in the market during those days, as in figure 4 it's clear that the NASDAQ index has experienced an almost identical temporary drop. It should also be noted that Nike's share price didn't drop after they announced they would continue to support Woods, even though Woods was in the middle of very negative media highlight at the time. This could confirm that, as Bednall and Collings (2000, 52–54) found out, the athlete could still be seen as a suitable endorser if the scandal didn't endanger the professional expertise.

The more significant plummet in Nike's share price, which can't be that clearly tied to general industry- or market-wide shifts, is consistent with the findings of Knittel and Stango (2014, 30). Those findings were also presented earlier in this study: Knittel and Stango found abnormal returns in the stock market price of Woods' sponsors, especially of the core three of Nike, PepsiCo and Electronic Arts. They tied these abnormal returns to the scandal of Tiger Woods based on the Internet search intensity, and the biggest abnormalities they observed happened from 8th to 10th of December. This is the same period where a clear, non-general market-related drop in Nike's share price can be seen even without further analysis in figure 4. This serves as indication that an athlete endorsement scandal can potentially harm the market value of the endorsed company. As Adidas didn't suffer a similar drop, it could be argued that losses of endorsement scandal are more likely only for those companies that have actual ties with the endorser and industry-wide drops are more unlikely.

5.1.2 Lance Armstrong's scandal

Similarly as presented for Woods earlier, the next figure addresses changes in market values during Lance Armstrong's scandal.

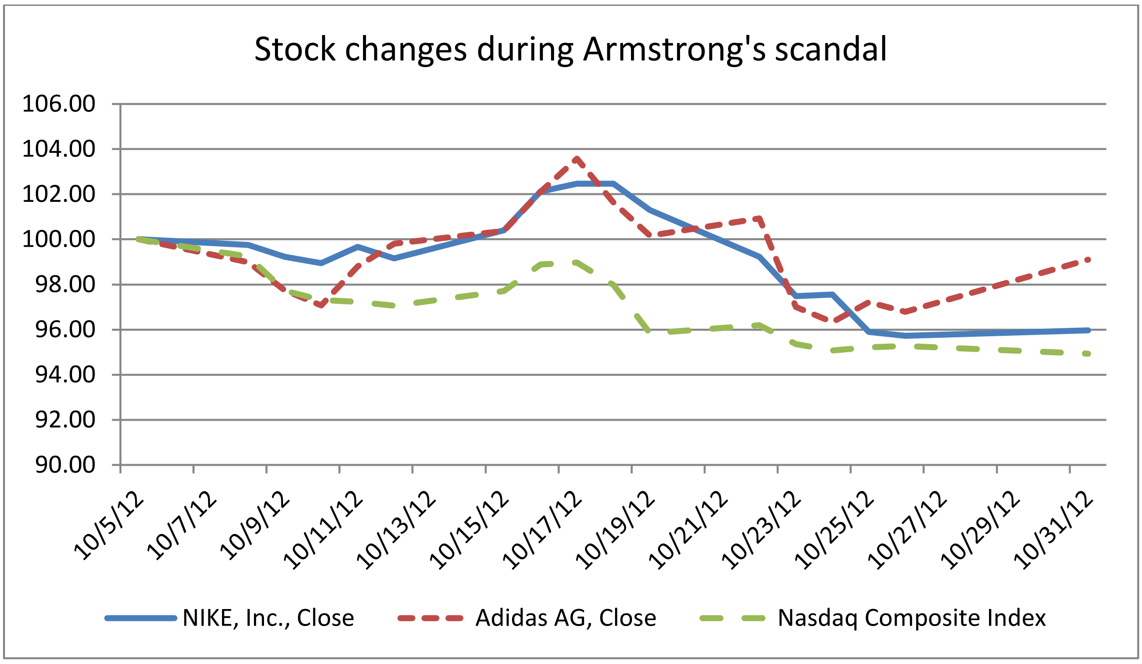

Figure 5 Indexed Changes in Nike and Adidas' share prices and Nasdaq Composite Index during Lance Armstrong's scandal

Similarly as with Woods' scandal analysis, figure 5 represents the changes in Nike and Adidas' share prices during Armstrong's scandal, as well as the Nasdaq Composite Index. Possible similarities can be interpreted to show general trends either in the sports industry or in the market overall. This will eliminate the interpretation that changes would be only attributable to negative publicity surrounding Armstrong.

Unlike with Woods' scandal, no sharp drops can be seen in Nike's share price during Armstrong's scandal in figure 5 and in fact, the trend is rather comparable to that of Adidas and Nasdaq Composite. Nike's share price did decrease between 17th and 25th of October in 2012, but the decrease happens quite smoothly and, as seen in figure 5, the same decline can be observed for both Adidas and Nasdaq Composite Index. Thus it can be assumed that that decline is more attributable to general global market changes than Armstrong's scandal. In fact, as Nike cut ties with Armstrong on 17th of October, 2012, it could be argued that the investors took that as a positive sign and showed trust in the company and that is why the decline is smoother for Nike than for Adidas, which is their main competitor in sports industry. Nike's reaction to distance themselves from Armstrong was also rather quick after the scandal unfolded, which could explain the lack of drastic changes in their share price.

Based on the figures above it does not seem like Armstrong's scandal would have had effect on Nike's market value – Nike's share price goes rather hand in hand with the industry- and market-trends and it actually rose slightly after USADA released their report condemning Armstrong. This does not mean that Nike did not suffer at all from Armstrong's scandal – Nike did possibly suffer financial losses for investments that were already made related to Armstrong, or had a drop in sales because of the scandal. But in the stock market, the scandal doesn't seem to have had a significant effect.

This result is very different from what could be seen regarding Tiger Woods in this high-level analysis. Even though both cases were major endorsement scandals and widely showcased in the media, only Woods' scandal seems to have caused negative signals on the stock market. One explanation to this is purely related to times of the scandals – Tiger Woods' disgrace was the first major athlete endorser scandal and it is possible that the investors got scared as nothing similar on this scale had never happened before and wanted to back out. As Knittel and Stango (2014, 22, 33) noted, during endorsement scandals investors might tend to favor non-endorsement-intensive companies. The drop in Nike's share price during Woods' scandal was clearly observable but not long-term, as the stock jumped back up in a matter of days. It could be that the market overreacted, and that the price of Nike's stock didn't fully reflect it's true value during those possibly panicky moments. It is also possible that Armstrong's scandal is not visible on the share price changes, as in the end he was only one asset, and the effect might not be big enough to be observable in the stock market.

5.2 Analyzing the interviews

The portrayal of the findings reflects the theoretical framework of this thesis. The views of the interviewees regarding athlete endorsements, their financial and non-financial impacts and risk management – both in general and as related specifically to Tiger Woods and Lance Armstrong – are discussed in this chapter. Possible connections and conflicts with existing research are presented.

5.2.1 Concept and popularity of athlete endorsements

As established earlier in the theoretical framework of this thesis, using celebrity endorsements is an incredibly popular way to market a company's products. The aim is for the consumer to aspire to be like the celebrity endorser and thus favor the endorsed company and brand. Athlete endorsements are a sub-category of celebrity endorsements, and athletes are the most widely used type of endorsers (see Carrillat et al. 2014, 1027). It has been theorized that athletes are especially good endorsers due to being very believable in their own field (Boyd and Koernig 2009, 26), and credibility is a vital factor in endorser effectiveness. The interviewed sports marketing experts described the popularity of athletes as endorsers in the following way:

> *"Athletes are representing a certain lifestyle that resonates well with end-consumers."* – Former Sports Marketing Manager, Controlling

> *"Athletes are perceived as people living a positive life, a healthy life."* – Sports Marketing Director, Football

> *"From a purely advertising perspective, athletes are basically walking adverts. It's just getting the brand out there."* – Sports Marketing Associate Counsel, Legal

All descriptions are very much in line with the existing research. The first two are tied to the process of identification, where a consumer aspires to be like the endorser (see Lee et al. 2016, 178), and as elite athletes are generally thought to live a healthy life – they wouldn't be able to excel in their profession if they didn't – they are excellent and credible role models. In general, celebrity endorsements also aim to capture consumer attention and strengthen brand name recollection (see Kraft and Lee 2009, 113), which is also what one of the interviewees noted above. This brand visibility may be even easier to achieve with athletes than with celebrities from other fields if the endorsed company is working in the sports industry. In that case it is then likely that the athlete will use the products in competitions, providing a lot of media attention.

This link between the endorser's profession and the endorsed company's product – often called as the match-up theory – is time and time again repeated in existing research. When the effectiveness of celebrity endorsements is discussed, it has been argued that the endorsement is more successful if the characteristics of the endorser and the attributes of the endorsed brand and products meet (Elberse and Verleun 2012, 151). The case company is known to have an extensive portfolio of endorsers, and almost all of them are athletes. The views of all the interviewees supported the match-up theory, and they explained their belief of athlete endorsers being most effective for a sports company in the following ways:

> *"If you're going to be a credible sports brand, you need to have professional athletes, professional sports teams endorsing your product. It shows the consumer that the product that we make is good enough for the elite, and therefore it's good enough for them."* – Sports Marketing Manager, Finance

> *"[Talking to the athletes] is the only way to be able to produce authentic product for different sports."* – Sports Marketing Director, Football

> *"They lend authenticity to your products, Nike is really about performance and it's not just "we sell a t-shirt", it's "we sell an athletic t-shirt and it will help you perform better" and if the best athletes in the world are wearing that it says for the consumer it must be the best product. If I were to wear that, I will also perform as well as Tiger Woods or Wayne Rooney."* – Sports Marketing Associate Counsel, Legal

In all their views, it came back to credibility. Credibility plays a large role with athlete endorsements, and trustworthiness has long been viewed as the most important factor when generating credibility (Parker and Fink 2012, 71). Athletes are naturally trustworthy when speaking of sports products, as those are a vital part of their profession and possibly one of the reasons why they have made it to the top. One of the interviewees pointed out that it's important to always stay true to this authenticity of your product and brand. The case company does also have some endorsements with artistic celebrities, but they tend to link even those to the sport; for example, when there was a global marketing campaign with the stand-up comedian Kevin Hart, that too was linked to multiple running events called "Run with Hart". The choice and use of endorsers should drill down to what values a company has and for credibility purposes, trying to stay true to them.

As a part of this credibility, it's also natural that the relationship with the athletes may be even stronger if the company is a sports company, as the company often strives for new innovations and cares about the sport in general. To support those, they can leverage the athlete endorsers' expertise while simultaneously helping them to get better with new products and adding authenticity to those products. Innovation requires pushing boundaries, and it's easier to do that with co-operation. It is beneficial for both parties, and necessary for the companies to try to stay ahead of their competitors. This is also aligned with the findings of Austad and Silvera (2004, 1521–1522) who noted that the endorsement is more efficient if the consumer believes that the endorser truly likes the product.

All this underlines the importance of choosing the right endorser, as discussed earlier in this thesis. A company can't blindly select endorsers with high visibility or success – not even when following the match-up theory –the decision should always be linked to the company's strategy. Some endorsers will then, according to the strategy, be used more widely than others, like Nike used for example Woods and Armstrong. Existing research would suggest they were so important since they were superstars in their respective fields, and thus gained more visibility for the brand. The interviewees' views were mostly in agreement with this statement and especially underlined the importance of a global reach when using the best of the best, but they did also link the choice slightly more to the company's values and perceived image:

> *"Their performance on a pitch or on a track or on a golf course – it's what they do there that makes them publicly known. Also US is a big, big country, so if you do well there, most likely you will be known also elsewhere. So these athletes become so good that they're basically brands themselves. [The endorsement company] can use them worldwide."* – Former Sports Marketing Manager, Controlling

> *"Some athletes, like Lance Armstrong and Tiger Woods, or Messi or Ronaldo, they are global brands, they have global reach. Your consumer in China will recognize them just as easily as your consumer in UK or Germany."* – Sports Marketing Associate Counsel, Legal

> *"He [Tiger Woods] was a young guy, excelling in a sport that was seen as a bit of an old man sport at the time. He was also a minority when it comes to his ethnic origin, and you see him coming through and destroying the field. So as Nike, which is seen as a disruptive brand, you want to be associated with something like this, because they're changing the game and that's what you want to do as a company as well. With Lance, I think that he was – at the time – just a phenomenal athlete, and it's the same kind of thing, he was destroying the field and he came back from adversity with all the cancer, and then won another Tour de France. You want to show that we've got that drive."* – Sports Marketing Manager, Finance

Especially the mention of the athletes becoming so good that they are a brand themselves is the very same remark Phil Knight, co-founder of Nike made of Michael Jordan. Already now, for some kids, Jordan isn't known as a phenomenal athlete – it's just a Nike sub-brand of basketball products (Townsend, 2017). This shows how big of an impact a well-executed endorsement contract can have.

In the case of Woods and Armstrong, it's important to note that neither golf nor cycling is among the largest markets for Nike. The company is a much larger player in for example football or running, but still both Woods and Armstrong had or have a very high-level Nike profile. This supports the theory that the choice of an endorser is more dynamic than just looking at his or her professional success – it's also about their personal characteristics, their story-telling abilities and their values, much like Carrillat and d'Astous (2014, 1076) suggested. When those aspects are fulfilled, you can have athletes endorsing a sports brand in a way that appeals more widely, even to people outside that athlete's field. Especially with athletes it's also sensible to go where the largest audience and visibility is to heighten your brand exposure, such as the Olympics, the World Cup or other large sports events – one of the interviewees used the phrase "when the world is watching".

> *"You've also got to look at the individuals that come through that you can make as heroes, so that people outside those sports can connect with them. Tiger Woods was a good example. You want people that divide attention but can expand beyond their field."* – Sports Marketing Manager, Finance

With the right choices, companies can aim to create a portfolio of endorsers who, as a whole, support their strategy in the best way. Depending on the company, it could for example be an aim to make sure your endorsers talk to a specific group of people, or especially with sports companies, to make sure you are able to cover as many markets as possible or to reach a specific share of presence. For reaching some possible goals, a wider portfolio of endorsers is required – not just having a couple of superstars, but also the less-known ones, as they appeal to different parts of the market. To achieve this, understanding the sports in general becomes increasingly important; especially because of the intense competition and the high-value payments that are required to secure the elite athletes. If a company can find the next Ronaldo at a young age and help him on his way to the top, they are more likely to form a deeper and longer-running relationship. Sometimes the company is also bound to have some misses on that path – they could for example let an endorser go, only to see him become one of the best while being associated with another company. All of this however means that determining the ideal size of the portfolio is extremely hard, and it's also connected to the difficulty of measuring the generated brand exposure.

5.2.2 Value measurement

Previous studies have found that investors view endorsement deals as a profitable investment. The interviewees had similar views, and even though some existing studies (Cohoon and Extejt 2007, 3, 7) have found no significant abnormal returns in the stock market for athlete endorsements, these sports marketing experts did believe using them to be a good strategy. Athlete endorsements are widely used both by sports and non-sports companies, and this popularity means they do not come cheap. Especially for the best and most-liked athletes there is fierce competition and based on the estimated endorsement earnings of the world's top athletes, companies are willing to make large investments to secure them. Thus, it is also vital for the company's management to be able to justify the investment with future profits (Agrwal and Kamakura 1995, 56). Previous research has tried to measure endorsements' financial value in different ways, such as changes in a company's share price when the endorsement is announced or with estimations of additional sales profits. However, the general consensus is that measuring the worth of such an intangible asset as an athlete endorsement and the generated brand exposure is an extremely difficult task. The interviewees agreed with this and pointed out that an efficient measurement would require some very outside-the-box thinking. Furthermore, they explained the difficulty of the matter in following ways:

> *"It's more direct with marketing campaigns where we really advertise specific products, and of course after that it's pretty easy to measure increase of traffic on website, searches for those specific products or buys of those specific products. But the brand exposure and how that basically transfers to direct sales – that's pretty hard to measure."* – Former Sports Marketing Manager, Controlling

> *"I don't think you can really measure it, maybe only with sales, you can maybe around big campaigns see the increase in sales so you can slightly measure it in that way. But I think it's kind of hard."* – Sports Marketing Associate Counsel, Legal

> *"I don't think it can be really [measured]…the only way to measure one partner is of course if Tiger Woods has his own line – how does he sell? Also in today's world with social media you can check the reach and calculate the value of reach"* – Sports Marketing Director, Football

> *"It's difficult to say [how to measure that value]. But for example, in skate the signature deal with Janoski (an athlete endorser) has gone wild, it's easing into Vans' market share in skate. You can measure success based on that, because we've eaten into what was seen as the market leader."* – Sports Marketing Manager, Finance

If the aim is to find the best-fitting, tangible way to measure the financial gain and value of athlete endorsements, looking at sales profits seems to be the most supported by the interviewees. This is what Elberse and Verleun (2012) suggested, and they actually criticized the general poor attention in existing research on how athlete endorsements and sales figures are linked to each other. Their study focused only on significant events surrounding the athlete and possible boost in sales around those, which still means it's rather hard to attribute possible gains solely to the athlete. It did offer some proof that athlete endorsements do have positive effects on the endorsed firm’s sales and thus can be financially profitable. The approach suggested by the interviewees, where sales figures of specific products are monitored around campaigns that use athlete endorsers, may be more beneficial for internal management as it offers more direct link between the invested money and the return. Calculating the value of reach in social media is also a way to measure the endorser’s value and something that has been done before also externally, as Badenhausen (2017) estimated that Cristiano Ronaldo created $500 million for Nike in media value in 2016.

Using stock market reactions for measurement of value of athlete endorsements was not really supported by the interviewed sports marketing experts. This is rather interesting, as the existing research focuses largely on the companies’ market value and thus also has tried to quantify the value of athlete endorsements through stock market reactions. It is understandable that monitoring share price reactions has been a popular way in existing studies to try to measure the value of athlete endorsements, as it’s an approach consistent with the efficient market hypothesis. The problem with this is that it’s extremely difficult to attribute share price shifts to individual endorsers. Another issue with stock market valuation is also that minor events do not trigger significant changes in the endorsed company’s share price (Elberse and Verleun 2000, 159), but they could still affect sales or purchase intention. Athlete endorsement valuation is such a dynamic issue that just looking at share price changes seems to fall a bit short.

Third, and possibly the biggest issue when valuating endorsements based on share price changes is that when a company uses athlete endorsements, the aim is usually on long-running partnership and gains, rather than a one-time boost. It’s again connected to credibility, because if a top-athlete stays with one company throughout his or hers career, it lends authenticity and high-quality assurance to the brand. Often the contracts are built in a way to support long-term partnership – it has even been theorized that endorsement companies may be reluctant to terminate the contract even in case of some scandals, as that could give their competitor the possibility to snatch that endorser instead (Carrillat et al. 2013, 15–16). Trying to value athlete endorsements by searching for abnormal returns for the endorsed company at the time of the partnership announcement or major victory or loss only provides a snapshot of the value rather than an image of the real, full value over time.

> *“If you look at the stock market, maybe there is a reaction on the first day after the announcement. But after that you probably see that getting somewhat diluted.”* – Former Sports Marketing Manager, Controlling

> *“I don’t think individual athlete can move [the share price] so much, maybe only if it comes to negative things. But even then, I don’t think*

> *they affect the stock market that much, it's more the sales numbers."* – Sports Marketing Director, Football

Even if one, more efficient way to measure the direct financial gain is identified – that being the incremental sales rather than share price changes – that still leaves the problem of how to measure the indirect gains. A lot of the value is for example based on the contractual clauses. If the contract is exclusive and has a wider scope of rights, the value of it also increases. This view is aligned with the findings of Agrawal and Kamakura (1995, 60) when they noted that endorsement credibility might be hurt if the athlete endorses several brands and possibly even moves between competitors. Furthermore, the generated brand exposure resembles goodwill. It forms of so many smaller pieces such as the athlete's reputation, each end-consumer's interpretation of that image and the specific contractual rights and limitations of the athlete that it is hard to quantify it both on asset and total portfolio level. Scandizzo (2011, 44–45) called corporate reputation the "ultimate intangible" and described thus the difficulty of measuring it in quantifiable wats. Brand recognition and exposure is a significant part of corporate reputation, and is likewise extremely intangible and difficult to measure.

> *"Let's say there is direct and indirect benefit. The direct benefit is that the apparel or footwear that the athletes are wearing starts selling more and more. There's a very direct link between the money that we invest and what we get back. But even more important, and it's somewhat softer, is the brand exposure."* – Former Sports Marketing Manager, Controlling

> *"You simply can't [measure the value of one endorsement deal], you have to look at the halo effect. Trying to look at an ROI of an individual athlete or individual asset is probably not the best approach, you have to look at it holistically."* – Sports Marketing Manager, Finance

One thing all the interviewees brought up was their belief that it's not likely that one person will move the scale that significantly on its own. A company naturally wants and needs the best of the best if it's using endorsement deals, but what actually matters is the overall financial value of those assets together – the power of the portfolio. A wider scope of athletes offers a stronger foothold and could both help in how the whole company is perceived by the consumer and with the negotiation power when it comes to new contracts. Also as Bartz et al (2013, 140) found out, a wider portfolio of endorsers both helps elevate individual gains and offsets possible missteps of individuals. Thus, power of portfolio offers protection but also makes the generated value harder to measure.

> *"If [one asset] is doing great and one is not doing that good – they will probably offset each other. The portfolio is so huge that those individual performances get somewhat diluted."* – Former Sports Marketing Manager, Controlling

The ability to measure the value of athlete endorsements is not important only for the gains, but also in the event of a crisis. In case of an endorser scandal, the endorsed company should be able to valuate possible losses to make informed decisions. The existing studies have shown negative market reactions on the endorsed company when an endorser scandal has come to the light, and the effects tend to be more severe if the case received great media attention and involved a more famous celebrity (Bartz et al. 2013, 131–133, 140). Both of those criteria were met with the scandals of Woods and Armstrong. As shown earlier, when looking at share price changes, Tiger Woods' scandal seemed to have a specific impact on Nike, but Lance Armstrong's didn't. However, the interviewees didn't find share price that valid a measurement for athlete endorsements, but they did believe that endorsement scandals could result in losses also for the company. There were some disagreements on what type of losses the company could suffer. Direct financial losses for investments that have already been done are inevitable, and could explain investor reactions in the case of Tiger Woods for example, but not everyone found indirect reputational losses to be that likely, which is contradictory to existing research. On the other hand, some thought reputational losses to be the most significant ones.

> *"If you can distance your brand from [the endorsement scandal] then I think you come out okay and don't suffer reputational damage. The company will still suffer financial damage, because the money you previously invested is completely wasted because no one cares about the athlete anymore, you can no longer use those campaigns or use that relationship to sell your products. You're always going to lose out if an athlete falls from grace, but I think you can save reputational damage."* – Sports Marketing Associate Counsel, Legal

> *"The reputational damage. That I think is the number one [for a company to consider in an endorsement scandal]."* – Former Sports Marketing Manager, Controlling

However, it should be noted that the interviewees who didn't believe an endorsement company would suffer reputational damage – and also believed that neither Woods nor Armstrong hurt Nike's reputation in a way that would have created significant indirect financial losses – highlighted like above that not suffering reputational damage is related to how the endorsement company handles the scandal. The reputational risk exists, but it can be somewhat managed. The next chapter will focus on this risk management.

All of the interviewees believed that the fundamental difference between Woods and Armstrong's scandals was the type of the scandal. Even though both received lots of negative attention, Woods' scandal was personal and didn't have anything to do with his professional performance or expertise. Armstrong on the other hand had gotten where he was professionally with unacceptable methods, and if a sports company would knowingly support someone who cheated, it could be seen as undermining their own values. They also believed that the consumers do make that differentiation as well, supporting the findings of Bednall and Collings (2000, 52–54). Till and Shimp (1998, 71) on the other hand found out that consumers do not differentiate between the type of an endorser scandal, but the interviewers didn't support that view. This differentiation between the type of the scandal should then result in different valuation results for the possible losses, and could influence a company's actions during the crisis.

> *"Also makes a big difference, for sure [if the scandal is personal or professional]. Because you want to be authentic. If you get caught with doping it's so black and white you know, you cheated. And I think the consumers understand that."* – Sports Marketing Director, Football

The interviewees didn't find it to be that likely that an endorsement scandal could hurt companies that are not directly associated with the disgraced endorser – at least not in the case of the case company, which is the market leader in athlete endorsements and active in multiple sports. This is contradictious to some previous research, where it has been found that competitors also may suffer losses from major endorsement scandal due to spillover effect (Carrillat et al. 2014, 1024). One of the interviewees pointed out that a situation like that might even offer an advantageous opportunity against the competitor who's linked to the endorsement scandal, as you can highlight your own, clean athlete even more. This is more in line with the study of Knittel and Stango (2014, 22, 23), who noted that competitors could actually gain market value during a negative endorsement event.

In the end, even if there was a way to efficiently estimate the value of an athlete endorsement, it ultimately comes back to the big picture: are the gains enough to offset the costs of this deal? The future costs are usually easier to forecast than the gains, as can be concluded from the above views of the interviewees. Internally it is rather easy to monitor the direct gains or losses of athlete endorsements, but the indirect brand exposure and the gains or losses in reputation, sales and market value thanks to that are extremely difficult to quantify, and a lot falls to expertise estimation. Unfortunately, as one of the interviewees mentioned, there's no science behind it.

5.2.3 Risk management

Even if all interviewees didn't find reputational damage to be the most important risk in an endorsement scandal – and thus disagreeing with the existing research of Gaudenzi et al. (2015, 255), who found that managers tend to think reputational risk is more important than financial or operational risk – they all did think using athlete endorsements included some risks. Those risks might be direct financial ones, or indirect if stakeholders such as consumers, investors or employees change their behavior due to the scandal (see Eckert 2017, 151).

> *"They are definitely risky, because when you have an athlete endorser it's basically two brands associating each other together."* – Sports Marketing Associate Counsel, Legal

As established earlier, direct financial losses are usually inevitable in the case of an endorsement scandal. The endorsed company has sunken costs as it has already invested money on the endorser and possible campaigns revolving around him or her – this high investment was the situation for Nike with both Woods and Armstrong. As this is a clear risk, it's apparent that there should be some sort of risk management in place. Most of the interviewees agreed that contractual solutions might work best, like Zarriello (2005) has suggested earlier. However, all of them also pointed out that the risk management of athlete endorsements is usually equally difficult as measuring their value, mainly because each case is unique and usually unexpected. The media adds to the mix and plays a large role as Power (2004, 61) pointed out, and it's sometimes hard to anticipate which misfortunes actually blow up to large-scale scandals. Because of the media's tendency to highlight disgraces, it's also possible that sometimes minor disputes happen without the public's awareness as all the involved parties try to deal with the situation as quietly as possible.

> *"We've invested money in them and we've paid them compensation for number of years, and a lot of the time the press can be really fickle."* – Sports Marketing Associate Counsel, Legal

Existing research has tried to address this inevitability of direct financial losses in endorsement crisis. Zarriello (2015, 393) suggested including clawback clauses in the contracts to recoup prior investments should a scandal happen. However, these would require strong negotiations. Morality clauses have been the more common suggestion to offer protection, and they are usually easier to negotiate due to their more standard nature. The interviewees agreed that having reduction and termination rights in the contracts is the strongest form of protection for a situation where the endorser's actions don't meet the endorsed company's values or moral code. The issue with contractual solutions however is the difficulty of finding the balance between protection and common agreement. If the endorsed company wanted to, it could aim to close out even the smallest risks in their endorsement contracts, but this would result in lengthy contracts and more expensive negotiation processes. This could frustrate the athletes and lead them to sign a deal with a competitor instead. It also sends a signal that the company doesn't trust their endorsers to begin with, which doesn't serve as a good starting point to the relationship. Even though Miller and Laczniak (2011, 507) suggested that the endorsed company should constantly monitor all of their endorsers' behaviors to estimate if scandals are probable, the interviewees thought this would be neither efficient nor well received. It should also be remembered that if the endorsed company is a sports company, the athlete endorsers are valuable customers and a company should aim to all consumers having as positive brand attitude as possible.

> *"Ideally sports brands would like a 50 page contract for each athlete but that does not get signed quickly. It's always a balance of keeping the contract as short as possible but having the maximum protection in there."* – Sports Marketing Associate Counsel, Legal

> *"You don't want to be seen as being on the athletes' back all the time, cause otherwise they don't really want to be your partner. And a sports marketing asset is also a consumer, they want to come to you, they want to wear your product, you want them to see your brand in a way that they want to be associated with. You have to manage that brand image as well."* – Sports Marketing Manager, Finance

Good relationships with the athlete endorsers is highly important, as it may often be the most efficient – if not the only – way of ongoing monitoring and risk management. Especially the highest-value endorsers often have very strong and personal relationships with specific people in the endorsed company. Those people might be the first to sense if anything's wrong and could result in risks. Still, all the interviewees agreed that foreseeing scandals like Woods or Armstrong's is extremely difficult and rather than ongoing monitoring, the more sensible way to run risk management might be proactively before writing the contract or on a reactive basis if something does go wrong. The risk management of athlete endorsements can also happen as co-operation through good relationships with other stakeholders than the athlete himself, as every sport has its own governing body, and an endorsement company can partner with those to get a wider understanding of what's happening in each sport. Still, most of the time – as with Woods and Armstrong – endorsement scandals are surprises to everyone, including the endorsed company.

> *"You don't have an option, you just have to deal with it. You don't have an option because there is no way to see it, and if you would see it, you wouldn't do the contract."* – Sports Marketing Director, Football

> *"This is something that you unfortunately can't plan for, so you have to take it as it comes, basically."* – Former Sports Marketing Manager, Controlling

The ways to measure and manage reputational risk suggested by previous studies revolve mainly around identifying the main stakeholders and conducting a survey to understand how those stakeholders perceive the company (Eckert 2017, 153–154; Scandizzio 2011, 43). However, it seems that these models are quite unfit for evaluating reputational risk when it comes to athlete endorsements. The main reason for this could be that all athlete endorsement scandals are unique and – as scandals usually are – surprises. Ongoing reputation monitoring is challenging if it's hard to identify the risk factors such as who, what or when could the next scandal be. As the interviewees said, these sorts of effects are hard to quantify even during the scandal, let alone preemptively as a hypothetical estimation.

The difficulty of executing ongoing risk monitoring suggests that having an action plan for unpredictable scandals becomes utterly important, as both Resnick (2004, 35–36) and Miller and Laczniak (2011, 507) also concluded. All the interviewees agreed that generally the endorsed company can just act on these scandals reactively. Usually the biggest choice is between contract continuation and termination. For this reactive risk management, all of them stressed that it's critical to understand the specific situation and not to make any rash decisions in a scandal like Woods or Armstrong's. The company should ensure its decisions regarding the future of a possibly long relationship and a highly-invested asset are fully informed. The interviewees wondered if endorsement companies may be hesitant to cut ties with disgraced endorsers before the nature of the event is certain, as this could offer the competitors with the possibility to seize a high-level endorser. This same thought was presented by Carrillat et al. (2013, 15–16).

> *"So the first thing is to really understand what the situation is, or as much of it as we can legally know, and then make an informed decision based on that. Sometimes things take time, there are investigations involved, and what you don't want to do is to cut ties and then realize they were wrongfully accused."* – Sports Marketing Manager, Finance

> *"When something happens, like Lance Armstrong, the first and important thing is to wait until you have all the facts and don't jump into conclusions."* – Sports Marketing Director, Football

On the other hand, investors might unfortunately not be as patient to wait what the company decides – in Tiger Woods' scandal for example, Nike's share price suffered Woods-related drops during the first ten trading days after the scandal. At that point, Nike hadn't yet published their response to the situation, and as discussed before, it's possible the investors panicked as this was the first large athlete endorsement scandal. The company should make sure their investors trust that the situation is handled efficiently and that the company and its value are as protected as possible. In addition to the investors, the media might be pressuring the endorsed company for a statement, which makes calm investigations challenging. This many-sided pressure means that the endorsed company has a lot to balance to ensure its reputation and value is protected. It is particularly important to make sure the company is aligned internally as quickly as possible. This whole view is aligned with that of Resnick (2004, 31), who defined corporate reputation as combination of perceptions by multiple stakeholders, both internal and external.

> *"Communication is very key when it comes to these sorts of things and trying to be as transparent as possible helps, especially when it comes to the trading floor and those analysts who trade in it."* – Sports Marketing Manager, Finance

Even though reputational damage and risk is in the existing theory established as the most important one (Gaudenzi et al. 2015, 255), most of the interviewees didn't find that to be the main risk in an endorsement scandal. This isn't to say that athlete endorsements would come with no reputational risk at all, but rather that there are other, more direct and significant risks. The first explanation for this view could be that as most of the interviewees agreed, reputational damage could be prevented with the company's reactive actions in an endorser disgrace. If the scandal revolves around something that conflicts with the values of the endorsed company, it's crucial to distance the brand to save authenticity and avoid reputational damage. The second explanation is that reputational damage is so hard to measure on a quantifiable basis that it might be easier to focus on more direct losses and how those could be avoided.

> *"If it's an individual athlete – and it's usually down to a specific asset – and unless the brand has been promoting or knowing that this has been happening, you're pretty secure."* – Sports Marketing Manager, Finance

> *"Reputational losses of course [are important] as well but it's again harder to quantify. You talk about this indirect effect on consumer behavior."* – Former Sports Marketing Manager, Controlling

However, distancing the endorsed brand from the scandal might be easier said than done. As previous research has shown, the aim when using endorsement deals is to create strong mental links between an endorser and the endorsed company in the eyes of a consumer. In a forward memory path, an athlete endorser is linked to a specific brand – such as Tiger Woods or Lance Armstrong are or were strongly connected to Nike – and information regarding the athlete will flow also to the brand. (see Carrillat and d'Astoud 2014, 1077.) If the company has been successful in creating these mental connections, even distancing the company from possible scandals might not be enough to prevent all reputational damage. This could for example be the case with Armstrong and Nike, as Nike was very strongly connected both to him and his Livestrong foundation. Even though Nike cut ties with Armstrong very quickly after the scandal uncoiled and wasn't anymore officially associated with him when he admitted publicly to his substance abuse, it's possible that some consumers still linked him to Nike and mirrored their emotions to the perceived brand image. This could eventually influence their purchase intention and result in indirect financial losses for Nike through reputational damage from endorsement scandal.

> *"Because what we also hope to achieve with these elite athletes is that basically even after their retirement people would connect them with our brand and back when [Armstrong] admitted to the doping, pretty sure some of our consumers still connected the dots between Nike and Armstrong and that could never have been beneficial to us. So I believe there is slight risk, but by then because we have taken such a public stance against him, most of it was already covered."* – Former Sports Marketing Manager, Controlling

Even though distancing the brand from any scandal is important, the decision of whether to discharge and support a scandalous athlete isn't simple. The endorsed company needs to review if it has the contractual rights to terminate in the first place, and unless the scandal clearly contradicts the values of the endorsed company, the company might actually choose to stand by the endorser. As Carrillat et al. (2013, 23–24) found out, in case of high congruence between the endorser and the brand, consumers purchase intention was in fact higher if the association was maintained. Carrillat et al. also concluded that if the disgraced athlete acknowledges the allegations, the consumers view him or her as more trustworthy. As trustworthiness is the main element of endorser credibility (Parker and Fink 2012, 71), the athlete could still be a fitting and profitable endorser for the company. One of the interviewees however pointed out that cutting a disgraced endorser – as long as it's an informed decision – could show the power and authenticity of the brand and thus help distancing the brand from possible damage. The interviewees agreed that in their opinion, the distinction of personal versus professional scandal was the fundamental difference between the cases of Woods and Armstrong and the main reason why Woods' contract with Nike was maintained whereas Armstrong's was terminated. It is crucial that the endorsed company stays true to its authenticity.

> *"[Tiger Woods' personal scandal] has nothing to do with his performance. If anything, it's messing up his performance, it's going the other way. So you want to support him through it and be seen as someone who cares about him – which we do."* – Sports Marketing Manager, Finance

> *"Some common missteps you can capture into a contract. But stuff that people may do on their personal behalf or on their personal life – that's harder to do."* – Former Sports Marketing Manager, Controlling

> *"[Lance Armstrong] was a clearer case. Doping – either you are doped or not. Also they had the tests, if they show positive, I think that is enough [to terminate]. With Tiger Woods it was more complicated."* – Sports Marketing Director, Football

Learning is a very key element of any misfortune, such as an athlete endorsement scandal. If losses are suffered due to a scandal, the endorsed company's management needs to understand what factors caused those losses and if similar ones can be prevented in the future. The contracts, relationship management or endorser screening should all be evaluated. Lance Armstrong's scandal rocked the entire cycling world, and even though the interviewees didn't find the spillover effect to be that relevant a risk, one of them pointed out that scandals like that can affect how endorsement contracts and their risk management in general are handled. As companies naturally want the best athletes endorsing their products, a scandal influencing an entire sport is riskier for the companies with the highest-profile athletes as media will focus intensely on those superstars and everything that's related to them. This was what happened with Armstrong – basically all of the elite cyclists were using doping, but Armstrong was the best and the first to come to public, so he suffered the biggest losses and his sponsors needed to react quickly.

> *"It makes the sponsors much more cautious, or [we need to think] if it happens to one of our athletes, are our reduction and termination rights strong enough that we can get out of the relationships."* – Sports Marketing Associate Counsel, Legal

In addition to contractual solutions or pre-decided action plan, the interviewees thought power of portfolio to be a strong risk management tool for athlete endorsements. The existing research shares this belief, as both Batrz et al. (2013, 140) and Zarriello (2015, 430) suggested that a wide portfolio might divert attention from possible missteps of one individual and thus soften the scandal's effects for the company. In the interviewees' opinion, with a wider portfolio you can leverage other assets to divide attention, replace the disgraced athlete with a respected one in the same field, and in general spread the risk. As discussed earlier in this thesis, Nike has arguably the largest portfolio of athlete endorsers, and it's possible that it suffered less from the scandals of Woods and Armstrong because of it.

> *"If one really messes up you can leverage other parts of the portfolio. So where there's risk, you spread it. So I think leveraging the other assets in your portfolio is a very good way of mitigating or minimalizing the impact that you're portraying that this is happening on your brand."* – Sports Marketing Manager, Finance

To sum up, the most difficult thing with the risk management of athlete endorsement scandals is that every single one of them is different to begin with. Each one happens with a human being that makes his or her own decisions, and thus every single scandal is unique. They have to be dealt with on a case-by-case, market-by-market, sport-by-sport basis, which makes creating general risk management strategies challenging. This does not mean there are no ways to do that, and there is always possibility to learn from the scandals like Woods or Armstrong's in order to ensure that next time similar events wouldn't be damaging. Lastly and luckily – even if this is sometimes hard to remember as the major scandals are broadcasted on a huge scale – athlete endorsement scandals are rather rare.

> *"[Through] a big portfolio, you have reference to the individuals and establishments that are doing the things in the right way. So that shows that these abnormalities are abnormalities, they don't happen that often. They're one-offs."* – Sports Marketing Manager, Finance

6 DISCUSSION AND CONCLUSIONS

6.1 Theoretical contribution and suggestions for management

This thesis researched whether athlete endorsements can impact an endorsed company's financial value and how possible risks related to athlete endorsements should be managed. The theoretical discussion was structured in a similar way. During the review of existing theory, athlete endorsements were defined as worthwhile investments based on the researched positive stock market reactions. Linking an athlete's image and reputation to a company's image seemed to generally have a positive impact either in direct or indirect ways. It was concluded that athlete endorsements tend to be more successful for companies in the sports industry because of the extensive support for the match-up theory. However, the existing research did find athlete endorsements to be risky, especially for the endorsed company's reputation since in a case of an endorser scandal the company's image could suffer as well. That reputational risk is hard to control due to lack of efficient and generally accepted measurement or management methods.

The existing research has a strong emphasis on studies revolving either around stock market or consumer reactions, and there haven't been qualitative studies focusing on the professional knowledge of sports marketing experts. To fill that gap, four people with broad knowledge on athlete endorsements were interviewed with the focus on two case subjects, Tiger Woods and Lance Armstrong and their respective scandals. All in all, the interviewees' views of athlete endorsements and what determines a good choice of an endorser were strongly aligned with the existing research and especially supported the match-up theory as in their opinion it heightens the brand's credibility and authenticity. If management decides to utilize athlete endorsements in the company's marketing, they should be able to link the athlete to the values of the company to generate more successful relationship.

The interviewees agreed that athlete endorsements can affect firm value both in good and bad, but didn't find the stock market approach, which has been most dominantly used in previous studies, that fitting a method to measure that value. Instead, they suggested sales figures to be more relevant direct indicator, but pointed out that currently no clear or dominant way to measure the generated brand exposure exists. The earlier studies haven't been able to provide that either. As athlete endorsements can come with significant costs, management should use some measurement method to estimate the expected profit and justify the investment.

Likewise as existing research had shown, this study concluded that athlete endorsements possess both financial and reputational risks for the endorsed company, but not with as strong emphasis on reputational risk as previous research has suggested. The interviewees believed that even though direct financial losses, such as already made compensations are inevitable in the case of an athlete endorser scandal, reputational damage can be minimized. With the power of the portfolio and a precautionary action plan for unexpected endorser scandals, the brand can distance itself from possible endorser disgraces and aim to avoid reputational damage. This shows that the sports marketing experts too believe that reputation should be protected, but the existing suggestions to measure reputation on an ongoing basis are not fitting for the risk related with athlete endorsements. Furthermore, it is noted that similarly as measuring the value of athlete endorsements, quantifying this risk is extremely difficult. If a company chooses to invest in athlete endorsements, the management should remember that these assets are humans that can make their own decisions, and thus high attention should be given to contractual rights and for creating an action plan for risk situations.

Finally, this study underlines that every single athlete endorsement scandal is unique in its own way and they have to be dealt on a case-by-case basis. It makes creating general guidelines challenging, but at the same time brings up the need to find some categorizing traits. In this study it was concluded that the difference between a personal and a professional scandal affects how consumers view the disgraced athlete and shown that in some cases it might be sensible to stand by the athlete instead of terminating the contract.

In conclusion, this study offers theoretical contribution by reinforcing and specifying the understanding of the nature of athlete endorsements. It has successfully shown that the risk management of athlete endorsements is more unique than what has been assumed in the existing literatures. This study also challenges some of the existing research and suggests that new ways to measure financial value and risks of athlete endorsements would be needed.

6.2 Suggestions for future research

The previous research has focused almost solely on measuring the value of athlete endorsements through stock market reactions. However, this does not seem to be the most fitting method as it only focuses on a snapshot or one-time firm value boost of an athlete endorsement deal, and the aim is actually to generate long-running and ongoing additional value. As Elberse and Verleun (2012) already touched upon, sales figures seem to be more appropriate measurement for the value of athlete endorsements. Further research is required to support their view that sales figures are positively affected by athlete endorsements. The direct effect on sales could also be researched in a negative situation, such as in the case of athlete endorsement scandals.

In addition to the direct effect athlete endorsements have on firm value – such as the sales figures – the indirect effects are gravely in need of an efficient measurement method. The brand exposure generated from athlete endorsements is a complicated intangible asset, and future research could aim to find new ways to quantify it. In this research athlete endorsements' brand exposure is described to be similar to goodwill, and as such, future research could try to find more links between the two and see if something could be adopted from how goodwill is generally measured.

Furthermore, the existing studies focus on the value effects of individual athlete endorsers. However, during the interviews of this study it was established that attributing value to an asset level when dealing with athlete endorsements is extremely hard and possibly provides only diluted results. Instead, the interviewees suggested that it's more important to understand the portfolio as a whole and look at the halo-effect. Further research is required to understand how different types of portfolios of athlete endorsers affect company's value. Portfolio has also been discussed as a strong protection method in this thesis, and the optimal use of portfolio as a risk management method could be further researched.

This thesis was conducted as a qualitative research in a case study form, focusing on describing athlete endorsement scandals in a sports company. Even though the results provide an intriguing example of the effects and management athlete endorsements, the findings of this empirical study are one of a kind and non-interchangeable to other environments. Future research is needed to determine how athlete endorsements are managed in various situations in other firms of different sizes and stages.

6.3 Evaluation of the study

The quality and trustworthiness of the study should be evaluated and ensured. This trustworthiness should not be evaluated only at the end of the research but throughout the study to avoid missing threats to reliability and validity. To effectively evaluate the quality and trustworthiness of a qualitative research, Lincoln and Guba (1985, 294-300) suggest the following four criteria: credibility, transferability, dependability and confirmability. The rigor of this study is discussed and established in the following four paragraphs based on these criteria.

Credibility describes faith in the authenticity of the findings. To ensure credibility, the researcher should understand that reality is made of multiple mental constructions by humans, and these should be represented adequately to avoid ignorance and relying solely on a single truth. It's also important to recognize that the findings the researcher makes are reconstructions of the interviewees' original constructions. (Lincoln & Guba 1985, 290, 295– 296.) Lincoln and Guba (1985, 328) list prolonged engagement, triangulation, persistent observation, peer debriefing, negative case analysis, member checks and referential adequacy as good authentication strategies to establish and confirm credibility. In this study, particularly triangulation was used because data was collected both through stock market examination and interviews with interviewees with different areas of expertise regarding athlete endorsements.

Transferability describes how well the results can be applied in other contexts. Although the goal of qualitative research is not to produce generalizable findings, transferability is an important measure of quality. Transferability of the findings allows other researchers to assess the applicability of the findings in new contexts and generates further investigations of the phenomena if the findings can be tested in other environments. However, the original researcher can only be aware and possibly control the settings of the original investigation scene, meaning that the responsibility of application lies more on the researchers conducting the future studies. (Lincoln and Guba 1985, 298.) To support transferability of a study, Lincoln and Guba (1985, 328) suggest providing thick descriptions, as they refer to the details of a culture and are a way to reach external validity. Therefore, in this study, information regarding the case company's environment and the case subjects' history was provided.

Dependability describes the repeatability and coherence of the findings. In other words, if the research is repeated under the same circumstances, to which extent the results are consistent. (Lincoln and Guba 1985, 290.) Dependability can be viewed as a part of credibility and be linked to its verification strategies, but a stronger solution when establishing trustworthiness is to evaluate dependability separately. To do this, Lincoln and Guba (1985, 317) suggest inquiry audits. A well-managed external inquiry auditor is to evaluate the researcher process and its findings to ensure dependability. In master's thesis research, the process automatically includes inquiry and feedback from supervisors and opponents throughout the study and therefore dependability is supported.

Confirmability describes to which degree the findings of the research are determined by the respondents instead of the researcher's own motivation, bias, interests or views (Lincoln and Guba 1985, 290). Often suggested ways to establish confirmability include audit trail, triangulation and reflexivity. In this research, particularly triangulation is considered as mentioned above. In the process of a master's thesis, audit trail is systematically created through continuous action tracking and reporting of the empirical research in as much detail as is relevant for the research. Draft for interview structure is created, tested and adapted. Actual interviews were recorded, written down and evaluated.

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APPENDIX 1 – EMPIRICAL MATERIAL REFERENCES

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APPENDIX 2 – INTERVIEW THEMES

1. Athlete endorsements in general
    - Why do you think athlete endorsements are so popular and widely used?
        - What made Woods and Armstrong especially good partners for Nike?

2. Market value – one-time boost or long-running partnership?
    - What do you see as the specific gains?
    - How can the value for endorsement company be measured, monitored, heightened?

3. Risks of athlete endorsements
    - Do you find athlete endorsements risky?
    - Can endorser's reputation drop affect the endorsement company's reputation?
    - Does it matter if it's a professional or personal scandal?
        - Woods vs. Armstrong

4. Risk management
    - How can an endorsement company protect itself? How to monitor the athletes, especially with a wide portfolio? What contractual solutions are used?
    - How can a company foresee endorsement risks?
    - Could the Woods or Armstrong scandal be foreseen/has something been learned?

5. Endorsement scandals
    - What was the impact? Company-wise / Industry-wise / Sports-wise
    - What are the important things for a company to consider in an endorsement scandal situation?
    - The importance of endorsement company's reaction time in case of an endorsement scandal
    - How can effects be monitored? Can they?
    - Terminating the contract (Armstrong) or continuing it (Woods) – what are the effects and how can the decision be made?

APPENDIX 3 – CONDUCTED INTERVIEWS AND INTERVIEWEES

Four (4) Sports Marketing experts were interviewed between of 26th of June, 2017 and 10th of July, 2017. The interviewees were selected based on both their professional and personal expertise and interest in the fields of sports marketing and athlete endorsements. The interviews were conducted at the case company in a relaxed environment.

Interviewee 1: Jeroen van den Hoek – former Sports Marketing Manager in the Controlling Department. Interviewed on 10th of July, 2017 for 37 minutes.

Interviewee 2: Matthew Day – Sports Marketing Manager in the Finance Department. Interviewed on 21st of June, 2017 for 52 minutes.

Interviewee 3: Tina Salminen – Sports Marketing Director, African Football Players. Interviewed on 26th of June, 2017 for 32 minutes.

Interviewee 4: Fiona Ball – Sports Marketing Associate Counsel in the Legal department. Interviewed on 4th of July, 2017 for 24 minutes.