Risk Management of Negative Athletes Endorser's Conduct and Information Based on a Multi-stage Dynamic Game Model

ABSTRACT

Celebrity endorsement has been found to produce more positive response among the public towards advertising and create greater purchase intentions. Nowadays, the introduction of athlete endorsers into sports advertisement has become a prevailing marketing strategy, thereby increasingly highlighting its potential risk. It has been an increasing trend that celebrity endorsers involved in certain forms of negative information, such as Tiger Woods's cheating scandal, Kobe Bryant's sexual scandal and Lin Dan's scandal, have negative impact on not only the consumer's psychology, but also the sale of products and the stock price of the endorsed enterprise.

According to previous studies and some well-known events of negative athlete information, the decisive factors of such risk can be summarized as follows: the public's moral judgment on the endorser's negative behavior, correlation intensity between the athlete and the brand, consumers' social identification and preference of the endorser, and the intensity of negative news. On the basis of the above-mentioned factors, this paper constructs an integrated framework of these factors, so as to reveal their functions, mutual relationship and interaction in the process of causing loss.

In order to observe the behavioral choices of the endorsed enterprise and the celebrity athlete, this paper establishes a finite dynamic game model, that is, the "KMRW Reputation Model", to analyze if the two participants can reach a consensus in the game. Through the calculation and comparison of the outcomes, it can be concluded that the cooperation between the two sides is possible, provided that their trust in each other is sufficient. Last but not least, some constructive risk management strategies will be proposed to prevent the occurrence of such risk.

KEY WORDS: risk management; negative information; athlete endorsement

1. Introduction

The utilization of celebrated athletes in sports endorsement to promote corporate image has become an international phenomenon (White, Goddard & Wilbur, 2009; Chan, Hung & Tse, 2008) since the attractive appearance and combatant spirit of athlete endorsers can be associated with the endorsed commodity and corporate brand effectively, leading to a significant increase in sales volume as well as stock price, and leaving a positive impression on the consumers (Langmeyer & Walker, 1991; McCracken, 1989; Kamins et al., 1989; Agrawal & Kamakura, 1995; Simmers et al., 2009).

Due to the creation of positive effects, large amounts of sponsorship fee are paid to the athlete endorsers, far beyond the money they can earn from the original occupation (Simmers et al., 2009). For instance, the noted two-time Olympic badminton champion Lin Dan was reported to earn almost $4 million in 2015, while Li Na, the top-ranking tennis player in China, won the French Open and earned $11 million according to the Forbes China Celebrity List.

However, the considerable money dedicated to endorsers does not always be rewarded with the expected effectiveness, which signifies that when the negative information of the athlete endorsers exposed to the public increases, the images and reputation of the endorsed corporations will be in crisis. Many scholars have found that the negative information of celebrity endorsers may have adverse effects on both psychological and economic aspects of the endorsed brand. From the perspective of the psychological effects, it may have negative impacts on consumers' attitude, purchase intention, brand appraisal and so on. Specifically, Till& Shimp (1998) tested and emphasized why the negative information about celebrities will lower consumers' evaluation of the endorsed brands based on the associative network theory; Lafferty (2002) adopted the dual credibility model to reveal the adverse impacts of the battered images of athlete endorsers on the attitudes and purchase intentions of consumers, indicating that such impacts may result in lower sales of the brand's products and therefore shrunken profits (Chung et al., 2011; Zhou & Whitla, 2013).

In terms of the economic aspect, the negative news of celebrities may even bring about financial loss. For instance, the exposure of Tiger Woods' sexual scandal triggered a substantial loss of approximately $5-12 billion of all the endorsed brands in the stock market, as the five major sponsors including Accenture, Nike, Gillette, Electronic Arts and Gatorade lost 2%-3% of their market value (Knittel, Stango 2009). In fact, the stock prices of the endorsed enterprises, which represent the investors' expectation of future profits, are confirmed to fluctuate abnormally after the occurrence of endorsers' scandals compared to the whole stock market (Louie et al, 2001; Chung et al., 2011). Besides, an advanced study by Knittel& Stango (2012) indicates that there exists a "business-stealing" effect between the endorsed corporation and its competitor, transferring the market value loss of the former into other enterprises' gains while the total market value remains relatively stable.

Therefore, endorsers' unpredictable future behavior, together with its effects, becomes a kind of potential risk in endorsement activities. "When a firm signs on to a celebrity, it also signs on to the possibility that he or she may get involved in an event that has a deleterious effect on the spokesperson, which people label an 'undesirable event'.". It has been pointed out that celebrity endorsement can be considered as a venture investment in a brand other than a linear input-output tradeoff (Knittel, Stango, 2012; Jin & Phua, 2014). If the athlete endorser has any negative information or conduct during the endorsement period, the massive expenditure disbursed before, such as the endorsement fee, advertising expense, the cost of production and so on, is in vain.

In addition, along with the development of social media, the dissemination of negative information is rapider than before, thereby aggravating the extent of the loss (Zhou & Whitla, 2013). Therefore, no matter how celebrated the candidate spokesperson is among consumers, enterprises must carefully observe and assess the image and quality of the spokesperson, so as to select the appropriate one. Besides, the risk management of endorsers' negative information and conducts should also be taken into consideration.

2. Determinants of the Extent of Risk Loss

In this section, attention will be paid to the factors that are highly correlated to the loss of an enterprise, as well as the effect extent determined under the disparate functions of different factors. Numerous researchers have carried out studies on the possible influencing factors, such as the intensity of the news, the relationships between the endorsers and brands, the liability of the spokesperson and so on. Nevertheless, instead of conducting a comprehensive analysis of these factors and their mutual relations, these scholars merely focus on one single factor in their own studies. Therefore, this part attempts to establish an overall framework of these factors and figure out the most decisive one.

2.1 Endorser's Factor: Moral Judgment of His/ Her Negative Behavior

From previous studies, it can be discovered that the negative behavior of celebrity spokesperson will leave an awful impression on the consumers, which may be further transferred to the endorsed brand and result in a fall in consumers' evaluation and purchase intention of the merchandises of the brand. However, what people possibly fail to be conscious of is the principal mechanism of customers' assessment or judgment of the tarnished celebrity's performances, as well as the decisive factors of their selections.

Existing literatures have attempted to verify whether there is any direct or indirect causal association between consumers' attitude and the judgment of celebrity endorser's behavior according to social ethics standard. Researchers have discovered the reality that companies tend to bear more loss when their athlete endorsers are involved in scandals like drugs, unfaithful affairs etc., by contrast with the injury news and so on (Zhou & Whitla, 2013; Louie et al., 2001; Lee et al., 2015; Money et al.,2006). As for the loss, it is generally measured by objects including stock market price as well as consumers' attitude or evaluation. To be specific, the more responsibility an endorser is supposed to assume for a scandal, the more risk of the profits and image a company or brand has to bear. Therefore, the moral judgment of sports celebrities' negative conducts becomes the cause of consumers' reaction to some extent.

Negative conducts of athlete celebrities can be categorized into morally related behaviors and morally unrelated behaviors. Moral related behaviors refer to conducts that may violate social restriction of ethics or disappoint people's expectation of a celebrity, but do not necessarily contravene the law, generally appearing as all kinds of sex scandals, drug abuse, illegal affairs, alcohol addiction and so on. By means of the conceptual model that associates the negative celebrity publicity with consumers' valuations of the brands in terms of brand reputation, Zhou and Whitla (2013) conducted a study of the impacts of the negative conducts of athlete celebrities. Applying the locus of attribution theory, they found that when an athlete endorser's negative behavior is attributed to his own factors instead of others' reasons or certain objective circumstances, the reputation of the brand would be jeopardized and perceived as societal damage to the public, therefore impairing consumers' credibility and trustworthiness of the brand accumulated before.

2.2 Company's Factor: the Correlation Intensity with the Endorser

In general, top athlete celebrities possessed with superior capabilities and the potent appeal to fans tend to be perceived and favored by enterprises, encouraging these enterprises to establish endorsement relationship with them. As a consequence, top athlete celebrities usually endorse more than one simple product, which means that various types of commodities may be intensively endorsed by only one sports superstar, accordingly concentrating the risk of negative reputation. For instance, when Tiger Woods' scandal shocked the public on November 27, almost all of the corporations he endorsed are confronted with quantities of loss in market value as well as stock price. Interestingly, the ultimate loss extent varies across a wide set of related or unrelated companies, which is manifested in that the cumulative abnormal returns for the top 5 investment companies of Tiger Woods are 3% while that for the top 3 highly related companies are 3.4% 10days after the exposure of the scandal (Knittel & Stango,2012).

In the experiments of the associative memory framework, a traditional and classical theory proposed by Till and Shimp (1998) to emphasize the discrepancy between companies, high or low associative sets of a brand or the negative endorser, such as the meaningful experience, history or something else are offered to 2 groups of participants, finding that the group with relatively small size of association set is severely affected by the negative news and thus makes a lower evaluation of the brand.

However, a specific study about the stock price fluctuation of the Tiger Woods scandal seems to draw an inverse conclusion. Enterprises that input larger sums of money and projects to the target athlete, or own more endorsement relationships with the endorsers tend to suffer greater loss of market value, the sports brands Nike and Gatorade are cases in point. Moreover, the statistical evidences of the study found that opponent brands also bear loss to some extent, but the loss of the ones without endorsers is less than those having endorsers (Knittel & Stango, 2012).

The emphases presented above may not contradict each other for the reason that they are demonstrated though diverse aspects. What NIKE has input to Woods may not be transferred into the associative memory of the consumers, and they just take notice of Tiger Woods' personal attraction. Therefore, consumers fail to form a comprehensive and objective perception about the brand, or the quality of the products and so on.

2.3 Consumer's Factor: Social Identification/Preference of the Endorser

This part focuses on the relationships between consumers and athlete spokespeople, which has been found to not only directly influence the product distribution, but also determine the extent of loss to which a sponsor would suffer when a scandal comes to light (Kamins, 1990; McCracken, 1989).

Based on the social identity theory (SIT), the relationships can be easily classified into several different types that embody the degree of the identity possessed by a consumer. Owing to these subjectively identified relationships, it seems hard to accurately quantify the celebrity-worship behaviors. Instead, McCutcheon et al (2002) defined the stages of various psychological connections and self-identified social bonds as entertainment-based motivation, intense attachment and pathological tie, the degrees of which enhance gradually. Moreover, Funk and James (2001) laid emphasis on idols' fans and proposed 4 types of celebrity-worship known as awareness, attraction, attachment, and allegiance in the Psychological Continuum Model to depict their fantasy. Despite the social identification may be affected by the scandal and even transformed into the adverse perspective, attention should merely be paid to the original type before the incident.

By means of different methods and samples of the research, scholars in this domain have reached an agreement that a consumer's response to the brand after the scandal largely depends on the identification they originally have (Cornwellet al., 2005; Dalakas & Levin, 2005; Dean, 2002; Gwinner & Swanson, 2003; Madrigal, 2000; Madrigal, 2001). In terms of highly identified fans, their purchase intentions or perspectives appear to have no connection with the scandal of their idols, and they will continue to support the endorsed brand as always. Funk and James (2001) pointed out that people usually have strong identification with their favorite team, which results in that they are less likely to change their attitudes toward the team even if the team's performance is really undesirable. Besides, Fink et al. (2009) also indicated that loyal fans may even take crazy actions to support their idols, regardless of the moral issue.

However, lowly identified fans are totally different as they change their attitudes more radically and easily due to the negative news. Therefore, the trend of attitude change of lowly identified fans can be considered as the dominant factor that leads to the loss of the negative information risk. In other words, the lower identification the fans have with the celebrity endorsers, the less profit the endorsed company may obtain because of the scandal. In this sense, enterprises are supposed to investigate the constitutional part of the target consumers and their identification of the future endorsers. If the entertainment-based consumers dominate in the market, coupled with insufficient consideration about the consequences, corporations may have to stand a potential loss caused by their involvement of the scandal.

2.4 Broadcasting Factor: Intensity of News

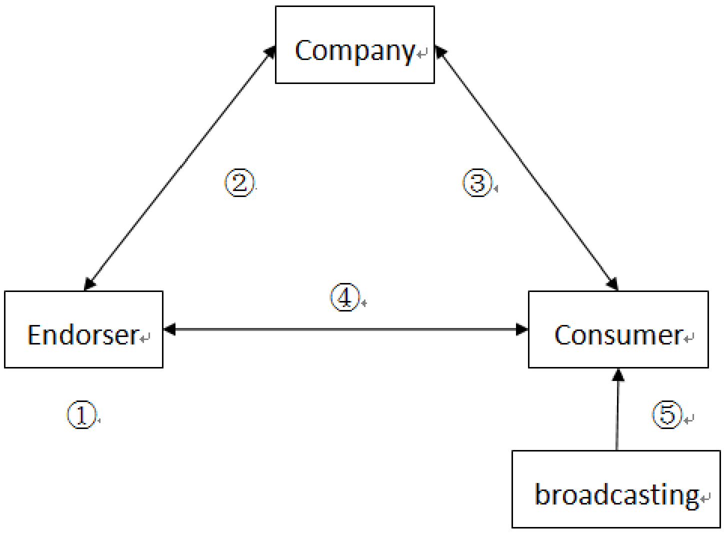
Evidence found by researchers have clearly manifested that contemporary high-speed electronic communication media, such as the internet, are playing significant role in determining the economy of a company to some extent. With the booming electronic media, time required in the dissemination of news is shorter than before, and the so-called internal information is not a secret to the investors any longer in today's network. As a result, investors or consumers are allowed to get closer to the enterprise, know more information about whether the brand is positive or negative, and to formulate a relatively objective expectation in its future profits. On the basis of the expectation, the investors or consumers will determine whether to continue to invest in the company or not. Actually, the promptly broadcasting media provide investors and consumers with an opportunity to understand the authentic operation condition of the company and to decide their future investment behavior. It can be predicted that the more extensively the positive information about the profits of a well-performed company is publicized, the more confidence its investors will have. On the contrary, if the negative information of the brand is exposed to the public rather than only a few insiders, it may be difficult for the company to perform well in profit in the market.

As many scholars have realized the significance of the communication media, how to measure the extent of broadcasting the negative news is worthy of consideration. In this respect, the index of Google search intensity that represents the propagation effect of media has been proved to be effective. Based on the accumulated search time of keyword, Google's Insights data is a relative index instead of an absolute score of the same event. The index has a peak of 100, indicating the highest level of the search intensity. Therefore, Google search intensity is widely used to explore its relationship with some economic indicators, such as the stock market price of the target companies, product sales and so on (Da et al.,2011; Kamakura et al., forthcoming).

It has been verified by Knittel & Stango (2012) that during the 15 trading days after the exposure of Tiger Woods' scandal, Google search intensity does have a negative correlation with the stock market price, explaining almost 40 percent of the variation in abnormal returns. During the study, the authors also examined with the intensity of which key word that the changing pattern of stock price matches, and came to a conclusion that it is the endorsement-related news rather than the entertainment-related news that accounts for the abnormal variations.

2.5 A Framework of the Decisive Factors of Loss Caused by Negative Information

On the basis of the above-discussed factors that determine the degree of loss, attention should be paid to the relationship between these factors, for instance, which of these factors will dominate the extent of loss when negative information is exposed? Provided that a consumer is a fan of the endorser, will his purchase behavior be affected by the public's moral judgment of his idol? And what consumers' reaction to the brand will be if the company terminates the contract with the athlete endorser? To answer these questions, the author draws a picture of the framework of these factors, analyzing the relationship between the factors based on the existing literatures and giving conclusions of these factors discussed before.



Picture 1 Framework of decisive factors of loss

①represents the endorser's individual factor— his/her liability in the negative event, and the consequences resulting from people's ethical judgment. The more responsibility an endorser must shoulder for a scandal, the more loss an enterprise or brand has to bear.

②represents the company’s correlation intensity with the endorser, specifically, the loss presents a positive correlation with the amount of money the company invests in the celebrity endorsement before the occurrence of the scandal.

③represents the relationship between the consumer and the brand, such as the consumer’s consciousness of the brand and its products in the absence of endorsers— the more a consumer knows about the brand, the less he/she will be affected by the endorser’s negative information.

④represents the consumer’s original social identification of the endorser, that is, whether he/she is a fan of the athlete endorser determines his/her purchase intention to a great extent.

⑤represents the intensity of the negative news, the broadcasting of which increases the number of people who know the news and enhances the consumer’s awareness of the endorser’s liability in the negative event, notwithstanding having few influence on the relationship among the consumer, the company and the endorser.

In addition to the factors listed above, there remain many other factors such as the discrepancies in gender and national culture, as well as the interactive or cohesive relations of these factors, which are also of great research value.

In spite of the fact that the differences in culture and gender have been confirmed to play an essential role in improving the effectiveness of endorsement including consumers’ recognition, credibility and so on (Salacuse, 1998; Choi et al., 2005; Edwards, Ferle, 2009), there has been scarcely any direct evidence that these variables can incur various degrees of loss of different people in negative celebrity events.

However, Louie and Obermiller (2002) examined the consumers’ reaction to the enterprise whose endorser got involved in a scandal, and found that the company’s decision of rescinding the agreement with the blameworthy celebrity tends to obtain more acceptance and affirmation than that of maintaining the original cooperative relationship, while the supportive decision of an inculpable endorser is preferred by the public. Likewise, Joe Phua(2016) discovered that sponsors’ decisions about maintaining or terminating the endorsement relationship with the tarnished endorser largely depends on whether consumers have great admiration for the athlete endorser. Therefore, it can be concluded that the psychological identification of consumers is the factor that dominates the degree of risk loss among all the factors studied.

3. The KMRW Reputation Model

3.1 Introduction of the Model

With regard to the famous Prisoner's Dilemma, Luce and Raiffa (1957) proposed that in such a one-shot game, out of the consideration of their own interests, both of the 2 participants choose the strategy of "confession", instead of collaboration that would have provided them with the maximum return, thereby resulting in the worst consequence. In fact, the "confess– confess" strategy equilibrium in this game is a Nash Equilibrium, rather than Pareto Optimality. Moreover, further studies have demonstrated that in order to improve the benefits of both parties and realize a win-win partnership, sufficient time of the game should be provided for the participants (Kreps et al., 1982; Axelrod, 2012).

In the long-term cooperation, it is the reputation of a participant, that is, the participant is whether a reliable collaborator or a person who will betray his partner, that becomes the most valuable asset deciding the other party's reaction next time (Macaulay, 1963; klein, Leffler, 1981). In this context, the Reputation Model, which is also called the KMRW Model, constructed by Kreps, Milgrom, Roberts and Wilson (1981) has proved that even under the limited time of an iterated game provided the information asymmetry, both sides can cooperate with each other for a good reputation in the future.

Particularly, for the athletes and sponsors in the celebrity endorsement market, both of them attach great importance to their reputation on account of the negative impacts and enormous loss of revenue caused by any negative information or scandal, which will spoil the images and reputations of both the endorser and the brand involved in the negative news, and consequently lead to massive loss of both sides. Therefore, they tend to make every decision prudently during the endorsement period, which can be viewed as a multi iterated game. In the following sections, the KMRW Reputation Model will be applied to observe the strategy adopted by athlete celebrities and companies, emphatically focusing on the factors which determine an endorser's selection of cooperation or betrayal in the game.

3.2 Assumptions

A common observation in experiments involving finite repetition of the prisoners' dilemma is that instead of unvaryingly adopting the single-period dominant strategy of delation, players sometimes manage to realize cooperation to a certain extent.

In the KMRW Reputation Model, assumptions are presented as below:

(1) In the perfectly competitive endorsement market, there are two different types of endorsers in terms of the risk they are endowed with: the high-risk endorsers, namely, those who are more likely to get involved in negative information; while other endorsers are regarded as the low-risk endorsers. Notwithstanding the endorsers' clear anticipation and understanding of the result of a massive loss they may suffer once the negative information is exposed to the consumers, being tempted by the positive utility brought about by negative conducts defined by the public such as drugs, domestic violence, sexual behaviors and so on in particular circumstances, they are prone to infringe the contract.

(2) Under the information asymmetry market, the company is incapable of distinguishing the risk type of the endorser as well as his strategy in the game, but what can be observed is the endorser's choice made last time. Based on this, the company adjusts its judgment through previous experience and reacts to the endorser's choice.

3.3 Process of the Model

3.3.1 The Posteriori Probability and the Posterior Probability of the Endorser of Two Risk Types

Suppose that $\theta(0\leqslant\theta\leqslant1)$represents the actual probability of the endorser's compliance with the terms and conditions of the contract, which signifies that negative events will not occur, while $\theta^e(0\leqslant\theta^e\leqslant1)$ is a corresponding probability predicted by the company. As for the risk type of the negative behavior of the endorser, it is defined by the value of β . To be specific, β =0 represents the low-risk athlete endorser with the posteriori probability of p, andβ =1 represents the other kind of endorser with the posteriori probability of 1- p.

Besides, the game is assumed to repeat T times, and the company can adjust its expectation of the probability of the endorser's, especially the high-risk endorser's abidance by the rules. At the t stage, the high-risk endorser's probability of maintaining his image is y_t, and the probability predicted by the company is x_t. In equilibrium, $x_t = y_t$. In the endorsement market, the endorser chooses his/her behavior at the last stage. According to the Bayes formula, if the endorser behaves well, the posterior probability of the endorser's compliance with the rules adjusted by the company at the t+1 stage is:

$$p_{t+1}(\beta = 0|\theta_t = 0) = \frac{p_t x 1}{p_t x 1 + (1 - p_t) \text{ x } x_t} \geq p_t$$

p_t is the probability of the low-risk endorser at the t stage, and "1" is the probability that the endorser follows the rules. The inequality signifies that if the endorser's behavior satisfies the requirements of the contract, the company can increase its anticipated probability.

Conversely, if the negative information of the endorse are exposed, thus

$$p_{t+1}(\beta = 0|\theta_t = 1) = \frac{p_t x 0}{p_t x 0 + (1 - p_t) \text{ x } x_t} = 0$$

Negative behavior of the endorser may cause the company to adjust its expected probability downward, even resulting in noncooperation at the next stage.

3.3.2 The Choice and Utility of the Endorser

The utility function of each type is as follows:

$$U = -\frac{1}{2}\theta^2 + \beta\ (\theta - \theta^e) = \begin{cases} -\frac{1}{2}\theta^2, & \beta = 0 \\ -\frac{1}{2}\theta^2 + \theta - \theta^e, & \beta = 1 \end{cases} \tag{1}$$

Take the derivative of (1), and the result is

$$\frac{\partial U}{\partial \theta} = \begin{cases} -\theta, & \beta = 0 \\ 1 - \theta, & \beta = 1 \end{cases} \tag{2}$$

Set the outcomes equal 0, namely

$$\frac{\partial U}{\partial \theta}=0 \quad \Longrightarrow \quad \begin{cases} \theta=0,\ \beta=0 \\ \\ \theta=1,\ \beta=1 \end{cases} \tag{3}$$

Therefore, for the low-risk endorser, the optimal probability of abiding by the terms and conditions in the contract is $\theta^{*}=\beta=0$, while the high-risk endorser's optimal probability is $\theta^{*}=\beta=1$.

During the whole period, attention is principally paid to the last 2 stages, that is, the T stage and the T-1 stage. At the T stage, the end of the game where any behavior of the endorser will not get punishment, the endorser tends to adopt the dominant strategy that violates the contract. At this point, the optimal choice for the high-risk type endorser will be $\theta=\beta=1$, and the company's estimated utility is

$\theta^{e}=\theta(1-p_t)=1-p_t$

The utility for the high-risk type endorser at the final stage is:

$U_T=-\frac{1}{2}\theta^2+\beta(\theta-\theta^{e})=-\frac{1}{2}+[1-(1-p_T)]=p_t-\frac{1}{2}$

When $\frac{\partial U_T}{\partial p_t}=1>0$, it demonstrates that p_T, which can be adjusted through the performance before the T stage, determines the value of U_T, indicating that the high-risk type endorser is inclined to maintain a good reputation for the maximized interest.

Therefore, the high-risk type endorser at the T-1 stage also complies with the rules and the expected probability of the company is:

$\theta_{T-1}^{e}=\theta_{T-1}(1-p_{T-1})(1-x_{T-1})=1x(1-p_{T-1})(1-x_{T-1})$

δ represents the discount factor, so the total utility of the 2 periods for the endorser who chooses to conduct negative behavior is:

$$U_{T-1}(\beta=1)+\delta U_T(\beta=1)=-\frac{1}{2}{\theta_{T-1}}^{2}+(\theta_{T-1}-{\theta_{T-1}}^{e})+\delta(-\frac{1}{2}{\theta_T}^{2}+\theta_T-{\theta_T}^{e})$$

$$=\frac{1}{2}-{\theta_{T-1}}^{e}-\frac{1}{2}\delta \tag{4}$$

While the total utility for the endorser who chooses not to conduct negative behavior is:

$U_{T-1}(\beta=0)+\delta\ U_T(\beta=1)=-\theta_{T-1}{}^{e}+\delta\ (p_T-\frac{1}{2})$ (5)

If (4)> (5), the endorser will comply with the agreements of the contract, namely

$\frac{1}{2}-\theta_{T-1}{}^{e}-\frac{1}{2}\delta>-\theta_{T-1}{}^{e}+\delta\ (p_T-\frac{1}{2})$ (6)

The result is $p_T \geq \frac{1}{2\delta}$

3.3.3 Analysis of the Result

As long as the $p_T \geq \frac{1}{2\delta}$ or is large enough, the company will not choose to break the rules in the contract with the brand, and instead, the best choice of the enterprise is to preserve its reputation until the final stage. In the endorsement market, the value of p_T frequently depends on the consumer or sponsor's trust and commitment. In other words, the more consumers or enterprises believe in the endorser's image shown to the public, the more the endorser will cherish the trust, which means that the endorser will not destroy the valuable treasure easily. Therefore, it can be concluded that the transparency of information and the supervision carried out by the public can encourage the endorser to constrain the negative behavior and maintain the good reputation.

4. Risk Management Strategy of the Negative Information

4.1 Establish an Overall Risk Management System

In order to avoid the risk of the occurrence of negative information in the future, the endorsed brands are supposed to establish an overall risk management framework of sport resources including the risk-alert system of athletes, commercial terms of sport resources, athletes' risk management education and service, and the assistance of sport resources and so on. Under such a risk management system, the athlete endorsers are able to participate in the whole process of propaganda, which not only increases their liability for the endorsed brand, but also strengthen the communication between the corporation and the endorser.

Besides, sometimes the endorser may be lack of experience in building his or her image in front of the public, which is also a potential as well as the widely concerned risk for the brand. For instance, after ensuring that Liu Xiang, the 110-meter champion hurdler in the Athens Olympic Games, has become the endorser of NIKE, the enterprise arranged someone to get involved in his training life. As a result, if the endorser has any word or action inappropriate for the endorsed brand, the company is able to be conscious of the risk and take actions immediately.

4.2 Add Moral Clause to Contracts

With the trend of the increasing negative information that exposes in the endorsement period of athlete endorsers, risk of enormous loss have resulted in tougher agreements especially moral clauses in contracts. The moral clauses, which are also called the morality clauses of desirable public image and conduct (Auerbach, 2005), are widely utilized as a safeguard of the brand, that is, if the sports endorser gets involved in any negative information that sullies his or her reputation, the sponsor possesses the rights to cancel or terminate the cooperation with the endorser.

Moral clauses have been thriving in the American endorsement market since the 1980s, and it is generally presented in contracts as follows: the endorser is supposed to maintain his/her positive and healthy image in accordance with the quality image and prestige of the brand and its products; the endorser is not allowed to do any forbidding act that goes against public taste or expectation, the scope of which has even been expanded to romantic relationships, marriage or pregnancy in recent years (McLellan, 2015); Otherwise the company will suspend or cancel the agreement.

Numerous issues need to be considered when it comes to moral clauses in contracts, among which the two most significant factors are the duration and the specific limitation of the behavior—how long will it take to maintain the good reputation and image for the brand and what kind of behavior is defined as the “potential detrimental behavior” or “forbidding behavior”. Specifically, when negotiating these provisions, concerned parties should pay attention to details including the type of behavior covered and the corresponding remedial measures for the violation of the provisions.

4.3 Insurance for the Potential Risk

Negative information risk is commonly referred as the “reputation risk” for it may damage the good reputation of a brand and result in a decline in the sales of its commodities as well as the stock price when scandals are exposed. Therefore, enterprises nowadays have begun to ask for insurance of the special risk. In this context, insurance companies have offered the insurance called “disability, death and disgrace insurance” since 1985, which is utilized to protect against the potential risk of loss, such as the risk that the insured endorser dies or becomes handicapped during advertising campaigns.

The cost of purchasing disgrace insurance has an elasticity varying from 0.5% to 1% of the policy’s limitation, so enterprises usually pay between $5,000 and $10,000 for every million dollars of disgrace insurance purchased. Besides, the coverage of this insurance may also includes various items according to the contracts, such as the previous expenditure of the cost of production, certain contractual obligations, expenses incurred to revise promotional campaigns, reshoot or reproduce the advertising material, and even the cost of engaging a new endorser.

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