The influence of crises on corporate reputations

How to manage the organisation back into positive daylight
ACKNOWLEDGEMENTS

The road that has been followed in aspiration of writing this master thesis was one of many obstacles. Quite some misfortune has come my way, was it not the accident that caused me difficulties sitting, than it was most certainly my former thesis partner deciding to abandon our partnership. The latter had as a consequence that, three weeks before the end of this spring semester, the work that had been accomplished until then had to be split up. Although this brought a lot more workload than expected in the final weeks, it also brought more determination to finish with a satisfying result within the given time limit.

The ordeals I had to go through to be able to present my master thesis in the shape laying in front of you have definitely made me stronger as a person. I know now that I will be able to resist the forces waiting for me in the business world, factors as stress can without doubt be overcome.

However, I would have never been able to complete this journey without the contributions of many others. Therefore, I would like to express my appreciations towards all the individuals that have contributed in the realisation of this project. This thesis would not have come into existence without the participation of Astrid Gade Nielsen of Arla Foods, Jan-Erik Olsson of E.On Sverige, and Frank Schad of Alfred Kärcher. In addition, I would like to thank my supervisor Per Nilsson for his guidance and advice, as well as Margareta Gällstedt for her assistance in time of need.

Moreover, I would like to express my gratitude to Robin Katoen and Jakub Mulac for their supportive contributions and of course my friends and family for their support and encouragement.

Sincerely,

Rianne de Jonge
Umeå, May 29th, 2007
SUMMARY

In today’s business world it is not just about doing business anymore, the need increases for organisations to take intangible resources, like the corporate reputation, into consideration. These corporate reputations have a multitude of positive functions for organisations. However, in times of crises these assets are most fragile and get damaged easily. This study therefore discusses how organisations can restore their corporate reputations after experiencing a crisis.

The purpose of this study is to contribute to the existing academic knowledge on reputation- and crisis management by providing a description on how organisations, facing reputational damage due to crisis situations, whether self-inflicted or not, can regain their integrity. This process will result in a line of action to facilitate handling unforeseen negative external effects on an organisation’s reputation.

As this study aims to create an understanding of the attributes and perceptions unclenched in corporate reputation, and reputation- and crisis management, this study embraces an interpretivistic approach. The scientific approach followed throughout this research is referred to as deduction, entailing an element of induction.

The theoretical framework provides an overview of the relationship between different theories relevant to this research, which have been collected from a diverse field of practices. Theories have been gathered discussing reputation management, crisis management, stakeholder theory, attribution theory, and situational crisis communication theory.

For the collection of empirical data three internationally operating organisations have been chosen, each having experienced a non-self-inflicted crisis over the last three years. With the use of semi-structured, telephone interviews, information was collected from these organisations. This was then compared with the theoretical framework with the intention of disclosing possible differences.

The main conclusions following this research are that the repair process consists out of two important aspects. The first is the preparation cycle, in which the basic requirement is for any organisation to set up a response program to facilitate fast reaction. The second cycle is that of the actual response, in which organisations should, based upon the set-up program, determine the unique approach for the situation. Within this second process both direct and indirect influencing factors should be taken into consideration.

Keywords:
Corporate reputation, stakeholder perceptions and attributions, risk, crisis, reputation management, crisis management, corporate communication.
# Table of Content

1. **Introduction** ................................................................. 1
   1.1 Background .................................................................. 1
   1.2 Problem statement ...................................................... 2
   1.3 Research question ....................................................... 3
   1.4 Research objective ...................................................... 3

2. **Methodology** ................................................................. 4
   2.1 Choice of subject ......................................................... 4
   2.2 Theoretical and practical preconceptions ....................... 4
   2.3 Epistemological considerations ..................................... 5
   2.4 Scientific approach .................................................... 5
   2.5 Research approach .................................................... 6
   2.6 Choice of theories .................................................... 7
   2.7 Secondary data collection ........................................... 8
   2.8 Criticism of secondary data collection ......................... 8

3. **Theoretical Framework** .................................................... 9
   3.1 Corporate reputation .................................................. 9
     3.1.1 Defining the topic ............................................... 10
     3.1.2 Importance of a corporate reputation .................... 12
     3.1.3 Related concepts ............................................... 13
   3.2 Reputation perceivers ............................................... 14
     3.2.1 Different perceptions .......................................... 15
     3.2.2 Different groups and individuals .......................... 16
     3.2.3 Who is more important? ...................................... 17
   3.3 Reputation management ............................................ 18
     3.3.1 Defining the topic ............................................... 18
     3.3.2 In practice ....................................................... 19
     3.3.3 Corporate communication ................................... 21
   3.4 Damaging factors ..................................................... 22
     3.4.1 A crisis around every corner ................................. 23
     3.4.2 Counting the losses ........................................... 24
     3.4.3 How damage gets done ...................................... 24
     3.4.5 Lessons learnt ................................................ 24
   3.5 Impact of crisis ....................................................... 25
     3.5.1 The starting point makes the difference .................. 25
     3.5.2 Stakeholder perceptions and crisis impact ............... 25
     3.5.3 Crisis characteristics .......................................... 26
     3.5.5 Lessons learnt ................................................ 27
   3.6 From theory to action ............................................... 28
     3.6.1 What makes a good starting point? ......................... 29
     3.6.2 First stage ....................................................... 29
     3.6.3 Second stage .................................................... 30
     3.6.4 Third stage ..................................................... 30
     3.6.5 Fourth stage .................................................... 31
     3.6.6 Restoring after having survived a crisis .................. 31
# Table of Content

4  **CONCEPTUAL FRAMEWORK**............................................................................................................ 33

5  **EMPIRICAL STUDY**............................................................................................................................ 35
   5.1  Arla Foods........................................................................................................................................... 35
       5.1.1  Strategy......................................................................................................................................... 35
       5.1.2  Crisis response communication and activities ............................................................................. 36
       5.1.3  Approach to internal and external communication................................................................. 37
       5.1.4  Goals ........................................................................................................................................... 37
       5.1.5  Crisis response programs........................................................................................................... 37
       5.1.6  Perceptions ................................................................................................................................. 38
       5.1.7  Learning curve ........................................................................................................................... 38
   5.2  Alfred Kärcher.................................................................................................................................... 38
       5.2.1  Strategy......................................................................................................................................... 39
       5.2.2  Crisis response communication and activities ............................................................................. 39
       5.2.3  Approach to internal and external communication................................................................. 40
       5.2.4  Goals ........................................................................................................................................... 40
       5.2.5  Crisis response programs........................................................................................................... 40
       5.2.6  Perceptions ................................................................................................................................. 40
       5.2.7  Learning curve ........................................................................................................................... 41
   5.3  E.On Sverige ........................................................................................................................................ 41
       5.3.1  Strategy......................................................................................................................................... 42
       5.3.2  Crisis response communication and activities ............................................................................. 42
       5.3.3  Approach to internal and external communication................................................................. 43
       5.3.4  Goals ........................................................................................................................................... 43
       5.3.5  Crisis response programs........................................................................................................... 43
       5.3.6  Perceptions ................................................................................................................................. 43
       5.3.7  Learning curve ........................................................................................................................... 44

6  **ANALYSIS**........................................................................................................................................... 45
   6.1  Reputation, steady or not................................................................................................................... 45
   6.2  Discussion on crisis type..................................................................................................................... 45
   6.3  Crisis response programs................................................................................................................... 46
   6.4  Reaction time....................................................................................................................................... 47
   6.5  Strategy................................................................................................................................................ 47
   6.6  Crisis response communication and activities ................................................................................... 49
   6.7  Factors of influence ........................................................................................................................... 50
   6.8  Perceptions ......................................................................................................................................... 51
   6.9  Learning curve..................................................................................................................................... 52

7  **FINAL MODEL**....................................................................................................................................... 54

8  **CONCLUSION**...................................................................................................................................... 55
   8.1  Restatement of research question....................................................................................................... 55
   8.2  Final remarks....................................................................................................................................... 55
   8.3  Suggestions for further research......................................................................................................... 56

9  **CRITERIA OF TRUTH**......................................................................................................................... 57


1 INTRODUCTION

The purpose of this chapter is to familiarize the reader with the phenomenon that is called reputation and its influence in today’s business world. In addition, the research question for this study will be formulated, followed by a discussion on the objective of the study.

1.1 Background

For everything and everybody image and reputation are of great importance. It starts as early as in primary school, when the ‘cool kids’ get chosen for teams first, before the less popular children. Looking at it from a more global perspective, the image and reputation of countries influence several factors, as the amount of tourists per year, the access to international capital markets\(^1\), and even their ranking in the Eurovision Song Contest\(^2\). Hilary Clinton just recently acknowledged that the world’s view on America has to change; therefore she wishes to send out ambassadors to polish the country’s reputation after it has been impaired during the war in Iraq.\(^3\)

This phenomenon can also be observed in the corporate world. Today, it is not anymore just simply about doing business. The need increases for organisations to take environmental issues and the feelings of stakeholders towards these issues into account.\(^4\) This leads companies to increasingly measure their assets in terms of intangibles, such as knowledge, brand visibility and customer loyalty. It is not what a company makes or does anymore, but how it is perceived that matters.\(^5\) This quest for product and service differentiation has highlighted that intangible assets like reputation provide significant potential for competitive advantage to an organisation\(^6\). Therefore, it is of crucial importance for an organisation to build and sustain a strong reputation. Especially considering that reputations can be valuable assets to an organisation if they are good, but a crushing liability if they are bad\(^7\).

Strong corporate reputations have a multitude of functions for any organisation, besides others it provides the possibility to attract and retain staff, customers, suppliers and investors; win contracts and partnerships; manage crises; influence governments and the media; and achieve competitive advantages.\(^8\) From the customer perspective, a good reputation reduces the


perceived risk of buying a company’s products and services, because the company posts the reputation as a performance bond.\textsuperscript{9}

Researchers are still investigating whether an above-average corporate reputation in the firm’s industry sector has any relationship to the level of the firm’s financial performance. While no single scientific study can be conclusive, reliable evidence has accumulated showing that such a relationship does exist.\textsuperscript{10} According to Dowling, it is the timing of returns that determines the value of a reputation. Since revenues gained from good reputations are largely in the future, the value of reputation to a company depends on the number of times and the range of situations in which it can be used to generate such value.\textsuperscript{11}

The stronger and well-known reputations of organisations are, the easier it is to establish themselves in new areas. Therefore, organisations pay an increasing amount of time, money and resources to the management of their reputations. But it is not alone the organisations that pay attention to this issue, outsiders do as well. This is shown by, for example, the Fortune business magazine presenting their ranking list of ‘America’s Most Admired Companies’ in its Fortune 500\textsuperscript{12}. Another fact that proves the topic receives more and more attention in research is a survey from the Association of Insurance and Risk Managers of the top 250 UK companies in the year 2000 which showed that damage to reputation was the biggest risk they faced.\textsuperscript{13}

1.2 Problem statement

Building, but especially maintaining a reputation is a hard task, for both people and organisations. Shakespeare described this at the level of the individual as follows: ‘Reputation, reputation, reputation! O, I have lost my reputation! I have lost the immortal part of myself and what remains is bestial’. In the modern world it has been recognised that organisations can find the loss of reputation as harming as individuals do.\textsuperscript{14}

During the last two or three decades thousands of enterprises have suffered a loss or damage of reputation. Often it was the result of a lack of perceived social responsibility such as Nike’s sweatshops in Asia, or AT&T increasing its executives’ compensation packages after announcing the lay-off of many workers\textsuperscript{15}, or the proposed maritime sinking of the aging offshore drilling platform Brent Spar by Royal Dutch/Shell\textsuperscript{16}. In other cases, reputation loss

\textsuperscript{10} Ibid, p. 1
\textsuperscript{13} Smith, W.: (2003) \textit{Give yourself a good name}. In: Director, Vol. 57, No. 5, p. 28
\textsuperscript{14} Booth, S.: (2000) \textit{How can organizations prepare for reputational crises?} In: Journal of Contingencies and Crisis Management, Vol. 8, No. 4, p. 197
was the result of accidents such as the 1989 grounding in Alaska of the Exxon’s oil tanker, the Exxon Valdez.\textsuperscript{17}

A company or business acquires a bad reputation when it becomes known for something negative – anything from being hit with a lawsuit charging racial or sexual discrimination to charges of polluting, manufacturing faulty products, price-fixing, bribing public officials, or simply failing to honour its guarantees. Having a bad reputation does not necessarily mean that the company is guilty of any wrongdoing; it means a widespread perception exists that the company is at fault, regardless of whether this holds true. Sometimes, the company in question is doing everything right, but it is being victimized and discredited by competitors, special-interest groups, or disgruntled current or former employees.\textsuperscript{18}

Nowadays, many organisations, which formerly experienced ‘reputational accidents’, whether self-inflicted or not, are still in business with what seems to be ‘good’ reputations. This leads to one obtrusive line of questions. Who is right and who does wrong? How can anyone distinguish honest organisations from dishonest? Can organisations rely on their hitherto credibility to maintain their good reputation if they are accidentally involved in a precarious incident?

Within the process of reputational management, some organisations drowned after facing trouble, while others seemed to be able to make people unaware that trouble has ever crossed their paths. How do the latter establish this phenomenon and what distinguishes them from other, less successful organisations?

### 1.3 Research question

This led to the following research question:

‘\textit{How can organisations restore their corporate reputation after experiencing a crisis?}’

### 1.4 Research objective

This research is to contribute to the existing academic knowledge on reputation and crisis management by providing a description on how organisations, facing reputational damage due to crisis situations, whether self-inflicted or not, can regain their integrity. The research will focus on different actions of organisations in situations that compromise their reputation. Furthermore, the reactions of the interviewed organisations and how these affected the success of overcoming the situation will be analysed. Consequently, I explore and suggest how the elusive concept of reputation can be understood and how it can provide a line of action to facilitate handling unforeseen negative external effects on an organisation’s reputation.


2 METHODOLOGY

This chapter provides an explanation of the chosen approach in search of an answer to the research question, together with a brief background story of the author. This information is presented in order to create an understanding for the methodological choices, and an insight in what can be expected throughout this thesis.

2.1 Choice of subject

The discussion on finding a suitable subject to study started from the study background. Studying the Master’s Program in Management and having a Bachelor degree in Commerce led to the search of a topic that covers both management and marketing elements. Reasoning for this starting point is that it provides most academic growth potential and also motivational issues were considered. Keeping the subject within the boarders of interest would assumingly create consistence in interest and thus motivation. So, the preference existed to find a relevant research area with which the author did not have that much experience, so that another knowledge gap could be filled. Relevant in this context means that it is of interest to organisations today and that these organisations are in fact dealing with this topic. Research in different media channels led me to reputation management. This covers not only how an organisation manages this aspect but also how the same organisation portrays itself to the outside world.

Every year there are multiple cases in the media about wrongdoings of organisations. If it is not Dutch beer brewers forming a cartel\(^{19}\) than it is the recall of Bauer’s fruit yoghurt due to glass substances being found in the product\(^ {20}\). These recent issues are still fresh in the minds of consumers and other stakeholders. But what about other issues, like for example H&M being accused of using child labour in underdeveloped countries\(^ {21}\). It seems that certain issues are long forgotten after a few years, while others like Shell’s Brent Spar\(^ {22}\) will remain in the public’s mind. The question that interested me is why and how certain organisations are able to dodge the bullet when it comes to reputational loss due to crises and other organisations even after all these years still have not regained the same position. What actions lead reputations of organisations to successfully overcome crises? Having all these questions about how and why made me decide that it was worth researching reputation management and crisis management combined.

2.2 Theoretical and practical preconceptions

When an individual starts to explore a new research area, it is probable that this person cannot approach the subject without any kind of previous knowledge. These preconceptions can influence the way information is collected and interpreted within the thesis writing process. Therefore I feel it is important to define what knowledge was present about both the research topic as well as the research objects in the preliminary stages of this study.

\(^{19}\) Retrieved May 9\(^{th}\), 2007, 15:44, from: http://www.nrc.nl/economie/article692353.ece/Recordboete_voor_kartel_bierbrouwers (April 18\(^{th}\), 2007)

\(^{20}\) Retrieved May 9\(^{th}\), 2007, 15:02, from: http://www.evmi.nl/dossiers/recalls/ (May 9\(^{th}\), 2007)


Methodology

Having a background in both management and marketing, reputation and the management of reputations have been mentioned in courses on strategic marketing and business strategies. However, no courses specifically targeting the topic have been followed. Nor have I been in contact, for academic purposes, with organisations facing these issues before. However, I have visited a number of these organisations for consumer related issues.

Via diverse media channels information has been taken in about diverse organisations in reputational trouble. Although these media explained what happened, there was no data explaining how these organisations dealt with the purposes.

2.3 Epistemological considerations

According to Bryman and Bell an epistemological issue concerns the question of what is (or should be) regarded as acceptable knowledge in a discipline.\(^{23}\) Epistemological considerations thus determine the manner in which researchers perceive the development of knowledge. There are three possible distinctions to be made within the scientific field: positivism, realism, and interpretivism.

Positivism advocates the application of the methods of the natural sciences to the study of social reality and beyond. A researcher thus gathers and analyses data in an objective fashion within which a clear distinction is made between scientific and normative statements.\(^ {24}\) Realism is based on the belief that the natural and the social sciences can and should apply the same data collection methods, similar to positivism, but it also commits to the view that an external reality exists independent of the researchers’ descriptions.\(^ {25}\) Interpretivism assumes that all entities are in a state of mutual simultaneous shaping, so that it is impossible to distinguish causes and effects.\(^ {26}\) Within this approach, researcher attempt to create an understanding of the social world through an examination of the interpretation of that world by its participants.\(^ {27}\)

The field of reputation and crisis management is one of attributions and perceptions, and this study’s aim is to gain an understanding of that world and how it is perceived by, in this case, organisations. Although a lot of information can be gained about their position and actions during the crises they experienced through the media, a more in-depth understanding of what has happened, from the organisation’s point of view, is perceived to be essential. The qualitative approach in this thesis is therefore vital. As objective, but more subjective data is gathered, this thesis embraces an interpretivistic approach.

2.4 Scientific approach

Before starting to conduct any research, it is of importance to establish what type of scientific approach will be used. A scientific approach can be considered to be either deductive or


inductive. Deduction is seen as a theory testing process; here established theories are tested to see whether they apply in specific instances.\textsuperscript{28} Induction involves the collection of data and development of theory as a result of the data analysis.\textsuperscript{29}

As my knowledge on reputation management and crisis management was quite superficial to begin with, I felt it was important to first construct a theoretical framework so that a strong basis could be laid to facilitate to the rest of the study. This theoretical framework led to a conceptual framework on which the further research is based. This method of working points towards a deductive approach, however for this study this is not entirely the case. According to Bryman and Bell deduction entails an element of induction, and the inductive process is likely to entail a modicum of deduction.\textsuperscript{30} I believe to have worked according to this principle. My empirical research has been conducted on the basis of the theoretical framework; the findings from this study however led me to reconsider information I included in the theory earlier. Later, during the analysis, where the theory and empirical data are combined, adjustments of the conceptual framework based on gathered empirical evidence will take place.

2.5 Research approach

The primary data for this research has been collected through a qualitative research method, as qualitative research is considered appropriate for theory creation because it allows me to explore new phenomena\textsuperscript{31}. This seems appropriate since reputations are complex and thus are difficult to measure. Dowling, who considers qualitative research is to be the best method for uncovering the characteristics people use to describe their image and reputation, confirms this.\textsuperscript{32} Therefore I believe that qualitative data collection, in this case in the form of semi-structured, telephone interviews, would provide the opportunity to interpret the data and also the reactions of the respondent. This idea is supported by Yin, who stated that in qualitative research the researcher's goal is to expand and generalize theories, not to establish the frequency with which a phenomenon is likely to occur in a population.\textsuperscript{33}

As said, I chose to conduct semi-structured, telephone interviews as the main technique for gathering data. A semi-structured interview is especially appropriate if the investigation has a clear focus.\textsuperscript{34} In this type of interview a certain amount of categories are predetermined to be investigated, the outcomes can thus be compared and summarized. It also allows elaboration on particularities of individual cases.\textsuperscript{35} To deliver empirical data that is reliable, all interviews were recorded and consequently transcripts were made. Through this preparation of the data variation in people’s replies will be due to ‘true’ and ‘real’ variation and not due to the interview context.\textsuperscript{36}

\textsuperscript{31} Kusstatscher, V & Cooper, C. L.: (2005) \textit{Managing Emotions in Mergers and Acquisitions}. Cheltenham, Edward Elgar Publishing Limited, p. 79
\textsuperscript{35} Ibid.
\textsuperscript{36} Ibid, p. 116
A semi-structured interview can either take place face-to-face or via the telephone. I have chosen for the latter one, mainly because of time, geographic and financial motives. Besides the three motives mentioned, telephone interviews have other advantages, like for instance that it minimizes interruptions, and it lets the interviewer come to the point quickly and establish a businesslike climate without the interviewee feeling rushed. Although respondents are not able to read the interviewer’s physical expressions, this disadvantage is evened out by the advantage that the interviewer can more easily keep a neutral tone in the questions.\(^{37}\)

Unfortunately due to the limited amount of time, and the sensitivity of the topic, no more than three research organisations were found. A study has shown that most common causes of crises are management failure, white-collar crime, and mismanagement.\(^{38}\) In my search for respondents, however, organisations that were faced with these types of crises were not willing to cooperate, nor were a large amount of ‘innocent’ organisations. The most common reason given for the turndown was the delicate nature of the matter, something the organisations did not want to give more attention than it already had received.

After some persistence I was, as mentioned above, able to find three organisations that were willing to participate in the research, these were E.On Sverige, Alfred Kärcher and Arla Foods. These three organisations, however, all had to deal with crises that were non-self-inflicted. This means, that although the theoretical framework will discuss both self-inflicted and non-self-inflicted crises to give a good overview of possible threats to organisations, in the empirical data and consequently the analysis a discussion will only cover non-self-inflicted crises.

In consideration of the number of research subjects, Patton argues that qualitative methods allow the researcher to study issues in depth and to produce a wealth of detailed data on a small number of individuals\(^ {39}\), therefore, I believe to have been able to provide a thorough exposé on the topic.

And to deliver an empirical study as objective as possible, the data from the interviews has been completed with information collected from the organisations’ websites, and newspaper articles.

\section{Choice of theories}

Corporate reputations have only since the last few decades grown in importance. This is shown through the literature used for the theoretical framework, a high percentage has been written since the year 2000.

The concept of corporate reputation has originated from different disciplines. Among other organisational identity, image\(^ {40}\) and credibility have influenced the origination of the wide

\begin{footnotesize}
\begin{itemize}
\end{itemize}
\end{footnotesize}
Methodology

variety of known definitions.

The intention of the research is to show the importance of the concept of reputation and its management during crises situation from different theoretical angles. Given the multidimensionality of the reputation concept it seemed fitting to gather information form a diverse field of research areas. Therefore I have chosen to absorb information from reputation management, crisis management, Situational Crisis Communication Theory (SCCT), stakeholder theory, and attribution theory. Since the collection of data comes from such a wide variety of research areas, it can be assumed that the number and variety of theories are infinite. For this study, the intention has been to include a diverse collection showing the range of the topic and also to provide a strong construction for the conceptual framework. The latter will help understand, analyse and answer the research question posed in the introduction.

2.7 Secondary data collection

The scientific foundations on which this thesis is build were brought together through an extensive literature research. The main focus lies on books, scientific articles, and to a lesser extend on Internet sources. The latter have mainly been used to explain examples of organisations in reputational crises; this has allowed me to provide additional insight in the empirical data provided.

The textbooks that were adequate for my research were retrieved from the Umeå University Library. The scientific articles were accessed through search engines as Emerald, EBSCO, Blackwell Synergy, Google Scholar as well as the Umeå University Library database LIBRIS. Successively, keyword searches, like reputation; reputation management; crisis management; and crisis, have lead to the origination of the reference list.

2.8 Criticism of secondary data collection

Although the aim was to provide a literature review, in some instances it became clear that certain information was only available in the form of ‘best practices’, a more practical approach. To limit the practical implication and thus to focus more on the theoretical perspectives the best practices proposed by different authors were linked to theoretical perspectives, to make them more viable for this research.

As mentioned before, a large number of literatures used for this research have been composed since the year 2000. This accentuates the relevance for this study. Unfortunately it has not been possible to use only sources from the last seven years, mainly because this would mean that significant theories would have to be left out. Also the availability of literature needs to be taken into account, for instance the literature on methodology was often not present in the Umeå University Library in the form of the latest edition.

In the following chapter the omnipresence of certain authors will become obvious. Individuals like Coombs, Fomrun and Dowling have been important actors in the development of the field of study. Although I have attempted to complete the theoretical framework with the presence of other sources, their presence is of great significance without which this study would not have been able to reach the same level.


3 THEORETICAL FRAMEWORK

Corporate reputation and reputation management have gained, to my knowledge, the interest of both organisations and practitioners over the last couple of years. There are a number of theories I have found to be relevant for this research, such as stakeholder theory, attribution theory, Situational Crisis Communication Theory, and so forth. Through the next six sections these will fuse together, resulting in a conveniently arranged conceptual framework.

3.1 Corporate reputation

As has become obvious, this research discusses the phenomenon of corporate reputations in crisis situations. Before continuing on the role of this concept in such situations, first the concept itself will be discussed.

“A fair reputation is a plant delicate in its nature, and by no means rapid in its growth.”

Jeremy Taylor

With this expression, Jeremy Taylor explains that good reputations are not built in a day. Instead they take time and vigilance to maintain. But although building and maintaining a good reputation requires time and effort of an organisation, this does not influence the significance of the subject in today’s business world. However, a 1958 McGraw-Hill advertisement already provides a good and most interestingly still valid illustration of customer’s awareness regarding corporate reputation. On the printed advertisement a sales prospect is displayed sitting in an office accompanied by the text:

I don’t know who you are.  
I don’t know your company.  
I don’t know your company’s product.  
I don’t know what your company stands for.  
I don’t know your company’s customers.  
I don’t know your company’s record.  
I don’t know your company’s reputation.

Now – what was it you wanted to sell me?

If one considers, like Marconi has stated, the validity of the aforementioned text in today’s context, it is almost surprising that a lot of recently published books and articles could have been identified. However although theory may have matured further it is assumed that mainly the managerial implications are the underlying construct for the recent publications, taken the different characteristics between today’s organisations and those dated back to 1985 into

account. Before elaborating on that, different sections have to be paged through in order to gain a sufficient understanding of the bricks that build together corporate reputation. Nevertheless an early identification is that selling something to someone, from a company’s perspective, or buying something from someone from a consumer’s perspective is generally rather than an impulsive action an imposes with imbedded elements. 45

3.1.1 Defining the topic
Before one can start to discuss the effects of the construct of corporate reputation on organisational practices, it should first be determined what defines a corporate reputation. In this section different definitions will be compared resulting in the development of a work definition for this paper.

It has been argued that a reputation can be seen as a valuable, and tangible asset. 46 Bromley has expanded on this view when explaining corporate reputation as both a product (a tangible effect) and a process (in time). The question here is whether it is appropriate to define a reputation as a tangible asset. Answering this request Hall provides a distinction between tangible and intangible assets in which intangible assets include reputation since it is more the ‘idea’ of the resource and not its physical form 47. Likewise both Coombs and Holladay 48, and Cramer and Rue 49 believe reputations to be widely recognised as a valuable, intangible asset. Together with the majority of researchers/scientist, this paper considers reputations to be more of an intangible asset to organisations.

The paper takes a rather global perspective, since the concept of corporate reputation appears to be in principle similar among different cultures. According to Dowling reputation, in the Chinese culture for instance, is similar to the concept of so called face–of, whereby two types are to be identified: lien and mien-tsu. The first one, Lien represents the confidence of society in the integrity of moral character of an organisation (or person), which is crucial for functioning properly within the community. The latter on refers to prestige gained by being successful. This shows similarities to the Western concepts of respect, esteem, and status. Those concepts in the end result into the trust, confidence and support of stakeholders in an organisation; this can be identified as reputation. 50

Fombrun agrees to the above stated explanation by mentioning that corporate reputations are aggregate perceptions of outsiders about the salient characteristics of firms 51. Taking this argument together with those of Gotsi and Wilson 52, and Schultz, Hatch, and Larsen 53 into

account, reputation can best be described as an overall evaluation of a company over time that reflects the general esteem multiple stakeholders hold of a firm. According to Gotsi and Wilson this evaluation and esteem is based on the stakeholders’ direct experiences with the company and indirect contact that provides information about the firm’s actions.\textsuperscript{54}

Lewellyn elaborates on the previous formulation of reputation adding the element that reputation among stakeholders evolves in a relative manner, while comparing with values and norms that are salient for the respective stakeholder.\textsuperscript{55} Fombrun and Rindove expand on this view with their explanation: ‘a corporate reputation is a collective representation of a firm’s past actions and results that describe the firm’s ability to deliver valued outcomes to multiple stakeholders. It gauges a firm’s relative standing, both internally with employees and externally with its stakeholders, in both its competitive and institutional environments’.\textsuperscript{56}

A corporate reputation is thus based on how the company conducts its business or is perceived in doing so by both internal and external parties.\textsuperscript{57} Dowling, Neville\textsuperscript{59} and Money & Gardiner\textsuperscript{60} come with similar definitions of the concept, which do not provide additional insights. Nevertheless the author sees the need of highlighting that a reputation can be both, positively or negatively regarded, as might have not become clear above. Bromley is one of the few researchers that incorporates this thought by including ‘opinions’ in his definition.\textsuperscript{61}

Based on all the above-mentioned characteristics, in the context of this study corporate reputation will be defined as:

\begin{quote}
“A corporate reputation is a valuable, intangible asset, shaped over time. Various stakeholders, external or internal, collectively or individually, create either positive or negative perceptions derived from the attributed values of an organisation. The evaluation of a corporate reputation is based on experiences, communication and symbolism that provide information about an organisation’s conducts, possibly in relationship to other entities.”
\end{quote}

Section 3.2 of this master thesis will define and elaborate on stakeholders in more detail.

Theoretical Framework

The attributed values mentioned in this working definition need to be clarified as follows, based on six pillars defined by Fombrun\(^6^2\), Brady\(^6^3\), and Money and Gardiner\(^6^4\):

- Emotional appeal (trust, admiration and respect).
- Products and services (quality, innovativeness, value for money and so on).
- Vision and leadership.
- Workplace quality (well-managed, appealing workplace, employee talent).
- Financial performance.
- Social responsibility.

3.1.2 Importance of a corporate reputation

The real value of a good reputation is determined by the number of times and ways it can be used, whereby an increase in those numbers obviously results in establishing a better reputation.\(^6^5\) This leads to the belief that having a strong and favourable reputation impacts performances and provides opportunities for organisations on a considerable level thanks to gained ‘goodwill’\(^6^6\). Brady who defines the benefits of good reputation in seven key areas best summarises this\(^6^7\):

- Ability to charge premium prices.\(^6^8\)
- Creation of competitive barriers.\(^6^9\)
- Enhanced access to capital markets.
- Increase organisational attractiveness for employees\(^7^0\), (potential) partners and strategic alliances\(^7^1\), and investors\(^7^2\).
- Provision of a buffer zone of reputational capital.\(^7^3\)
- Improved customer loyalty.\(^7^4\)
- Reduced marketing costs.

---

\(^6^6\) Herbig, P. & Milewicz, J.: (1995) To be or not to be...credible that is: a model of reputation and credibility among competing firms. In: Marketing Intelligence & Planning, Vol. 13, No. 6, p. 24
Within the context of this study elaborating on these benefits is not relevant, however the aim is fulfilled that it has become clear that a corporate reputation is of crucial importance.

3.1.3 Related concepts
When talking about corporate reputation together with corporate identity and corporate image, frequently the terms are used interchangeable. However, there is a difference to be noted between the three concepts. Nevertheless according to Dowling the three concepts of identity, image, and reputation are interrelated. Before going any deeper into the theory it is therefore important that differences and relationships will be clarified.

According to Van Riel corporate identity is "the strategically planned and operationally applied internal and external self-presentation and behaviour of the company". Bromley concentrates more on the aim of the concept, to distinguish one entity from another. The name, logo/symbol, typeface, and colour scheme of an organisation are the major components that communicate its identity. The organisation visualizes itself in such a way as to achieve a desired image, which individuals are able to recall by means of identity symbols.

The aforementioned identity thus results into an image, which determines the set of meanings by which an object is known and through which people describe, remember and relate to it. It should be mentioned however that next to the visually communicated identity, a persons’ beliefs, ideas and impressions towards an organisation contribute in establishing an image as well.

The overall corporate image is constructed out of a logical component and an emotional component. How these two interrelate and actually reinforce each other is best explained by Dowling who argues that “the role of the emotional component is to energize the individual to respond to the company. Beliefs without emotions are not effective” – a customer might know about a product but there should be an impulse to actually buy it. “Likewise, emotions without beliefs may excite you, but leave you not knowing which company is ‘logically’ best”.

Now to make the final step from image to reputation two issues are relevant to discuss. Image transfers into reputation if the focus on the individual shifts towards more holistic, generally held beliefs. It can thus be argued that reputation is the average of all existing images.

---

79 Ibid, p. 20
Theoretical Framework

It is the question whether individuals within and outside the company can identify with an organisation’s image while relating to its personal values, this determines if the reputation will be constructed in a favourable way.\textsuperscript{83}

The following figure establishes a better understanding of the transition from image to reputation.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{image-reputation-pyramid.pdf}
\caption{The image-reputation pyramid.\textsuperscript{84}}
\end{figure}

The above figure is partially based on the text from the McGraw-Hill advertisement mentioned at the beginning of this section. As a stakeholder gets answers to the questions posed in the advertisement, and identification takes place, he or she will progress up the pyramid in figure 3.1, form a better corporate image and finally contribute to the reputation in a positive manner.\textsuperscript{85}

3.2 Reputation perceivers

In the previous section the term ‘stakeholders’ has already been introduced as well as has been mentioned that there are external and internal parties to be distinguished that take part in establishing an organisations corporate reputation. Special attention will now be paid to these parties in society, whereby it should be bared in mind that organisations cannot exist except in relation to the society within which they operate.\textsuperscript{86} To this end stakeholder theory is a tool that can be used to improve organisational performance, either in economic sense or other.\textsuperscript{87}

The definition of stakeholders followed in the research is: “any group or individual who can affect or is affected by the achievement of the organisation’s objectives”.\textsuperscript{88} In the context of this research stakeholder perceptions are linked to what organisations offer, their value propositions.

\begin{itemize}
\item \textsuperscript{84} Ibid, p. 137
\item \textsuperscript{85} Ibid, p. 137
\item \textsuperscript{87} Ibid, p. 20
\item \textsuperscript{88} Ibid, p. 3
\end{itemize}
3.2.1 Different perceptions

Regardless of the proactive stakeholder engagement and sensitive management, which focus on achieving and maintaining a strong corporate reputation, research shows that difficulties in understanding the key emotions of different groups of stakeholders are apparent.\(^\text{89}\)

As might have become clear already, a good reputation is obtained by designing a desired image (set of beliefs and feelings), which in turn is linked to one or more values important to stakeholder groups. Although a person’s values are not about to change, Dowling argues that their perceptions and sometimes the emotional attachment they have to an organisation can.\(^\text{90}\)

The following figure shows the major elements which are the determinants in forming the images stakeholders have and thus finally the reputation of the organisation. Within the figure a distinction between employees’ and external groups’ images has been made for the reason as has become apparent though the heading of this section.

![Figure 3.2: Factors used to form images and reputations.\(^\text{91}\)](image)

The figure as presented above gives a clear insight into the management of corporate images, whereby the extensive number of influencers is mainly important. From this one could expect, as has been introduced before, that images are never the same, instead there are many of them. What matters here is to set a first step in the direction to properly manage all these different images and thus basically all underlying stakeholders. To this end people should be clustered into groups, which hold similar evaluations of the organisation and thus differ from other defined groups.\(^\text{92}\)

---


\(^{91}\) Ibid, p. 52

\(^{92}\) Ibid, p. 30
3.2.2 Different groups and individuals
Introducing the area of clusters, the challenge arises that stakeholders are linked to an organisation in different ways and therefore differ in the role they play in achieving operational success. Furthermore Fombrun and Van Riel have noticed that determining whom "the public" of a company is and what is being "estimated" before they even can be clustered is a challenge in itself as well. In an attempt to identify the different groups this thesis adopts the figure as constructed by Dowling, which provides in four fields a structured overview of the relevant distinct groups.

Figure 3.3 Stakeholder groups.

In the upper left corner of the figure those groups are displayed that provide the authority for an organisation to function, so called normative groups. Furthermore, this area consists out of groups that set rules and regulations with which organisations are faced.

Functional groups, on the other hand, have a more direct effect on the organisation’s day-to-day activities. These are among the most apparent groups since they facilitate operations and serve customers. Of particular interest is that a good reputation of one of these groups can be used to enhance another organisation’s reputation.

---

96 Ibid, p. 34
97 Ibid, p. 34
Groups that only come into contact with the organisation when they are concerned about protecting the rights of other people are diffused groups. However, their indirect relationship with organisations does not influence their importance.98

Customers are an extremely important set of stakeholder groups, which generate the major income for an organisation and are demanding in terms of benefits and/or solutions to their problems. A customized marketing mix - including the four famous p’s of product, place, price and promotion - can serve this group in an effective way.99

3.2.3 Who is more important?
Although the previous figure identified the different stakeholder groups, a prioritisation is lacking wherefore neither clear decisions, nor actions can be taken to restore credibility among different groups. Stakeholder theory refers to this, as “how managers should allocate their limited time, attention, mental capacity, and other scarce resources among stakeholders”.100

As covered before, not all stakeholder groups have an equal influence on an organisation. Three attributes that facilitate in prioritising stakeholders are: power, legitimacy, and urgency. Powerful stakeholders have the characteristics of achieving their will, notwithstanding resistance. Second, legitimate stakeholders are those that perceive organisations’ actions as desirable and are aligned with ones norms, values and beliefs. Finally urgent stakeholders are not classified by their own characteristics; rather it involves those that organisations identify to be time sensitive and critical when demands arise.

Schultz et al. argue that an organisation’s most important stakeholder groups contain all three attributes. Regarding managerial actions based on improving reputations an organisation should prioritise its actions towards those.101

A crucial underlying construct for this approach however is the distinction between influencers and stakeholders. Large investors, for example, may be both, but some recognisable stakeholders like job applicants have no influence, and influencers such as media have no stakes.102 Philips refers to the overly broad definition of stakeholders with: “If everyone is a stakeholder of everyone else, little value is added by the theory”.103 Max Clarkson agrees by stating: “Stakeholder theory should not be used to weave a basket big enough to hold the world’s misery”.104

But the search for who is most important to take into consideration does not stop once the different groups and their importance are identified. Within each stakeholder group a next prioritisation needs to take place. When trying to restore credibility it is of particular interest

99 Ibid, p. 35
who really matters with respect to shaping the organisation’s reputations. Certain opinion leaders might be identified within groups, and focusing on them will have a bigger effect than approaching the group as a whole. Dowling argues that also corporate advertising and publicity will be most effective if organisations explicitly consider the roles of these opinion leaders in their social networks. A substantial role of opinion leaders within the context of this study is boosting the credibility of (new) information.105

3.3 Reputation management

It has become clear that a good reputation is associated with benefits. Whereas marketing is a tool to elaborate on the potential benefits of having customers, regarding reputation such a tool is reputation management. Fombrun argues that actively managing reputation is - although it requires investments of time, costs and effort - enlightened self-interest.106 Kapferer also advocates the importance of reputation management when he mentions that audiences symbolically have to ‘buy’ the company, as a supplier, an employee or an investor. Managing the reputation of the name is aimed at making the company their first choice.107 Hanson and Stuart108, and Dowling109 argue that reputation management concern all stakeholders, as shortly before introduced, instead of simply shareholders.

Important to realize is that reputations develop with or without the intervention of reputation management practitioners. Relevant issues, however, that justify an approach like reputation management are that a company’s past reputation does not reflect it in a proper way anymore when a company, for example, becomes more innovative. Furthermore, reputations might simply change over time. What matters is that stakeholders’ expectations do not confer with the actual situation anymore. Shapiro explains that “a reputation is an imperfect attribute since there is always a time lag effect: companies must continually adjust reputation after each period”.110

3.3.1 Defining the topic

This paper takes on the definition of reputation management set by Fombrun, who describes the concept as follows: “Reputation management describes an evolving set of practices that leading companies are developing to help them cope with the changing expectations of their many audiences, to manage the interpretations those audiences make, and to build favourable regard. In so doing, they are enhancing their ability to exploit a new source of competitive advantage that derives from cognitive assets – their reputational capital”.111

Visualized it becomes apparent that reputation management covers three area’s, respectively management practice, product and service quality, and social accountability. Those are based on the foundation of trust. Building this pyramid, what in this study represents restoring corporate reputations, thus can start from one of those directions; nevertheless total trust will not be gained without covering all three of them.

**Corporate Reputation Management**

**Driving Business Outcomes**

![Diagram of Corporate Reputation Management]

**Figure 3.4 Driving business outcomes of corporate reputation management.**

### 3.3.2 In practice

Reputation management has two main functions. On the one hand it can be used to enhance an already well-established reputation (assertive approach), on the other hand it can be used to diminish the effect of certain negative situations (defensive approach). To this end organisations are classified into proactive and reactive. Proactive companies seek to prevent misconduct by implementing more stringent policies than other organisations, while reactive companies engage in communication as part of a reputation repair campaign only after the organisation has been faced by a crisis.

The first step within reputation management is determining the gap between how the firm perceives itself, its desired image, and how stakeholders perceive the organisation. Communication forms the ultimate tool to fill this gap and to this end section 3.3.3 will elaborate on this particular issue. However on this very moment, concerning the practice of reputation management, it has to be bared in mind that stakeholders may not fully or correctly

---


understand and interpret information signals send out by an organisation. This can be related to the core characteristic of reputation, which is the result of a complex network of interactions between the firm and its stakeholders and among the stakeholders themselves.\textsuperscript{117}

Closely associated with the three pillars in the pyramid are the six variables Fombrun distinguishes, that can be used in predicting how a corporate reputation will evolve. These include: profitability, volatility, visibility, charitable contributions, advertising, and company size.\textsuperscript{118} Note that these are addressed to all stakeholder groups with a certain interest in the company’s actions, as introduced in figure 3.3 in order to build trust, the foundation of the pyramid in figure 3.4.\textsuperscript{119}

The cycle of action in figure 3.5 gives a good visualisation of reputation management and how different issues relate to each other. Within the proactive zone the organisation’s aim is to manage the reputation above the dotted line, which indicates distinction between a positive and negative reputation. If proper managerial actions are lacking, the reputation spins towards a crisis and enters the reactive zone. Within this area the focus lies on regaining the trust of the stakeholders, rather than maintaining a favourable corporate reputation.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3_5}
\caption{Circle of reputation management.\textsuperscript{120}}
\end{figure}

A truly important issue in understanding this figure, and thus in carrying out reputation management is, as introduced in the beginning of this section, to identify the gap between the


organisation’s reputation as they perceive it themselves and the way stakeholders do. If organisations see a gap whereas there is in fact no gap at all or just a minor one, time, money, and resources are spend unnecessarily to repair something that is in fact not really damaged. This leads to an error in the allocation of a company’s resources. It can best be compared with an eager bartender that is focused on keeping the glasses of its customers filled. As long as the glass is filled the customers are likely to be satisfied, but if they bartender does not look carefully enough and thus might oversee that a glass is not empty, it will be refilled and consequently liquid will be spilled over the guests, whom as a result lose trust and form a bad reputation.

The match and mismatch between the organisation (insiders) and stakeholders (outsiders) and the consequences in terms of resource utilization are displayed below.

![Figure 3.6 Resource utilization](image)

### 3.3.3 Corporate communication

As briefly aforementioned corporate communication plays a vital role in distributing the elements that offer good value (employment, products and services) to the stakeholders. Dowling argues that stakeholders can only be enabled in identifying the alignment in an organisation’s actions and personal values through communication. It is the number one tool in publicizing strengths, success and positioning the desired image. Important however is that even if an organisation does not consciously communicate, everything they do or not do,

---


Theoretical Framework

say or not say communicates a certain message towards stakeholders based on which their image is adjusted.\textsuperscript{123} This in the end affects the corporate reputation.

Remarkable is whereas communication is the ultimate tool in regaining credibility, Brønn identifies it as the cause of bad reputations as well rather than an organisation’s products.\textsuperscript{124} This can be verified linking back to the previous stated figure concerning the mismatch in insiders’ and outsiders’ image.

Without regard to communicating in order to repair an organisational reputation, thus within the reactive zone in the circle of reputation management, communicational expressions should meet the ‘IDUS’ test requirements. Is what the organisation does important to employees and customers? Can the organisation really deliver a valuable product and/or service to customers and society? Is this unique? And is it sustainable over time?\textsuperscript{125} A good corporate reputation is positively correlated with a ‘yes’ on all of these questions.

A final aspect concerning organisational communication refers back to the stakeholder groups in figure 3.3, in general and in functional groups in specific. Within this area evaluation from employees will take place concerning everything the organisation communicates to all groups within the same and in other area’s. Whereas in order to regain credibility the focus should mainly lay on external audiences, it has to be made sure that employees within the organisation can identify with this, in order to create the desired effect.\textsuperscript{126} Note that the communicational expressions of an organisation can be regarded as management practice in the previously introduced pyramid, and thus forms an important pillar of trust in the company. The employees, who either make the allocation of resources effective or not, thus evaluate management practices concerned with communication.

3.4 Damaging factors

Making profit out of stocks might take years, while a wrong investment might make money disappear in a day. The same holds true for reputations. The border between the previously covered proactive and reactive zone is semi permeable; going through it in the direction of losing a valuable reputation is easy, the other way around however is more difficult. Reputations thus require early action to identify, intervene, and manage potentially damaging issues\textsuperscript{127}.

Therefore, to be able to come into action, it is of crucial importance to go in this section deeper into the factors that can influence a corporate reputation. This section will provide the reader with an understanding of the risks an organisation runs, what crises are, and more important, which factors lead to crises.

\textsuperscript{126} Ibid, p. 135
3.4.1 A crisis around every corner

Any action by an organisation has a direct impact on its reputation, which may damage it.\textsuperscript{128} Therefore, awareness within any organisation must be present that anything can happen at any time. Alfredo and Pillar have established this concept of risk as “an uncertain event that, if it occurs, has a positive (opportunities) or negative (threats) effect on a project’s objective.”\textsuperscript{129} Rayner emphasises with his definition “any action, event or circumstance that could adversely or beneficially impact an organisation’s reputation” more that rather than an uncertain event, an organisation itself can also create reputation risk.\textsuperscript{130} The term reputation risk is generally used to describe potential threats or actual damage to the understanding of an organisation.\textsuperscript{131} Within this study the latter part of the definition is applicable.

The presence of risk factors to any organisation emphasises the importance of research to keep track of changing circumstances and perspectives (proactive zone). When an organisation is not able to adjust to its dynamic environment, a situation of crisis can surface (reactive zone). At the level of organisational analysis a working definition of reputational crisis can be suggested as “the loss of the common estimation of the good name attributed to an organisation”.\textsuperscript{132}

An organisation can be associated with any type of crisis, whether it has anything to do with it or not.\textsuperscript{133} This is for example the case with Arla Foods, which suffered a standstill in orders and sales in the Middle East due to a boycott of all Danish products, which was the result of a series of cartoons featuring the prophet Mohammed, shown in appendix C, being published in a newspaper, the Jyllands-Posten.\textsuperscript{134} This example illustrates that crisis situations not only occur because of blunders by the organisation but also because of changes in perceptions by stakeholders and/or the media regarding the firm’s choice of activities. Because of this it is important to understand what types of circumstances may lead to false or misleading perceptions. In other words, the reputation of an organisation does not particularly have to be affected by blunders or accidents by the organisation. When a loss of reputation occurs, it could also be because the organisation does not get the change in perceptions fast enough and a mismatch regarding resource allocation occurs.\textsuperscript{135}


\textsuperscript{133} Ibid.

\textsuperscript{134} Retrieved April 26\textsuperscript{th}, 2007, 21:35, from: http://www.arlafoods.com/appl/HJ/HJ202COM/HJ202D01.NSF/O/B0262AFFD7FEAAE5C12571060028F056 (January 1\textsuperscript{st}, 2006)

Theoretical Framework

3.4.2   **Counting the losses**
As mentioned above, a crisis most often leads to some sort of reputational loss. According to Booth three categories of factors are most important in understanding reputational loss.\(^{136}\)

- If the public associates an organisation with a crisis, whether this is valid or not, maintaining the existing (positive) reputation is hardened. This is referred to as ‘negative associational impacts’
- Changes in area’s of science or in the public’s perception influence the ability of retaining a high public reputation.
- Management failure, which take place inside the organisation and effect previous levels of reliability, consistency, credibility, confidence and trust.

3.4.3   **How damage gets done**
Morley discusses two different types of crises. According to him a crisis can be either a slow-burning issue or a surprise. Mainly slow burning issues can be prevented to have impact on the organisational reputation by proper reputation management within the proactive zone. It is likely that surprises will make an organisation end up in the reactive zone.\(^{137}\)

The table ‘Clustered crisis types’ in appendix A provides an extensive compilation of tangible influences that have an impact on the organisation’s reputation, which offers a better understanding of slow burning issues versus surprises.

Damaging factors, as covered in the table ‘Clustered crisis types’ in appendix A, can become known by the public or remain quietly on the background. There are three situations through which the news could come. Note that the following bullet points refer back to the stakeholder groups in figure 3.3 and from that highlight its importance.

- **Exposé of whistle blowing.** This concerns employees coming forward with incriminating evidence; these individuals are often the first to know of any organisational reputation effecting actions. Mostly they do not speak out because of fear of losing their job.
- **Disclosure or revelation.** Organisations can be ‘caught in the act’ in reports or by the media. Corporate crises often result in negative publicity, threatening the image of the company.\(^{138}\)
- **Litigation.** This concerns communication due to lawsuits. The unpreventable reality is: no product or service is absolutely immune from being made the target of a lawsuit.\(^{139}\)

3.4.5   **Lessons learnt**
This section has shown that organisations can encounter a wide range of unforeseen circumstances that have the potential to damage their desired images and reputations. Besides that, organisations might create reputational losses themselves as well. Concerning the three outlined area’s how damaging factors are become known among the public media plays a major role. In order to determine if the actual damage differs in the way sensitive issues are communicated, and thus could give implications for reputational management within the


transition from the proactive to the reactive zone, the next section will cover the impact of crisis.

3.5 Impact of crisis

Since accidents are unique events, their impact is likely to be unique as well.\(^{140}\) Having said that, there are of course common denominators that have an impact on a crisis and the impact of the crisis on the reputation of an organisation. Therefore, to focus on the damaging factors to corporate reputation brought up in the last section, this section will describe the different characteristics of crises and other actors influencing the extent of the damage on corporate reputations. In the course of the study this section is relevant since before a medicine can be provided, the extensiveness of the illness needs to be known.

3.5.1 The starting point makes the difference

As has been shown in the previous sections, an organisation has a lot to gain from a strong and good reputation. Under normal circumstances, but relevant for this study, in case of crisis as well. Morley emphasises this point as follows: “a company with a good corporate reputation will get the benefit of the doubt from its important audiences who may well say: This is a fine, well-managed company, with a solid record. There is probably no truth in the rumours/allegations. Even if there is, they will put things right and get back on track without undue damage.”\(^ {141}\) This refers to ‘goodwill’ as already introduced in section 3.1.2. Companies with a weak reputation, on the other hand, are assumed to be guilty for the most minor issue. This theory is best reflected upon as prejudice. The real impact of a crisis is therefore already affected before the company even gets the change to deal with it.\(^ {142}\)

3.5.2 Stakeholder perceptions and crisis impact

As mentioned in the previous sections, different stakeholders hold different perceptions of the reputation of an organisation. This also counts in the situation of a crisis. According to Zyglidopoulos, a crisis will not have the same reputational impact on every stakeholder group.\(^ {143}\) Greenpeace, for instance, will be more concerned about global warming than an atomic association. Marconi explains the concept as follows: “Just as beauty can be said to be ‘in the eyes of the beholder’, reputations can be viewed differently by different entities.”\(^ {144}\) Relating back to the defined normative, functional, customer and diffuse groups as distinct stakeholder groups in figure 3.3, it becomes even more apparent that different groups have different interest in an organisation and will not be affected in the same way by similar accidents.\(^ {145}\)

\(^{142}\) Ibid.
3.5.3 Crisis characteristics

The impact of a crisis and the threat it holds on the images and reputations people hold of an organisation can be summarized in nine factors: causality\(^{146}\), reputation history\(^{147}\), type of crisis\(^{148}\), crisis responsibility\(^{149}\), crisis history\(^{150}\), relationship history\(^{151}\), crisis severity\(^{152}\), complexity\(^{153}\), and the amount and tone of media publicity\(^{154}\). All of these will now be briefly introduced.

Within the study of Situational Crisis Communication Theory (SCCT) attribution theory takes an important place. Attribution theory deals with individuals’ perception of the cause of certain matters. Causes of an event can be attributed to an individual involved in the event (personal causality) or to an outside force (external causality). The latter one evokes less negative feelings towards the organisation involved in the crisis.\(^{155}\) It therefore is important that organisations, concerning reputational management and communication, try to emphasise external causality.

Reputation history describes how favourable or unfavourable the images and reputations of an organisation are before the crisis, and is negatively correlated with hereafter explained crisis responsibility.\(^{156}\) As described earlier in this section, a good reputation provides an organisation with resilience in times of crises. The different types of crises and the different crisis clusters have been described in section 2.4.

Crisis responsibility is seen as the degree of responsibility that a particular stakeholder group attributes reasonably (or unreasonably) to an organisation involved in a crisis.\(^{157}\) This closely relates to the aforementioned causality, but this takes a more narrow view. The fact alone that an organisation is in a crisis will automatically attribute some level of responsibility.\(^{158}\)

SCCT is furthermore concerned with crisis history. Information about whether an organisation has had similar crises in the past is a significant factor that can affect perceptions of a more recent crisis; this is especially relevant because news reports about current crises often include reminders of past crises. SCCT continues on this discussion by suggesting that

---


\(^{148}\) Ibid.


\(^{151}\) Ibid, p. 271

\(^{152}\) Ibid, p. 271


the information about past crises can shape perceptions of the current crisis, the reputational threat presented by the current crisis.\textsuperscript{159} Crisis history has according to Coombs and Holladay a direct and indirect effect. Perceptions towards the organisation’s reputation will lower as a direct effect, and as an indirect effect the previously introduced crisis responsibility will increase.\textsuperscript{160}

Crisis severity explains the impact of a crisis.\textsuperscript{161} It is a more historic related element as well, since it concerns the severity of an accident that already occurred to an organisation, and the impact on the emotional response of stakeholders.\textsuperscript{162} Bigger crises are more likely to have a more long lasting effect on stakeholders.

Complexity refers to how easily events that caused a crisis are understood. In more complex situations blame cannot be easily attributed to an individual or even the firm itself.\textsuperscript{163} In these situations organisations are given the opportunity to deny what happened and benefit of doubt increases.\textsuperscript{164} So, when stakeholders cannot pinpoint whether the organisation has indeed a role in a crisis, they have no proof, the organisation cannot be blamed for anything that has happened and walks away safe and sound.

The final factor determining the impact of a crisis is the amount of publicity an accident receives. Weinberger and Romeo found that negative media attention has a negative impact on corporate reputations. Remarkably, Fombrun and Shanley found that any kind of increase in media attention (negative, positive, mixed, or neutral) has a negative impact on corporate reputations.\textsuperscript{165} Therefore it can be argued that a company is better off staying outside the publicity and only use marketing as a controlled instrument to increase its image. The expanding Internet forms another treat, since the public can easily oversee the crisis history of an organisation and additionally spread this information or create rumours.\textsuperscript{166} Therefore, Internet within the area of media, is not only of interest during or after a crisis, it can evoke a crisis, by spreading rumours on which an organisation could wrongly react.

3.5.5 Lessons learnt
The above collected information has led to the origination of the following figure. This figure explains how the different elements of a crisis relate to one another and how this all impacts the reputation of an organisation.

\textsuperscript{160} Ibid, p. 273
\textsuperscript{161} Ibid, p. 271
\textsuperscript{163} Ibid, p. 421
\textsuperscript{164} Ibid, p. 424
\textsuperscript{165} Ibid, p. 423
3.6 From theory to action

So far it has become clear that reputations are organisations’ lifesaving asset. On the one hand favourable reputations contribute to the overall business performance. On the other hand, if a crisis situation might be created, impact is limited from the start. However, when a crisis situation arises, the impact of it is determined by the perceptions of distinct stakeholder groups. It has also been covered that although it might appear that an organisation might have an invulnerable reputation, it always needs to be aware of crises. This refers back to the match or mismatch regarding resource utilization. Furthermore, the important role of communication has been explained, both concerning corporate reputation and different sources. Reputation management has been introduced as a guideline for companies within the proactive and reactive area. For the purpose of this final section of the theoretical framework these covered concepts have been considered in relation to each other and this led to the following four stages an organisation needs to pass as the first steps on the road heading for a better organisational reputation. Each of these stages will be discussed in this section, but first the reputational starting point will be shortly recapped on in order to place the following stages in a valid context.

---


3.6.1 What makes a good starting point?
Above it has been mentioned that a good reputation provides a stronger starting point in a crisis than a poor reputation does. According to Marconi, reputations that can be used to great advantage in cases of damage control are built on trust and factors that inspire trust, such as:

- The complete history of the company in itself, its management and products or services.
- The current image of the company, which might have changed dramatically over the years in case of crisis situations.
- The public’s general assessment of the ‘face of the organisation’, the one with whom stakeholders identify the organisations. For example Bill Gates is Microsoft and Microsoft is Bill Gates.
- The relative position an organisation takes compared with competitors. Elements as price, quality, value and image are relevant here.
- The alignment of what others (as in word-of-mouth and media) say about an organisation and what an organisation communicates about itself.
- The public’s assessment of an organisation’s policies, warranties and other principles that can work favourable for stakeholders.
- The extent of effort required to conduct business with the organisation. Those organisations with a high convenience are better of.

3.6.2 First stage
It has been outlined before that everything starts with communication, or ends with it if conducted incautiously. Booth argues that the first stage for any crisis response should be to develop a communication strategy in the lights of the situation. Before actually being able to decide on the most appropriate communication strategy a decision has to be made concerning whether there is a need for an offensive or defensive approach to strategy, which is in alignment with the proactive or reactive zone. The degree of control an organisation has over its environment and the threat are based on the fact whether the organisation is a leader or follower, which resembles the relationship it has with the key decision makers concerning reputation and the degree to which it can gain sector-wide support for the strategy.

The choice between an offensive or defensive approach is situational dependent, just as the proper message to communicate. Coombs refers to this as people expecting responses that fit the demands of the situation. To this end it is important to take the perceptions of stakeholders into consideration when sending out different messages about the crisis. Recall that it is not the reputation that can directly be changed, but the image stakeholders have. Communication needs to be focused at changing their perceptions and beliefs.

One reaction of an organisation on a crisis can differ greatly from the next. The table ‘Crisis communication strategies’ in appendix B provides several options open to organisations in

---

171 Ibid, p. 205
Theoretical Framework

terms of communication strategies to deal with a situation that threatens the survival of an organisation. These strategies reflect very different corporate philosophies.

Furthermore, in the communicational stage the Situational Crisis Communication Theory (SCCT) needs to be taken into account, which argues that communication needs to be adjusted to the extent in which publics are aware of past crises. The history of an organisation has an influence on the most appropriate communication strategy as presented in the aforementioned table.

3.6.3 Second stage
Within this stage the chosen communication strategy will be finalized to fit the situation appropriately. There are two issues to be taken into account here. First, communicating in particular geographical areas might involve laws, wherefore different methods may need to be employed. Second, different cultures demand different approaches.

Before any plan can be formulated, however, a situation analysis should be prepared in which the crisis, its potential risks, and everyone who will be affected by both the problem and the organisation’s proposed solutions are identified. This analysis provides an identification of the maximum exposure (potential damage). Following the analysis, organisations need to create a plan in which any situation that might arise is considered and the plan of action in those cases.

Eight specific stakeholder groups may need specific communicational plans that fit with the overall strategy: employees, owners, suppliers, customers, retailers, regulators, government and the general public. For each channel the questions about the reputation of the organisation needs to be assessed.

3.6.4 Third stage
The third stage is the operational phase. Consistency takes a central place within this stage, plans and communication should be in line. In this respect, communication both inside and towards outsiders should be a top priority in this stage. Gray underlines the significance of crisis communication by linking it to the reputation of an organisation. Crisis communication is not necessarily used only for defensive or attack strategies, it might just as well serve as an explanation tool in terms of clarifying rumours.

The sequential communicative actions central in this stage are:

- The organisation’s chief executive officer should prioritise the matter since the biggest

---

177 Ibid, p. 284
181 Ibid, p. 205
impact of a crisis occurs in the first few hours.\textsuperscript{183}

- A task force needs to be established, in order to meet highly time consuming tasks. Preferably representatives from legal, communication and technical departments join.\textsuperscript{184}
- Within six hours a press office needs to be established in order to improve the communication flow with stakeholders.\textsuperscript{185}
- Control of the communication flow should be taken from the start; openness has to be achieved in an early stage. Not only will an organisation make itself suspect while delaying their comments, opportunities are created for competitors to take advantage and influence stakeholders perceptions in their own favour.\textsuperscript{186}
- The assignment of one spokesperson that represents the organisation will help to maintain a high level of consistency in the communicational expressions.\textsuperscript{187} This role is of crucial importance regarding the position the media takes during a crisis, as covered before.
- Daily-organised news conferences create a constant information flow.\textsuperscript{188} Furthermore, advertisements, as a communicational form, should be stopped.\textsuperscript{189}
- Besides external communication, employees should not be forgotten. Not only to maintain their willingness to work for the organisation, but also since they are likely to communicate themselves as well.\textsuperscript{190}

### 3.6.5 Fourth stage

The final stage is concerned with monitoring and reviewing the process. During the time an organisation carries out actions to deal with the crisis, responses on that by employees and other stakeholders need to studied, and if needed actions should be adjusted towards observations.\textsuperscript{191} Dowling points out that in a crisis situation it is crucial to think about different stakeholder reactions.\textsuperscript{192} Calling in a lawyer while dealing with a crisis evokes in some stakeholders common sense while others might think the company has something to hide. Note that the geographical area and culture are here relevant as well.

### 3.6.6 Restoring after having survived a crisis

Having passed all stages the formal handling is settled. However, that does not automatically delete the image people have about an organisation. How the organisation handled itself in the crisis situation has a great impact on how stakeholders later perceive the organisation, but also later action can influence perceptions and attributions.

\textsuperscript{184} Ibid, p. 98
\textsuperscript{185} Ibid, p. 98
\textsuperscript{186} Ibid, p. 100
\textsuperscript{190} Ibid, p. 130
Visualized corporate images and reputations can be improved following the stages shown in the following figure.

After the monitoring and review phase, a way to improve reputation after a scandal is integrating corporate social responsibility (CSR) policies in the company’s strategy, like for instance a code of conduct. Research shows that the reputation of a company is positively related to the quality of its CSR policy.

Although this section has mainly discussed communication, it is good to realise that reputations can be restored with the help of complementing activities. As Marconi said ‘a good response would be not to say you are sorry, but to show it’.

---


195 Ibid, p. 131

4 CONCEPTUAL FRAMEWORK

In this chapter the conceptual framework is presented, which is derived from the previous theoretical discussion. This framework outlines the relationship between the different theoretical concepts and will serve as a guide for the remaining part of this study. In the analysis, therefore, the different dimensions of the framework will be either rejected or confirmed, depending on the results of the empirical study. The findings of the analysis will consequently lead to adaptations of this framework into a final model.

The following conceptual framework demonstrates the influence of a crisis on corporate reputations and the relations between different aspects of an organisation in the reaction process.

The arrows indicate an influence of one concept on another. This means, for example, that crisis and organisational input affect the attributed crisis responsibility. The thicker arrows display the general line of the figure, which shows how crises work their way into organisations and how organisations in response react on the occurrence of this phenomenon.

Noticeable is that organisational actions, stakeholder perceptions, and corporate reputation are shaped differently. This is done to emphasise that a distinction needs to be made between these concepts and the other ones.

It is preferred that organisational actions are considered only in situations where crises are self-inflicted. In addition, under normal circumstances, this concept influences the corporate reputation and stakeholder perceptions.
A positive relation is visible between the latter two mentioned concepts. Generally, when *stakeholder perceptions* are positive, the *corporate reputation* is regarded positive as well. This is directly the reasoning for the two boxes differing in appearance, making them stand out shows that they need to be recognised as the centre of the framework.

Although a general line has been set out in the framework, other relations, in which one concept influence another, should not be forgotten. These relations are indicated by the thinner arrows. *Stakeholder perceptions* are influenced by numerous other concepts, because the success or failure of activities, in the end, depends on how they are perceived by stakeholders. This is directly the reason why these arrows point towards *stakeholder perceptions* and not towards *corporate reputations*, as the latter one is created by the first and thus indirectly influenced by the other factors.

As aforementioned, *stakeholder perceptions* are influenced by a numerous amount of factors. However, there are also two concepts, which are influenced by this factor. As stated above, *stakeholder perceptions* create *corporate reputation*. In addition, attribution theory holds that stakeholders make judgements about the causes of events; as a consequence *attributed crisis responsibility* is affected.
5 EMPIRICAL STUDY

This chapter will provide an insight in the empirical data that has been collected in order to answer the research question, based upon the earlier generated conceptual framework. Information on three organisations has been collected, namely: Arla Foods, Alfred Kärcher, and E.On Sverige. The data is based on collected information from the organisations’ webpages, newspaper articles, and most importantly telephone interviews, which have been conducted in April and May 2007.

5.1 Arla Foods

Arla Foods, based in Århus, Denmark, is a co-operative organisation, owned by approximately 10,600 milk producers in Denmark and Sweden. It is the result of a merger between the Swedish Arla and Danish MD Foods. The Arla Foods Group exclusively produces milk-based products. Besides Denmark and Sweden, Arla Foods has production plants in the UK, Saudi Arabia, Argentina, Brazil and Poland and licensed production in the USA and Canada. The Group is Europe’s second largest dairy company, and received 8.4 billion kilograms of milk and a turnover of approximately 46 billion Danish crowns in the financial year 2004/2005.

A reputational crisis originated for this organisation due to the actions of another, non-related company. In the Danish newspaper, the Jyllands-Posten, a series of 12 illustrations featuring the Prophet Mohammed have been published on September 30th, 2005, accompanying an editorial criticising self-censorship in the Danish media. The cartoons were found to be an outrage in the Muslim world, where portrayals of the Prophet Mohammed and Allah are not allowed.

According to Astrid Gade Nielsen, spokesperson for Arla and at the same time my interviewee, it was not until the religious leaders called for a boycott of Danish products in the Friday prayer on January 20th, 2006, that Arla actually experienced that consumers turned against Danish products. From January 25th until January 30th, the sales of the organisation came to a complete stop.

5.1.1 Strategy

On Monday January 31st the Jyllands-Posten said: “These cartoons were not in violation of Danish law but have irrefutably offended many Muslims, and for that we apologise”. The Danish Prime Minister, Anders Fogh Rasmussen, welcomed the apology - but again defended the freedom of the press. His explanation was as follows: “the Danish government cannot

198 See appendix C for the illustrations of Mohammed as they were published in the Jyllands-Posten.
apologise on behalf of a Danish newspaper. Independent media are not edited by the government”.

At first, Arla Foods did not want to take a stand in what was happening, the organisation did not want to become involved in this political issue. This was extremely difficult, because at a certain point politicians who disagreed with their actions used the organisation as an example; Arla was ridiculed for its position. A believe existed that Arla foods did not support the freedom of speech, even though the organisation tried to emphasize that for them it was not a case of freedom of speech, but that they just did not agree with offending people based on their religion.

As Arla Foods at a certain point decided to organise a proactive approach to re-enter the Middle East, a platform was built to show their standpoint. Reasoning behind this was that their approach needed to become known to both internal and external stakeholders. It was decided that the organisation would not support the illustrations. As business and religion are mixed in the Middle East countries, this would have been the only option to regain the interest of businesses and consumers in the Middle East in their products.

Arla Foods is an internationally operating organisation, which in this case let them to believe that the above-explained approach should be a global approach. The feeling prevailed that the company could not take one standpoint in their home country and another in the Middle East. Also, as the organisation has production plants in different parts of the world, they felt it was important to show that different backgrounds and cultures are respected.

5.1.2 Crisis response communication and activities

On January 28th Arla Foods initiated their response actions by placing advertisement in Middle-Eastern newspapers showing their standpoint in the matter by dissociating itself from the caricatures.

Arla Foods believed to have a future in the Middle East; therefore the need existed to reach out to consumers in the area. This was done through advertisements in the newspapers and on television, and interviews, both in which the organisation’s position on the caricatures was stated, and that Arla Foods had been in the area for over 40 years and wanted to continue to practice the business there. The choice of Arla Foods to go with advertisements and interviews was based on the belief that the individual consumer needed to be addressed; the best way to achieve this was through the mass media.

The above-discussed approaches were completed with meetings with chief stakeholders, associates and business partners; with the latter the organisation had built up strong connections. These strong connections were now used to get their messages across to consumers, supported by the belief that these consumers were more likely to believe the story coming from someone close and related to their country and culture.

To accentuate the good intentions of the organisation, Arla Foods also entered a cooperation with the Red Cross, to sponsor humanitarian projects in the region, examples of which are giving aid to disabled children, cancer sufferers and the hungry. Also a partnership with a Danish university was established to set up a cross-cultural conference in Copenhagen.

203 Ibid.
addition, Arla Foods intends to support activities aimed at creating greater understanding between the world’s religions and cultures. The implementation of the above-discussed communication and activities has led to the boycott starting to slowly lift at the end of March 2006. Astrid Gade Nielsen admitted not to be able to pinpoint what exactly provided the organisation with the opportunity to bring their business back to the Middle East; it is believed to be a combination of the different approaches. Furthermore, she mentioned that it was more or less understood that the people in the Middle East would tolerate the organisation to re-enter the market. Arla Foods approached this re-entering process with great care, slowly starting to bring back their products in the Gulf States and then spreading the distribution towards Saudi Arabia.

Unfortunately for the organisation, it was not only the scepticism of the consumers that complicated the re-entering process. There were also a few competitors that took advantage of the situation of their products not being on the shelves for eight weeks, through the replacement with their products.

5.1.3 Approach to internal and external communication
Within the organisation, there was a great focus on internal communication. Almost daily updates and explanations were provided on developments, and the activities the organisation undertook to deal with the situation. The organisation wanted every employee to have a correct understanding of the crisis and its image.

The communication towards external stakeholders was also given a lot of thought; the information released was governed carefully. Daily updates were given through different media channels, most important were the company website and newspapers. Being actively involved in communicating their situation, Arla Foods made sure to be open and honest about what was happening, to state the facts. The information communicated was based on three questions, which they asked themselves in every situation:
- Why do we communicate?
- What message do we need to bring across?
- And how can we accomplish this?

5.1.4 Goals
The goal for Arla Foods was to be back on 50% of the 2005 sales level, before the crisis, at the end of 2006. This was indeed managed, through the tremendous efforts from the sales personnel in Saudi Arabia and the start of sales campaigns during the summer. These campaigns took the shape of in-store promotions and -activities. The organisation is now approaching ‘normal’ again and expect to be back on 2005 sales levels at the end of 2007. Which means that it took two years to restore the corporate reputation.

5.1.5 Crisis response programs
Arla Foods has emergency programs set up for when crises occur, these plans are for, for example, recalls of products and quality issues. These emergency programs are built into a

database, which is updated regularly. The programs resemble a sort of action plan and include information on the division of responsibility, the different steps to run through, which authorities to contact, and what information to send out through which channels.

However, Astrid Gade Nielsen explained that Arla Foods did not have an emergency program set up for this crisis that was threshed upon them. Reasoning behind this was that being prepared for crises that you bring upon yourself is one thing, but things like this political boycott are far beyond the reach of any organisation.

5.1.6 Perceptions
Arla Foods has a system with which they track the images and reputations consumers in Denmark, Sweden, and Finland hold of the company. Two types of measurements are used. In Denmark, Arla Foods asks questions to the consumers themselves. And in conjunction with a reputation institute, the organisation’s image and reputation, together with that of a number of other companies, is tracked in Denmark, Sweden, and Finland.

After the reputation crisis, Astrid Gade Nielsen admitted that the perceptions of stakeholders have changed. In Denmark there is a division in opinions noticeable. 50% of the public still seems to think that Arla Foods should have chosen to play along with the politicians and stand up for Danish rights. However, the other half supports the organisations in its choice and approves of their actions.

5.1.7 Learning curve
Astrid Gade Nielsen believes that Arla Foods coped with the situation as well as they possibly could. It was a matter of balancing the necessary communication and activities.

Arla Foods has definitely learned from the crisis, the organisation actually sees it as a gift. Not in an economical sense but in the sense that knowledge was acquired on how to handle such a situation. The company accedes to have learned how to react in such a situation, and should be able to build on this and be even better at handling similar dilemmas in the future. However, it is realised that it will never be a matter of just copy-paste.

For the Middle East, the organisation has realised that a better foothold in that area needs to be established, Arla Foods is thus striving for a better coordination with their oversees partners.

5.2 Alfred Kärcher
Alfred Kärcher, based in Winnenden, Germany, is a family-owned company and one of the world’s leading manufacturers of cleaning systems.\textsuperscript{206} The organisation is present on all continents and has 6540 employees worldwide. In 2006 the company achieved a turnover of 1.254 billion Euros and sold 6.07 million units.\textsuperscript{207}

A reputational crisis originated for the organisation due to statements made by Nicolas Sarkozy, who was at that time the minister of interior in France and presidential candidate. When an 11-year-old boy was shot to death in the spring of 2005 while washing his father’s


In the Cité des Quatre Mille outside of Paris, Nicolas Sarkozy promised to clean up the neighbourhood ‘à Kärcher’. With this generic expression he meant to clean these suburbs from criminality.

Cleaning ‘à Kärcher’ is a generic, and often used expression in France, existing out of two levels. Firstly, Kärcher has become the generic name for a high-pressure cleaner. Secondly, the expression has been put at a metaphoric level, ‘nettoyer au Kärcher’ in French means cleaning, a terrace, for example. But it also means to clear up things in a political sense, to bring order.

The term, and company name, was copied by the media, and probably due to the large amount of attention it received, the name became an insult to Nicolas Sarkozy and his activists. The politician was referred to as ‘Kärcher’ and his approach was named ‘Kärcher politics’.

5.2.1 Strategy
Kärcher is an organisation that produces for example sweepers and scrubber dryers, and with this it is not used to being the focus of daily and political press. The organisation came into the spotlight in 2005, when a connection was made between the expressions of a French politician and the company. The associations with their company and the negative political situation in France became stronger during the election period in 2006/2007. The organisation no longer wanted to be seen in relation to the happenings, and did not want to be mentioned anymore in this political discussion. Quoting Mr. Anderouard, spokesperson of Kärcher France: “Our customers can put things into perspective, but what interested us here was to speak up about our values, and to remove our products from the political sphere.”

The feeling was however that in this case it was only about stopping the daily misuse of the corporate name. Believed was that the reputation was not at threat. Frank Schad, spokesperson for Kärcher Germany and the interviewee, mentioned that it took years, even decades, to build up the strong reputation of the organisation, he believes that this cannot be damaged easily.

5.2.2 Crisis response communication and activities
Before initiating any type of action, Kärcher chose to discuss their possibilities with consulting agencies, lawyers, PR agencies and their colleagues from Kärcher France. After a long debate, Kärcher’s first actions followed two years after the first political association with their company name; the organisation chose two types of action. Firstly, the company sent letters to all 12 presidential candidates and other politicians, requesting them to consider that a company by the name Kärcher exists who would prefer to stay out of the political debate. Secondly, a page long advertisement in several French newspapers was published asking readers to drop the word association. The publicity campaign included the following statement: “Due to the constant misuse of our brand name in a world that is certainly not


ours, we now want to take a stand to eliminate every misunderstanding and all the confusion about the association with our name'. According to Frank Schad, the response to the latter action was overwhelming, as many as a 130 articles in the French press were discussing the advertisement.

After the implementation of the activities the situation changed for the better. However, Frank Schad admits not to be certain whether this is due to the actions of the organisation or because Nicolas Sarkozy was elected president of France May 6th 2007. It is possible that he is now seen in a different light.

5.2.3 Approach to internal and external communication
Concerning the internal communication, the employees of Kärcher’s sales company in France were the target audience. Reasoning behind this was that the political situation and the discussion on the topic were present in that country. The employees were informed on how and when the organisation would come into action.

At the headquarters in Germany, many people were not even aware of the problem, and although there was a period of two weeks in which people in Germany felt offended by what was said, due to a lack of knowledge on French generic terms, German employees and other, external stakeholders were not approached to provide explanations to.

Two years after the first association, it was communicated towards external stakeholders that the company should not be associated with any types of politics. The organisation stressed that it stands for trustworthiness and accessibility

5.2.4 Goals
The organisation first decided to wait and see whether the problem would vanish on itself, which it proved not to do after the media brought the topic back to the surface during the election period. By that time, it was considered a possibility that this issue could become a source of problems in the future. Therefore, the choice was made to act at that point in time, to stop the constant misuse of the company name.

5.2.5 Crisis response programs
Kärcher works with previously set-up programs when crises occur, these are believed to be a necessity because an organisation should be able to act quickly and come prepared in crisis situations. These programs are quite general, as the organisation believes that crises cannot be solved in advance, but structures can be build up to secure fast responses. For Kärcher, these structures include communication structures, responsibilities, and media-contact.

However, it is emphasized that just following these programs is not enough, one should realise that every crisis is different. In any case numerous issues should be considered and an action plan, a special key, for each individual situation should be made. If each individual case is not considered, all preparations will not help an organisation to correctly deal with it.

5.2.6 Perceptions
Kärcher tracks the perceptions of stakeholders through the use of different tactics. One is the systematic monitoring and analysing of press publications in the different countries in which

---

213 Ibid.
the organisation is present. The organisation also asks customers on a regular basis about for example special products, brand awareness or brand image.

During the crisis in France, the above-described tactics were given more attention. The result of this was the finding that the company’s name was mentioned daily in the newspapers, in up to three or four articles, using the name in a negative context. This compared with nearly not being mentioned in the media shows a great increase.

After the occurrence of the crisis the organisation has conducted market research in France to collect information on the impact of the political happenings on the customers and on different social groups. The outcome of this research was positive, as people did indeed see the difference between the company, its products and reputation, and the transference of their name into a generic meaning in the political field. This was expected by Kärcher, because, as Frank Schad mentioned, the customers know the organisation and what it stands for, they know exactly that the company does not have any aspirations in politics.

However, in 2005, the situation was a bit different. In France, people were aware of the expression being generic; unfortunately for Kärcher this was not recognized as such in Germany. This lead to question what a medium-sized German company had to do with the riots in France. Also, there was a misinterpretation of the time at which the expression was used. According to German beliefs Nicolas Sarkozy said the famous sentence after the riots in the Parisian suburbs, these however took place six month after the shooting incident. For a period of about two weeks these misunderstandings travelled through the country, after which slowly explanations for the matter surfaced.

5.2.7 Learning curve
Kärcher is convinced that this was just a small PR-crisis. In the organisation’s believe it was a matter of protecting their reputation, instead of restoring it.

Kärcher is satisfied with the way they dealt with the crisis. Alternatives, like holding silence, had been considered, because as a mid-sized company no experience existed with dealing with political issues. The organisation was therefore reluctant to try to step into this area of business, mainly because they were not sure that the result would be positive. However, the organisation felt it was time to undertake action, and fortunately this turned out positive.

5.3 E.On Sverige

E.On is one of the world’s largest investor-owned energy services providers. The roughly 81,000 employees generated just under 68 billion Euros in sales in 2006. The focus of the organisation is on the power and gas industry, and the target markets are: Central Europe, the United Kingdom, Northern Europe, and the Midwestern United States.\(^{214}\) In Sweden the organisation is represented by E.On Sverige, part of E.On Nordic\(^{215}\). In 2005 E.On Sverige was still working under the name Sydkraft.

In early January 2005, hurricane Gudrun pounded southern Sweden with wind gusts of up to 150 kilometres per hour. The “storm of the century” uprooted a total of 250 million trees in Sweden’s forests (equivalent the size of 300,000 soccer fields), causing severe damage to the

Empirical Study

aerial overhead lines and pylons, and leaving up to 250,000 of Sydkraft’s customers out of power. What had started out as an infrastructural crisis of the electricity network, soon turned into a fully-fledged corporate crisis.216

5.3.1 Strategy
Since November 2004 Sydkraft was working on the preparation of changing the brand name to E.On, the initial plan was to re-brand in February 2005. However, due to the storm Gudrun in January, the damages it caused, and the reparation time the organisation needed, it was decided to postpone the organisational change. Reasoning behind this decision was that the company first wanted to restore its reputation under the old name, so that it would not affect the new one. Also, the organisation wanted to avoid the chance of people thinking that the change was due to a disappearing act, because Sydkraft wanted to ‘escape’ from taking its responsibilities.

5.3.2 Crisis response communication and activities
During the first period, in January and February, the organisation focussed all its efforts on repairing and restoring the electricity network, for this purpose the company gradually built up an international force of 4,500 helpers217.

When the planning and control for the reparation activities were set, it was time for the organisation to focus their attention on the reputation of the company. A task force was set up, who was in charge of making a communication plan. This plan consisted out of information on how to communicate with the society, on a regional and national basis.

Also, a program for investment was set up, which main goal was to prevent the organisation from having to deal with such reputational crises ever again. To add to this financial program, ‘Växjö Dialogue’ was initiated by the organisation. Within this concept the organisation spoke with communities, local governments, customers, and customer organisations. Together a program was set up which would help the organisation to deal with a similar crisis in the future. Discussed topics were information flow, restoration activities, and the cooperation possibilities with communities. This concept is still in use by the organisation, every year in March the different parties come together, this provides the opportunity for constant improvement.

In addition, the organisation offered customers a compensation fee, the total amount of which was 200 million Swedish crowns. In comparison, the organisation was faced with another hurricane, named Per, in January 2006 for which they compensated customers with about 450 million Swedish crowns; the reason for this impressive increase is the new legislation in Sweden, which was introduced during the recovery period of the first storm. The organisation was quickly, however, in acknowledging that they agree with the idea of compensating customers for their losses.

Education, as also shown by above-mentioned activities, was one of the most important initiatives for E.On and its employees. The organisation asked Professor Erik H. Schlie to capture the events surrounding the storm in a case study in order to spread the lessons that could be drawn from the disaster across the entire E.ON group.218

217 Ibid.
218 Ibid.
5.3.3 Approach to internal and external communication
For both the internal and external communication, another task force was formed out of different individuals, each representing different departments and branches within the Sydkraft group. With the establishment of this communication task force, the importance of this crisis and the following project was communicated and shown.

Although the previously mentioned communication task force had the decisive role when it came to what, how and why issues were communicated, the public relations department executed the actual communicative task. This department of the organisation consisted normally out of five employees, but because of the high demands of the crisis this team was expanded to approximately 75 individuals.

Communication efforts were directed on a regional as well as a national level. Especially the regional communication was a big task, as the communication was directed to reach every community and the company’s customers, through politicians, public meetings and in dialogue with the press.

The significance of this communication task, and that Sydkraft took this project seriously, was shown by the fact that the amount of press releases of the organisation in January were equal to the amount of a normal year.

5.3.4 Goals
The management of Sydkraft had decided that the organisation would first work towards the improvement of the corporate reputation, with that the goal was to finish all the activities needed to ensure that every household was provided with their primary need electricity and any extra desires. This was seen as the first step in improving the satisfaction of customers. Following this, when the measuring device for customer satisfaction would give the same score as before the storm Gudrun, only then it would be time to change the brand to E.On.

The time came finally there in the summer of 2005, 6 months after the storm. The belief existed that under the new name the organisation could continue to improve.

5.3.5 Crisis response programs
As mentioned in section 4.3.2 the organisation has set up a crisis response program for natural disasters in collaboration with communities, local governments, customers, and customer organisations. This program functions as the master for all other crises, they are built upon the program for natural disasters.

5.3.6 Perceptions
The organisation uses a Customer Satisfaction Index (CSI) to monitor the perceptions of customers. Before the storm Gudrun, this index was set on 65%, two weeks after the storm it had dropped to 45%. To retrieve the information for the CSI, E.On collaborates with a Swedish market research organisation, which conducts questionnaires for this purpose or any other kind of market research when necessary. But it is not only the perceptions of customers that are tracked, also the opinions of newspapers, local radio, television companies, and local and regional politicians are polled by the same research organisation. However, customers are seen as the essential group.

According to Jan-Erik Olsson, head of information at E.On Sverige and my interviewee, the first few days after the storm people realised that it was a great disaster for the whole country. But after a week, when reparation work was still going on and was not close to being finished,
the longest duration was about 40 days, customers and other stakeholders got angry, unsatisfied, and communities were blaming the organisation for a lot of their problems.

After the storm had settled, the affected customers were sort of satisfied with how the organisation handled the crisis. However, the general opinion, formed by society, media, and the government, was less positive.

Since then, the situation has changed for the better, and during the meeting with the communities and local parties in March of this year the organisation was told that it was doing very good.

5.3.7 Learning curve
After being hit by hurricane Per in January 2006 the organisation realized to have learned a lot from the first crisis. An earlier start was made and results were accomplished quicker. To add to that, local information offices were set up to meet the customer needs earlier. So the company has become more active and showed this to the public. The storm Gudrun and the crisis originating from it were thus a good learning school for the organisation.

Jan-Erik Olsson explained that the organisation is satisfied with the way they dealt with the first crisis. To company admitted to the public that mistakes were made, but that everybody was now working hard to restore the damages done and that the organisation was trying to improve their business. That was the start of the restoration process of the corporate reputation.

The crisis was also a good experience for the employees, the cooperation between individuals, but also between different branches of the organisation, has definitely improved thanks to the crisis. The relationships have become stronger.
6 ANALYSIS

This chapter will provide a thorough analysis of the collected empirical data with the help of the theoretical framework and the consecutive conceptual framework. Although in the theory different types of crises are discussed, both self-inflicted and not, the empirical data has limited this research to the discussion on only non-self-inflicted crises, as empirical data on other types was near to impossible to collect due to the unwillingness of organisations to elaborate on these issues.

6.1 Reputation, steady or not

In the theoretical framework it is explained that good reputations are not built in a day. Kärcher supports this point, when stating that it took the organisation years and even decades to build up their reputation as it is nowadays and they are assumed to still work on it. However, the theory then continues to discuss that a reputation can be wiped away in days. A very good empirical example of this is the case of E.On, due to their lack of good actions and ability to control the crisis, their reputation dropped. This was shown in the Customer Satisfaction Index that plummeted in two weeks from 65% to 45%. However, Kärcher continues to believe that because it takes a long time to build a reputation it will also take long before it can be broken down. I find the experiences of E.On however more convincing, especially when also looking at the situation in which Arla Foods was in. A whole geographical area, the Middle East, decided to boycott all Danish products in a matter of days, which shows the speed in which change travels.

6.2 Discussion on crisis type

Between the researched organisations two types of originated crises can be distinguished. Both Arla Foods and Kärcher had to deal with scandal associations, resulting from no actual crisis as far as the firm is concerned, but from the association the organisation had with some other activity, entity, or incident, without having any influence on the matter. Both organisations were thus being associated in the public mind with a crisis while there was no legal, economic, social or political connection. The dangers of situations like these can be called ‘negative associational impacts’. In the situation of Arla Foods the Danish newspaper, the Jyllands-Posten published a series of illustrations featuring the Prophet Mohammed, this action was not well received in the Middle East and a boycott of Danish products followed, which thus also affected Arla Foods.

The company name Kärcher was from 2005 onwards associated with a French generic expression, which was used by Nicolas Sarkozy, politician and presidential candidate. Media

---

reported on political issues and within this process the organisation’s name was misused and brought in association with politics and negative happenings.

E.On, on the other hand, had to deal with a natural disaster, hurricane Gudrun, which struck southern Sweden in 2005. In addition, the organisation was not able to react efficiently on the occurrences. This caused perceptions of failure of management, as the organisation was not able to maintain previous levels of reliability and trust.

All three cases show that crises do not always originate from mistakes made within organisations; they can be influenced by non-related factors, like for example nature, other organisations, and even individuals who are all not connected to the organisation itself. However, as the empirical data shows, it can have just as great an impact as self-inflicted crises and should therefore be taken just as seriously.

6.3 Crisis response programs

Morley once said: “It is sad to say that it often takes a serious crisis to awaken certain agnostic corporate leadership to the need for action and communications geared to improve corporate reputation; it becomes apparent in time of crisis that a good reputation can be a shield”. This statement perfectly reflects the situation in which E.On found itself. The organisation did not have much of a clue on how to respond to the situation that presented itself. If the organisation would have had a program set up providing the basic lines of responding, as presented in the theoretical framework, this could have been avoided. To continue on Morley’s thought, he explains that in all cases, advance preparation can limit the damage from such crises and ensure a prompt and effective response when they occur.

Therefore, the set-up of crisis response programs is something every organisation should invest in.

The line of argument Morley uses is supported by the three researched organisations. Kärcher wishes to add that these programs do not offer complete solutions when it comes to crisis situations. However, structures can be build up to secure fast and thorough responses. This thought is supported by Booth who considers the second stage of reputation-repair to be the creation of a set of plans appropriate for the particular situation or threat. With this the author says that previously set-up programs should be moulded in such a way that they provide a fitting approach for a unique situation.

Zyglidopoulos supports this view when arguing: “Accidents are unique events, therefore, one would expect that the impact of a particular accident to the reputation of the firm involved is also unique”. However, when taking a closer look at the empirical study, the E.On-case

---

227 Ibid, p. 94
questions this argument. Within almost a year, a second hurricane hit the organisation. Indeed, the resulting situation was not similar to that of the previous year. However, this could be the result of the experienced learning curve by E.On, the organisation was far better prepared. It could therefore be believed that it is not so much the accident or crisis that is a unique event, rather it is the interrelations between the crisis and the reaction of the organisation that is unique.

According to the researched organisations, these response programs should discuss divisions of responsibility, communication structures, linkages between information types and channels, primary activities, and contact information of influential institutions.

6.4 Reaction time

Schultz, Hatch, and Larsen argue “that there are times when repairing a reputation is an essential task. Understanding how and when to do so is imperative for the successful management of corporate reputation. Moreover, taking the appropriate reputation-repair steps can help to build an organisation’s reputation back to its previous level and perhaps even higher”\textsuperscript{230} This reflects Kärcher and its inability to detect and argument for when to react to the negative associations with the company name in the media. Within E.On, however, management was aware of the importance of repairing the reputation and electricity network, unfortunately the organisation was not able to react fast due to a lack of knowledge of crisis and reputation management. Knowledge in these types of situations is thus crucial, which again shows the significance of a good preparation is through the set-up of response programs.

That a fast reaction is crucial in the maintenance of positive stakeholder perceptions is discussed by Dowling, who argues that perceptions and emotional attachment to an organisation are open to change, however values have a tendency to remain the same\textsuperscript{231} This could result in the organisation’s actions and the stakeholder’s values not relating to each other anymore, as a consequence perceptions will decrease. This was the case with E.On, it took the organisation too long to repair the electricity network, in some cases up to 40 days, and as a result customers and other stakeholders lost their trust in the organisation’s abilities.

6.5 Strategy

Certain strategies, as discussed in section 3.6, can be recognized in the reactions of the researched organisations. However, in the handlings of the companies not one, but a combination of these strategies can be recognized. This could mean that organisations should not focus on only one type of approach or reaction, but that, as said before, it is important to find a unique approach for every situation. This leads to the conclusion that a unique approach cannot be found in only one type of strategy. Thus, a combination of approaches should be considered. Coombs supports this view when he explains that responses should be adapted to


Analysis

fit the demands of the situation\textsuperscript{232}.

As Arla Foods had no control over the boycott and the source of the disaster, there was nothing that could really be done except countering the claims that were made against the organisation by the people in the Middle East. Of course the illustrations found their origin in Denmark, but this did not mean that the organisation supported these cartoons. Therefore, Arla Foods disassociated itself from the situation. This could be described as a \textit{frontal attack} approach, the threat was important enough to merit a direct response and refutation to the threat\textsuperscript{233}. The organisation’s strategy could also be partly described as \textit{mobile attack}\textsuperscript{234} as the communication was concentrated on key targets, such as chief stakeholders, associates, and business partners. These targets were chosen on the basis of the argument that the Middle Eastern public had no more trust in Danish organisation, and delivering the organisation’s message through trustworthy sources had most potential to get the message across. However, this reasoning also supports the organisation to have built a \textit{co-ordinated alliance} with these stronger, more reputable firms in the area\textsuperscript{235}.

When the crisis situation first came into the light for Kärcher, the organisation chose for combination of two strategy types. The first was the \textit{head down} approach, as for almost two years the organisation was waiting and hoping for the interest in the situation to be diverted to something else and that people would forget about the association with the company name.\textsuperscript{236} In Germany in the beginning stages there was a lot of confusion about what and when things were said, people did not understand the connection and perceived the organisation to be involved in a negative way. However, instead of explaining the situation, the organisation chose to stick with the \textit{head down} approach and to provide an \textit{aristocrat response}, which means that they chose not to explain anything.\textsuperscript{237} This approach could very well have hurt the corporate reputation, according to Marconi a bad reputation can originate from the public only knowing rumours or reports of negative incidents. Greater exposure to the company would have increased awareness, familiarity, and knowledge, and presented the subject in a larger context.\textsuperscript{238} The question here is thus why Kärcher has allowed such a threat to surround the company for such a long time? A faster response could have prevented a lot of worries. Especially considering the statement of Zyglidopoulos, “the messages people develop to explain an event can shape attributions and the feelings created by the attributions”.\textsuperscript{239} If Kärcher had provided the correct explanation in the first instance, no speculations would have taken place, which could only have been beneficial to the reputation of the organisation. Although according to the organisation this had no affect on stakeholder perceptions, but it could just as well have.

\begin{itemize}
\item \textsuperscript{233} Booth, S.: (2000) \textit{How can organizations prepare for reputational crises?} In: Journal of Contingencies and Crisis Management, Vol. 8, No. 4, p. 206
\item \textsuperscript{234} Ibid.
\item \textsuperscript{235} Ibid.
\item \textsuperscript{237} Ibid, p. 267
\item \textsuperscript{239} Zyglidopoulos, S. C.: (2001) \textit{The Impact of Accidents on Firms’ Reputation for Social Performance}. In: Business & Society, Vol. 40, No. 4, p. 422
\end{itemize}
After the two years of working with the two chosen approaches however, the situation still had not changed on its own. It seems that during that period in time, the organisation spent time on working out a defensive position and to identify and maintain the organisation’s reputational strengths. Kärcher followed this *situation defence* approach by over time discussing the situation with several specialists and asking for their advice. This eventually led to the organisation requesting both politicians as the public to drop the associations with their company name, with a positive result.

In the first week of the E.On crisis, Sweden was convinced that what happened was an *act of God*, the organisation itself had no control over what happened and it dealt with the situation. However, the company was not able to keep safe under this strategy, as soon the organisation was perceived as not doing enough fast enough. This emphasises that focusing on one strategy is only illusionary. E.On realised that not the needed knowledge existed to manage the situation well; power delays were up to 40 days. The organisation decided to change approach, and from then worked with a combination of positive response and another chance strategies. E.On publicly accepted responsibility for any wrongdoings and made known to start a change process. The actions the organisation undertook from then on were first of all focussed on the reparation of the electricity network, besides that the main focus was on improvement of their abilities of dealing with crisis situations. And as information on this was collected from different stakeholders, these actions can be considered as *confidence building measures*.

For both Arla Foods and E.On it can be said that the organisation stood behind everything they told the public, this was most obviously shown in their action and communication. Although both companies are internationally operating, it could be gathered that both organisations have become positively known for their reactions to the crises, at least in the area where the situation addressed itself. This line of argument is supported by the view of Marconi, who mentions that “some companies or products only come to public awareness in a positive way by promising to make good on something or by standing behind everything they made, sold, or otherwise guaranteed.”

### 6.6 Crisis response communication and activities

Different authors have argued that organisational members can use reputation management actions to enhance corporate reputations or to mitigate the effect of negative influences. These actions are either classified as assertive and defensive, or proactive and reactive. Both

---

Arla Foods and E.On used a defensive/reactive approach when first dealing with the crisis. However, when the initial impact was mitigated, the organisations chose to base further research on the initial learning and through this improve their abilities of handling crisis situations. With these approaches the organisations have been able to signal to stakeholders that work is done to improve\(^{248}\), this will have a positive influence on the trust-building process. These actions further support Schlegelmilch and Pollach’s reasoning about actions and words both representing corporate communication.\(^{249}\)

To continue on the subject of these actions, E.On recognized the need of showing the public their good intentions. Therefore, different stakeholders were invited to help the organisation improve the discussed aspects of reputation management. This is exactly what Marconi meant when he said “by building a solid record of showing customers how much the company values what the public thinks, it is possible to change people’s minds enough that your reputation becomes one.”\(^{250}\)

### 6.7 Factors of influence

That the organisation was experiencing a streak of bad luck became obvious when a second hurricane ‘Per’ struck southern Sweden, a reoccurrence of the same crisis-type\(^{251}\). According to the theory this influences the crisis history, and should consequently have a negative impact on a corporate reputation. However, in the case of E.On, this seemed not entirely to be the case. This could have two reasons, the first being the fact that the crisis was not self-inflicted. However, the second reason seems more likely, the learning curve visible between the two incidents. The organisation tried, and succeeded, to improve the repair actions with the help of the community. This provided the opportunity to deal with the second crisis in a more efficient and successful manner. The perceptions of stakeholders were entirely different in comparison with the first situation. One can conclude out of this that the crisis history does not always have to have a negative effect on stakeholder perceptions. But maybe it does influence the expectations these stakeholders hold. It could be possible that the expectations of stakeholders were lower; the organisation surpassed these expectations and thus experienced positive perceptions of stakeholders.

Media attention has a negative impact on corporate reputations.\(^{252}\) This view is supported by the conducted empirical study. In the case of Kärcher there was a connection noticeable between the amount of press publications and the number of associations with the corporate name. In the case of E.On this phenomenon was also noticeable, and especially in the case of Arla Foods the media had a large influence.

---


Although mentioned in the previous section that, whether a crisis is the result of bad luck or bad actions, an organisation should spend as much time on managing the impact on the corporate reputation. This does not seem to be the view of all researched organisations. In the eyes of Kärcher the organisation was not at fault and because the belief exists that the reputation is something that cannot be changed in just one second, contrary to the perceptions of many authors, the organisation decided to wait. Although mentioned in the theoretical framework by Morley that one should react quick to such situations, as the longer one waits the more damage gets done. In the situation of Kärcher, a faster reaction could have prevented misunderstandings about the situations in Germany; also the associations with the company name could have been stopped in an early stage. Prevention of both these issues could have protected the corporate reputation from possible risks, and although this was not the case for the organisation, it should be remembered that a threat is around every corner.

The importance of reputation management and timely reactions was also brought to the attention when looking at the crises E.On had to deal with. This organisation experienced twice the same type of natural disaster, a hurricane that destroyed their electricity network. The first time the organisation had no experience in how to deal with this situation and it took a long while before everything was handled. However, the organisational members took this as an opportunity and worked towards a learning curve that could be called quite vertical, which led them to the possibility of dealing with the second crisis with a lot more success. They experienced how important a fast reaction is in such critical issues. And as it was for E.On an experience and for Kärcher just a feeling that they could wait, it can be assumed that a timely reaction to crises is preferred, as this will benefit the overall perceptions of the organisation together with the perceptions of their handlings during the crisis.

6.8 Perceptions

In the theoretical framework the importance of stakeholders is discussed. Not only is argued that it is difficult for organisations to understand the key emotions of different groups of stakeholders. Furthermore, the clustering of different stakeholders into manageable groups has been described as a challenge. A suggestion for this issue has been proposed, namely the use of clustering into normative, functional, customer, and diffuse groups.

Customers are an extremely important set of stakeholders, which generate the major income for an organisation and are demanding in terms of benefits and/or solutions to their problems. The three researched organisations have also realised this and execute market research in order to find out what the perceptions of these customers are in terms of the organisation, its products and services, and more important in the context of this research, the

---

258 Ibid, p. 35
corporate reputation. However, the search for understanding in perceptions stops here for Arla Foods. Kärcher additionally collects press clippings to remain up-to-date about the influences of the media. And E.On provides the most research material, as the organisation also conducts market research to gain an understanding of the perceptions of communities, politicians (normative groups), and media (diffuse groups). The customers are thus seen as the most important stakeholders to keep track of the perceptions of.

Interestingly the perceptions of customers are not always researched throughout the market in which the organisations are present. Arla Foods, for example, only conducts market research in the Northern European countries. Although a boycott has taken place in the Middle East, the perceptions of customers there have never received examination. Kärcher on the other hand does analyse the perceptions of customers all over the world. For E.On every country’s department is responsible for its own research, only E.On Sverige can thus be considered here, who conducts market research throughout the country.

Most surprising though is the fact that none of the organisations takes into account the perceptions of members of the functional groups, which are the most apparent groups since they facilitate operations and serve customers. The realisation of the importance of, for example, the satisfaction of employees, suppliers, and distributors does not seem to be present. Arla Foods did mention to use the distributors of their products in the Middle East as a channel to pass through information. However, the opinions of the distributors themselves do not seem to be researched. But maybe this is done on the subconscious level, via direct, personal contact between managers. Another possible explanation could be that the organisations do not see a direct connection between the reputation and employees.

Within different stakeholder groups there are also opinion leaders to consider, these might be identified within groups, and focusing on them will have a bigger effect then approaching the group as a whole. Dowling argues that also corporate advertising and publicity will be most effective if organisations explicitly consider the roles of these opinion leaders in their social networks. When looking at the type of information distribution the organisations used it can be concluded that they indeed took into account which individuals they wanted to reach. However, whether it is really the opinion leaders that they tried to approach is not clear. Arla Foods, for example, used individuals and organisations as channels, yet it is not clear in this context whether these can be seen as opinion leaders or just convenient. Further research into this area should bring additional insight.

6.9 Learning curve

As final comments to this chapter, in this section the most important learning experiences for the organisations will be discussed.

For E.On the most important understanding and fruitful experience the organisation was left with after the crises had occurred, was the change in employee relationships. The cooperation between not only individuals, but also different departments and branches, has made visible improvements, ties have become stronger. Dowling as explains this phenomenon as: “corporate survival, personal reputations, and jobs are things, which many people will fight
hard to maintain”\textsuperscript{261}. Within Arla Foods the significance of strong relationships has also gained understanding. The organisation realised that a strong connection with the Middle East does not yet exist and should be build, in order to prevent future re-enactments from happening.

It can be said that both E.On and Arla Foods have taken advantage of the situation that they had to deal with, both organisations are determined to come out of this better than before. The things that were come across that could be further developed are now in a process to actual improvement. Kärcher however seems to be the black sheep of this bunch, the organisation seems happy to be done with the situation and no learning curve is shown.

7 FINAL MODEL

The empirical findings and the analysis led to the reconsideration of the conceptual framework. Improvements have been made and as a result a final model has been designed, which will be presented in this chapter.

The following final model shows the influence of a crisis on corporate reputations and the relations between different aspects of an organisation in the reaction process.

As has probably become obvious, considering the flow of the final model, the collected empirical findings only resulted in one additional element. Referred to is the interaction that should take place between the management of the reputation and the set-up crisis response programs. The interaction between these two components should facilitate an efficient crisis response.
8 CONCLUSION

This chapter contains the concluding remarks related to the afore-presented research. The purpose of this discussion is to provide a clear answer to the research question. Furthermore a discussion on possible future research will take place.

8.1 Restatement of research question

The main aim of this research has been to answer the following research question: ‘How can organisations restore their corporate reputation after experiencing a crisis?’

8.2 Final remarks

This research has shown that although reputations and perceptions change on their own, guiding them in the right direction is crucial. If the latter is not managed, a possible drift can occur between what an organisation wants to be recognised for and how it is actually perceived by stakeholders. Especially in crisis situations this concept is of importance, as the corporate reputation is in a vulnerable state.

In Dutch we have an expression: ‘Preparation is half of the work’. This research has shown that this is also the case in the process of restoring corporate reputations. Providing guidelines for an organisation on what has to be done during a crisis situation will help avoid possible harmful situations. These guidelines ensure that all lines are covered, from communication through responsibilities, avoiding that within organisations not first the discussion needs to take place who will be taking care of what, but more on how certain issues will be taken care of. This will guarantee a faster approach to restoration. But of course it is not all in the preparation, as the expression already mentioned, half of the work is still waiting.

Within the repairing process there are a couple of things that are in my eyes most important to take into consideration. First of all, in the process of deciding which approach would be most suitable for the organisation to deal with the crisis, it must be remembered that any situation requires a unique approach. In this decision process not only factors that have a direct influence on the process should be taken into consideration. Any organisation should be constantly aware of new, threatening influences that could arise during the reputation repair process. Examples of which are new legislation, and the impact of actions on different departments in the organisation.

When talking about influencing factors, it should not always be assumed that intensifiers, as they are discussed in the theory, have by definition a negative effect on the corporate reputation. This depends on how these factors influence the process in which the organisation deals with the crisis, whether an interrelation can be identified.

Moreover, a crisis does not always have to be seen as a negative consequence for organisations. Yes, mostly the direct consequences on economic factors is not positive, however, indirectly it might, as is the case for two of the researched organisations, have a positive outcome. A learning curve can appear following the experiences organisations have during a crisis situation.
I would like to complete these final conclusions with three tactics regarding reputation management during crisis situations:

- Prepare by expecting the inevitable.
- Analyse each situation and find suitable approaches to match.
- Never underestimate employees’ motivation and strength when facing a crisis.

8.3 Suggestions for further research

While working on this thesis, a few ideas came to mind that could be interesting for future research. As this research uses, for provided reasoning, a somewhat limited number of respondents, it would be interesting to see whether the findings are similar in other crisis situations, this would also improve generalisability. An expansion of research objects should also include organisations that have dealt with self-inflicted crises, as this research is limited to non-self-inflicted ones. It would be fascinating to see whether the same factors are of influence on the process in other types of situations.

Furthermore, an option to deepen the understanding of different stakeholder groups could be beneficial, as these in the end are the decisive factor when it comes to the creation of corporate reputations. This understanding could be created by, for example, interviewing the different stakeholder groups influenced by a certain crisis next to interviewing the organisation itself. In this situation, the approaches and purposes of the organisation could be examined. This could lead to conclusions on whether or not planned actions have the result aimed for or not, and which factors influence this process.

In addition, it could be of interest to study whether stakeholder reactions on crises are different in different cultural settings.
9 CRITERIA OF TRUTH

The following chapter considers the scientific relevance of the study, which can be measured by the research quality. Therefore, a discussion on the various factors that have an influence on these measurements will take place.

Two main criteria are proposed as primary criteria for assessing a qualitative study: trustworthiness and authenticity. Trustworthiness can be further divided into four other criteria, namely: credibility, transferability, dependability, and conformability.\textsuperscript{262} The credibility of the empirical data is secured through the recording of the interviews. These recordings were then listened too and developed into transcripts, which included every exact word mentioned. To make sure that the organisations were understood and interpreted in the correct way, the transcripts were sent back for evaluation. This approach is also one of the factors that helped ensure that the study can be considered dependable and confirmable, together with guiding assistance of a supervisor, and the strive for objectivity. The latter attended the purpose of not overtly allowing personal values or theoretical inclinations manifestly to sway the conduct of the research and findings deriving from it.\textsuperscript{263} One can thus conclude that another empirical study could be repeated in a similar context.

Transferability concerns the extent to which the findings of a particular inquiry have the applicability in other contexts or with other subjects.\textsuperscript{264} I cannot say that this research will be transferable to other research fields or contexts with absolute certainty. However, I do believe that through careful considerations and the in-depth organisational study at minimum useable reference material has come forth out of this research.

Also for the assessment of authenticity certain criteria are set, these are as follows: fairness, ontological authenticity, educative authenticity, catalytic authenticity, and tactical authenticity.\textsuperscript{265} The research presented can be considered to live up to these criteria. Different perspectives of different research subjects are considered with the goal to assemble all the gathered data in a final model, which is hoped to prove informative, comprehension creating, moreover beneficial for past, present and future organisations that find themselves in similar circumstances.

\begin{enumerate}
\item Ibid, p. 289
\end{enumerate}
REFERENCES

Books


Articles


References


Unnamed authors

Electronic resources


References

Appendix

APPENDIX A  CLUSTERED CRISIS TYPES

Victim Crisis Cluster

- Natural disaster: “Acts of nature that damage an organisation such as an earthquake, volcano eruption, tsunami or hurricane”.
- Rumours: “False and damaging information about an organisation is being circulated, while evidence exists that the information is false”.
- Scandal association: “An organisation is associated with a scandal without having any influence on the matter”.
- Workplace violence: “A current or former employees injures or attempts to injure current employees”.
- Product tampering: “An external actor causes damage to a product of the organisation. An alteration can make the product dangerous”.

Accidental Crisis Cluster

Coombs defines accidents as “discrete one-time undesirable or unfortunate events that happen unexpectedly in the life of a corporation and cause damage to any number or kind of stakeholders”.

- Challenges: “Stakeholders claim an organisation is operating in an inappropriate manner. There is a public challenge based on moral or ethical, not legal, grounds”.
- Technical error accidents: “A technology or equipment failure causes an industrial accident”.
- Technical error recalls: “A technology or equipment failure causes a product to be recalled. A product is deemed harmful to stakeholders”.
- Pilot error: “The operator of a large piece of machinery makes an error; this is the case in many aircraft and train crashes.”

267 Ibid.
268 Ibid.
271 Ibid.
272 Ibid.
275 Ibid.
276 Ibid.
Appendix

Intentional Crisis Cluster\textsuperscript{278}

- Human error accidents: “Human error causes an industrial accident. The cause of the accident is a person or people not performing job properly”.\textsuperscript{279}

- Human error recalls: “Human error causes a product to be recalled. A product is deemed harmful to stakeholders. The cause of the recall is a person or people not performing job properly”.\textsuperscript{280}

- Poor science: “Poor science and/or product testing result in a product failing to live up to its purpose. Examples are the Ford Pinto’s exploding fuel tank and Dow Corning Wright’s leaking silicon breast implants”.\textsuperscript{281}

- Poor production: “Poorly designed production processes and/or inadequate maintenance procedures cause organisational accidents. Many mining, oil refinery, and chemical plant disasters fall into this category”.\textsuperscript{282}

- Management failure: “Members of management knowingly violate laws/regulations or offer a product or service they know could injure stakeholders”.\textsuperscript{283} “Behaviour that prompts accusation (or worse, proof) of being a polluter of the environment, engaging in acts of cruelty to animals, or exploiting underage or underpaid foreign labourers are quick ways to alienate the public, as are age, sexual, or racial discrimination; sexual harassment; lapses in quality control or safety procedures that result in injury or death; knowingly producing or distributing a dangerous or questionable product and intentionally withholding warnings of potential risks; and being party to any action that knowingly violates legal or ethical standards or puts a person or persons at risk”.\textsuperscript{284}

- Poor management: “A prolonged strike, or open displays of hostility between labour and management, can create the image of a company that is poorly run, regardless of the company’s profit performance or record of efficiency”.\textsuperscript{285}

| Table 3.1 Crisis Types Definitions and Cues |

\textsuperscript{279} Ibid.
\textsuperscript{280} Ibid.
\textsuperscript{282} Ibid.
\textsuperscript{285} Ibid.
## APPENDIX B CRISIS COMMUNICATION STRATEGIES

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acts of God.</td>
<td>“This strategy is designed to appeal to the target audience’s sense of fatalism or bad luck.”</td>
</tr>
<tr>
<td>Risky Business.</td>
<td>“This strategy is based on the fact that many industries are dangerous (e.g., mining, space exploration, etc.) and the ‘law of large numbers’ will sooner or later come into play. That is, no matter what precautions are taken, in some industries accidents will happen. The fallout from these crises will also contaminate the reputations of other similar organisations.”</td>
</tr>
<tr>
<td>Aristocrat Response.</td>
<td>“This means: (a) do not explain, and (b) do not apologize.”</td>
</tr>
<tr>
<td>Head Down.</td>
<td>“This approach calls for saying as little as possible, and waiting and hoping that the media’s interest will be diverted to something else. A second aspect to this strategy may be to let an independent body like a public inquiry or a court of law determine the apportionment of the blame for the crisis.”</td>
</tr>
<tr>
<td>Positive Response.</td>
<td>“The firm has no option but to provide a positive response to the threat to its reputation. The nature of the response may vary depending on the nature of the sudden direct threat. It may include reassurance, refutation and confidence building measures.”</td>
</tr>
<tr>
<td>Mobile Defence.</td>
<td>“The firm has almost no control over the situation. The only option is to use a mobile defence. This consists of using the limited resources in the most effective form of communication, and ignoring other avenues.” Booth explains this focus through the fact that “organisation resources are not inexhaustible, especially in a crisis.”</td>
</tr>
<tr>
<td>Situational Defence.</td>
<td>“Although the firm has low control there is time to work out a defensive position and to identify and maintain its reputational strengths. This time needs to be spent in attempting to gain further support from outside to increase its control of the situation.”</td>
</tr>
<tr>
<td>Coordinated Alliance.</td>
<td>“The firm is in a weak position with a lack of control. To begin to respond to the threat, it needs to use the remaining trust and reputation to build a coordinated alliance with other stronger, more reputable firms in order to defend its position.”</td>
</tr>
</tbody>
</table>

---

287 Ibid, p. 270
288 Ibid, p. 267
289 Ibid, p. 268
290 Ibid, p. 205
292 Ibid, p. 205
293 Ibid, p. 204
294 Ibid, p. 205
### Mobile Attack.

“The firm must use its limited communication resources in a proactive fashion where they can make the most impact on the target stakeholders (e.g. direct communication with analysts/journalists rather than public advertisement). The aim is to concentrate efforts on key targets, and as these change to refocus on new key targets”.  

---

### Frontal Attack.

“The firm has sufficient control, and the threat is important enough to merit a direct response and refutation to the threat”. Dowling calls this strategy ‘counter and disarm’ in which “the company involved in the crisis uses publicity and advertising to counter the claims made by another party and to state its own case”. Another name for this strategy could be ‘take on the chin’, in which case a strong organisation provides a fast reaction.

---

### Call Lawyers.

“This is a strategy that is sometimes used when the company is being attacked by hostile outsiders, or when an employee leaks highly damaging confidential information”. Good legal advice is public silence – words spoken now are facts to a judge and jury in a later court case. While silence is golden to a lawyer, the public often perceives it as an admission of guilt.

---

### Defence/guerrilla.

“The threat to the reputation of the focal firm is very strong. The strategy here is to use the existing reputation and trust to maintain its core defensive position whilst using whatever sources are available to undermine the attack (use guerrilla tactics)”, a possible way to do this is through blaming someone else. “In many crises the actions of another person, company, or local authority may play a (significant) part in causing the crisis”.

Another option would be “to admit that there might have been mistakes in non-key areas that can be corrected. In the worst case, parts of the firm may have to be sacrificed in order to retain reputation and public trust”. The ABCD (accuse, bluster, conceal, and deny) of Dowling could also be a possible defence/guerrilla strategy.

---


296 Ibid.


298 Ibid, p. 269

299 Ibid, p. 256


Another Chance.

“Here the organisation publicly accepts all the responsibility for the crisis and asks that the company be give another chance. The apology may or may not be accompanied by the CEO’s resignation”. The latter is also seen as a public sacrifice of the guilty.\textsuperscript{304} With this, an organisation can point all the blame towards one person, or more, and lead the attention away from the organisation itself.

Market Withdraw.

“If the crisis seems insurmountable an organisation can choose to leave the market”\textsuperscript{305} for a certain amount of time or forever. “This is a viable option when a product fails to deliver up to standards”\textsuperscript{306}.

| Table 3.2 | Crisis communication strategies. |


\textsuperscript{305} Ibid, p. 271

APPENDIX C  MOHAMMED CARICATURES

The Jyllands-Posten has chosen as the central image a visual joke about the Prophet among other turban-wearing figures in a police line-up and the witness saying: ‘I don’t know which one he is’. The humour is supposed to come from the fact that the line-up also includes people like Jesus Christ, the far-right Danish politician Pia Kjaersgaard, and Kare Bluitgen. The latter wrote the accompanying article criticising self-censorships. His critique came forth out of the fact that he could not find an illustrator willing to draw images for his children’s book on the Prophet Mohammed, because no one dared to break an Islamic tenet banning the portrayal of his image.  

Eleven other cartoons were printed around the edge of the page showing the Prophet in a variety of supposedly humorous or satirical situations. One seems to criticise Kare Bluitgen for exploiting the issue for publicity to sell his book. He is portrayed holding a child’s drawing of the Prophet; while an orange inscribed with ‘PR stunt’ drops into a turban he is wearing. To explain, the expression ‘orange in the turban’ connotes a ‘piece of luck’ in Danish.

Other images appear not especially critical of Islam in their content.

308 Ibid.
309 Ibid.
Several cartoons, however, seem to deliberately try to provoke Muslims. The most controversial image shows the Prophet Muhammad carrying a lit bomb in the shape of a turban on his head decorated with the Islamic creed.  

Other provoking pictures are shown below.

310 Retrieved May 21\textsuperscript{st}, 2007, 16.02, from: http://news.bbc.co.uk/2/hi/middle_east/4693292.stm (February 9\textsuperscript{th}, 2006)
The last cartoon on the page goes back to the theme of artistic freedom: a cartoonist draws an Arab face with headdress, inscribed ‘Mohammed’, but he crouches over the drawing and shields it with his hand.  

---


312 All pictures in this appendix are retrieved May 22nd, 2007, 11:31, from: http://www.aina.org/releases/20060201143237.htm (January 2nd, 2006)