How Can Organisations Prepare for Reputational Crises?

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Most public and private organisations have assumed that they are responsible for their reputation, which they see as a key asset. In a world rapidly becoming dominated by the internet and electronic commerce, organisational control is threatened. This article develops a definition of organisational reputation and suggests how it can be nurtured. It explores the types of reputational threats that face organisations and how training may prevent or reduce the effects of reputational crises.

Defining Reputational Crisis

Reputation is usually considered at the level of the individual. The classic description of reputation brings up images of Shakespeare's Othello. People motivated by jealousy and envy seek to destroy an individual through casting doubt on his reputation. Cassio recognises the loss: 'Reputation, reputation, reputation! O, I have lost my reputation! I have lost the immortal part of myself, and what remains is bestial'. Even more pointedly, reputation has been seen in terms of Iago's description as,

> Good name in man and woman, dear my lord, is the immediate jewel of their soul; who steals my purse steals trash; 'tis something, nothing; twas mine, 'tis his, and has been slave to thousands; but he that filches from me my good name robs me of that which not enriches him and makes me poor indeed.

In the modern world it has been recognised that organisations can find the loss of reputation as harming as individuals do. In this article, we focus on the importance of reputation in the private sector. We explore and suggest how this elusive idea can be understood and what can be done to prepare and train for reputational crisis. 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'.

There are four key elements of this definition. First, the good name or reputation of an organisation is not something owned by the organisation. Good name also implies that there are degrees of repute which may range from a good name to a bad name. Second, it is an impression or common estimation. The implication is that such an impression is based on evidence over a period of time. Third, reputation is attributed by general opinion and common collective consent. It is normally most easily recognised through the media or some combination of stakeholders. Finally, the definition takes the organisation as a whole. Individuals or particular products may represent the firm to consumers, but the attribution of reputation covers the organisation as a whole, not parts of it.

There is a shortage of literature on this subject. Some authors have begun to explore the concept of reputation (Klein, 1997) and there is a literature on organisational legitimacy (Habermas, 1973; Suchman, 1995). Others have referred to reputational crisis (Fink, 1986; Gray, 2000) and to training and learning from reputational crisis (Cowlett, 1998; Tompkins, 1998). There have, as far as we know, been few attempts to construct an analytic framework for the preparation and recovery phases of reputational crisis.

Reputational crisis is normally a 'knock on' crisis, which arises after some other crisis in part of the firm. Occasionally a reputational crisis can be 'associational,' resulting from no actual crisis as far as the firm is concerned, but from the association the firm has with some other activity, entity or incident. An example of a 'knock on' reputational crisis was when the Shell Oil company suffered a reputational crisis over the dumping of the Brent Spar oil platform in 1995 (Summers, 1995). Similarly, Coca Cola had suffered a significant 'knock on' reputation crisis as a result of the 1999 allegation that Belgian schoolchildren became sick after drinking Coke. A number of countries, including France, ordered the removal of 50 million cans of Coca-Cola. The direct recall cost alone amounted to at least $102 million (Purdom, 1999).

An example of 'associational' reputational crisis concerned the Aberdeen Angus Beef

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farmers in Scotland. The BSE crisis in England had a significant effect in terms of loss of sales of Aberdeen Angus cattle, even though there had never been any cases of BSE in the herd as they had always been fed on grass in the Highlands.

Having outlined a simple working definition, we aim to:

- identify and analyse the key stakeholders concerned with reputation;
- identify the key concepts that make up reputation;
- construct a simple model of how the reputation of an organisation might be assessed;
- discuss how organisations might develop best practices in preparing to deal with a reputational crisis.

Reputation: Public versus Private Approaches – Different in Significant Ways?

Organisations in the public and private sector generally have systems to assist them to prepare and train for a variety of crises that appear to be a likely threat or which, whilst unlikely, might have a significant impact. In the public sector, the focus for training tends to be on dealing with the management and recovery aspects of tangible crises, such as natural disasters; accidents, such as air crashes or power failures; or crises prompted by human agency, such as terrorism. Failure to make any attempt to deal with such events could lead to public panic, a loss of legitimacy and the development of other ways of dealing with the crisis, which itself could lead to systemic political change. In the public sector, therefore, the primary focus is normally on managing the tangible crisis within the bounds of the political, legal and administrative system. At the same time, however, there is an appreciation of the need to manage the intangible aspects of the crisis. For example, it may be the case that the government is dealing effectively with a crisis, such as a natural disaster, but public opinion, as measured in the media, is unconvinced, and parties use this to exploit other weaknesses in the government's handling of matters more generally. This can lead to an intangible crisis for the government.

In this article, we will concentrate on reputational crises in the private sector. There are three main reasons for considering this issue. First, the increasing immediacy of communications has led to organisations having to deal with matters more quickly than in the past. Stories, issues, incidents or rumours which fifty years ago would have taken a considerable time to travel around the world now are communicated instantly and can have a significant affect on a firm's reputation. The increasing openness of information is a second factor. Through recent developments, such as the internet, information is now open to hundreds of millions of people. The reputation of an organisation, which may have taken years to build up, could be destroyed almost instantly through uncontrollable communications (Gray, 2000). This poses a very real threat to the business continuity of firms. A third reason for exploring this issue concerns the need for organisations to demonstrate that they are effectively assessing and managing business risks (Purdom, 1999). In the UK, for example, the Turnbull Report (1999) has recommended that managers should be responsible for effective business risk assessments in the interests of stakeholders. The issue of the possible loss of reputation is a very high priority for many firms, especially in the light of the damage that could be done to a firm's reputation as a result of rumours on the internet or in the media.

The Concept of Reputation

Reputation is *not owned by the firm*. It is an attribute bestowed by the key interest groups (most significantly by proxies of the public interest – the press). It is based upon an assessment which combines both an organisational and an individual dimension, and a time element: a historic, current and future dimension. Fombrun (1996: 92) defines reputation in general terms as a form of capital: 'a company's reputational capital is the excess market value of its shares – the amount by which the company's market value exceeds the liquidation value of its assets'. This definition provides a starting point for our discussion for what constitutes reputation. Reputation can be logically based on five constituent elements:

Legitimacy (conformity to expectations, based on a legal/socially acceptable foundation). This is a measure of the historic, legal acceptability of the right of an organisation to operate. It is the fundamental basis of the right to take actions for present and future operations. As an example, whilst many may prefer low emission fuels, it is accepted as legitimate that organisations sell high emission fuels at least until any change in the law.

Reliability (a mixture of competence and consistency). This is an organisational measure based on past facts, and so a historic measure for making present judgements, not an indicator of future potential. It indicates the degree to which the organisation has competently and efficiently met the product or service related needs and expectations of consumers consistently over time.

As an example, a firm such as Volkswagen has a long record of consistent reliability. In contrast, Skoda had a reputation for very poor reliability. Volkswagen took over Skoda in the early 1990s. It took about seven years for Volkswagen to improve the reliability of Skoda to approximate that of Volkswagen. It took at least nine years for Volkswagen to get the general public in the West to begin to accept that, in the light of consistent performance and reliability, people could rely on Skoda and see it as a serious alternative to a Volkswagen.

Credibility (consistent truthfulness). It is a measure of the goodness of fit between what is said by representatives of the organisation and how the organisation performs in the receiver's judgement. It is a measure of the ability of individuals in the organisation to convince external interests of the truth and effectiveness of the message.

Confidence (credibility plus consistent message communication). This measures how the organisation relates to its constituents through the communication of fulfilled expectations and consistent messages. How the representatives of the organisation act and communicate, in terms of performance, values and behaviour, is a key public face of the organisation. This, together with the personal credibility of individuals, is the public presentation of the organisation. Claims are made by the organisation. These are assessed by intermediaries such as journalists, politicians and consumers. The degree of public confidence is a measure of how far these statements or claims are commonly accepted in the public arena. This attribution is based, therefore, partly on past facts (reliability indicator), but also on credibility criteria. The reflected attribution of public confidence holds only so long as past conditions prevail in current circumstances.

Trust (based on a comparison of confidence between different organisations). This differs from confidence in that it is a measure of the degree to which people are willing to put their faith in the organisation in the future rather than in the present. This is a measure of the degree to which receivers (internal and external individuals, interest groups and media) are willing to bestow on the firm *a discounted future acceptance of the organisation's ability to fulfil reasonable expectations.* The concept of trust used here refers to a willingness, other things being equal, to accept the word (or actions) of the organisation without question in the future until any claim is made which puts trust in doubt. Trust is, therefore, built partly on the building blocks of legitimacy, reliability, credibility and confidence. In addition, however, the bestowing of trust depends to a significant degree on other factors which may be quite unrelated to the firm (or its competencies, activities or public face). These may be malicious stories, sabotage, rumour or unrelated incidents or accidents which happened in proximity to the firm and which some claim the firm should take on board even if it has no relationship with the problem. It is also based on a comparison with other competing firms in the sector, or other organisations in society which, whilst not in competition, are seen as appropriate benchmarks against which to assess the firm.

On the basis of these measures, conditional value judgements can be made about expected futures. They are the necessary condition for the development of a contingent organisational attribution of individual trust and organisational reputation in the expected future. It is contingent as the attribution only holds so long as the receiver judges that the assessment they have made holds true and the environment (which includes critical evidence from other sources) does not provide evidence to the contrary. A high reputation based on these elements can become a 'loyalty premium' which can be traded by the organisation against attacks by external individuals, organisations or regulatory bodies that threaten its repute. The hypothesis is that the greater the reputation, the greater the willingness of relevant parties to accept what the organisation says.

Gaining a high reputation, therefore, has three benefits for an organisation. The first benefit is the way the loyalty premium can be used during a crisis (as occurred with the Johnson and Johnson case). In the case of the Brent Spar, for example, where Shell lost its reputation almost overnight, it cost the firm £19.5 million just in direct costs of having to change its plans, and unknown reputational costs in failing to quickly recognise the need to change (Allan, 2000). The second benefit is the financial benefit of recurring sales with no need for additional promotion. For example, people will seek out Heinz Baked Beans, or McDonald's Burgers because of the loyalty premium of known and trusted quality and the reputation of the brand built up over time. The third major benefit is that it has been found that once a reputation has been established it can, with care, be transferred and used to nurture different types of products in different sectors. For example, in the UK the original Virgin record brand was successfully transferred to develop an airline, a railway company, a soft drinks enterprise and a financial services company.[1]

Table 1: The Basis of Reputation

	Past	Present	Expected Future
Individual		Fact Credibility	Contingent Value Trust
Organisational	Legitimacy Reliability	Confidence	Reputation

How Long Does It Take To Develop a Reputation?

The amount of time needed to generate a good reputation varies depending on industry conditions, the decisions taken by the organisation's management, and the actions of employees. Where industry conditions are subject to sudden change, where firms cannot easily guarantee standard products of the necessary quality and where customer quality needs are high it is expected that firms would take a considerable time to establish a reputation.

The key factors that build reputation are legitimacy, reliability, credibility, trust and confidence. In a situation where there is environmental uncertainty these factors are of even more importance and serve as an attractive force, as shown in box 1 of Table 2. Where industry conditions change only very slowly, firms that take the time to establish a reputation find that loyalty leads to repeat purchases. Reputation provides security and known value for the customer as in box 3 below. Where there is very little differentiation between firms in terms of reputation, as in box 4, customers will be more willing to switch between providers of equal reputation. Price is normally the basis of customer decisions in this case. Finally, in box 2 we see the situation where there is a high degree of uncertainty in the market and business environment and where no organisation has established a strong reputation. Customers will purchase only when they have to and take a cautionary approach, often relying on vanguard purchasers and media assessments when making the purchasing decision. In this case, organisations generally wish to invest in developing the systems necessary for a high reputation to create differentiation, and to create alliances, with other partners and even governments, to reassure the public.

Some industries traditionally have been seen as subject to instability and change and, as a result, have succeeded by trading on reputation as a key differentiating factor. The banking industry illustrates this. Even today in this industry it is considered important to have a good reputation based on soundness and prudence. In the past reputation was based on a long factual record of sound financial advice and reliability in lending and investing. This was necessary in order to give customers enough confidence and trust for them to deposit their funds in the bank. Today this is rapidly changing. The need for a long track record of reliability and credibility is a less significant part of the reputational index. Instead customers are valuing other aspects.

Two examples illustrate this. First Direct Bank, a virtual bank, began operations without branches and yet, within four years, had created a significant position in the banking market. Its reputation was based mainly on the confidence customers had in its systems for security and the value the customers put in ease of use and low cost of operations. The truthfulness of the claims made by the bank were borne out in its operations. Whilst most banks had very low growth in terms of the number of customers,

Table 2: The Usefulness of Reputation

		Organisational Reputation	
		High	Low
Industry Uncertainty	High	1. ATTRACTION Super value attract customers	2. DISTRUST Caution
	Low	3. LOYALTY High value retain and grow customer base	4. DISLOYALTY Low value High customer switching

First Direct experienced explosive growth. Within four or five years it could fairly be said that the bank had created a reputation good enough to threaten the established major retail banks. An even more astonishing illustration is the way in which Virgin Direct has within two years become a successful financial institution based on the transfer of its existing reputation.

For such organisations it is absolutely critical that their reputation is maintained as it is the most important asset these firms own. Careful assessment of the possible ways in which the reputation might be eroded is necessary in order to identify ways of combating potential crises.

Reputational Loss

Three categories of factors are probably most important in understanding reputational loss. First, external issues or forces may significantly alter the ability of a firm to maintain its existing reputation. A firm might be associated in the public mind with a crisis when there is no legal, economic, social or political connection whatsoever. The dangers of what could be called 'negative associational impacts' for a focal organisation need to be carefully considered by those involved in what has become known as 'reputation management'. For example, a pop star might be engaged to promote a product and become involved in negative publicity. The product and the firm may be in danger of becoming contaminated by such publicity. Many firms might decide to discontinue using such a star for promotional purposes in order not to endanger their reputation through 'negative associational impacts'.

Second, significant changes in technology, health or some other area of science, or changes in public perceptions of values concerning, for example, the environment, may have a key influence on the ability of an organisation to retain a high public reputation. Firms whose reputations may have suffered as a result of these trend changes include Manville (asbestos) and Phillip Morris (cigarettes).

Third, an internal failure to maintain previous levels of reliability, consistency, credibility, confidence and trust can be seen as a management failure. British Nuclear Fuels (BNF), admitted in late 1999, that it faced a 'crisis of confidence' in its reputation. In an industry in which safety, reliability and accuracy are critically important, it was shown that top management had sanctioned the falsification of certain documents (Keogh, 2000).

Best Practice in Crisis Preparation

For the top management of many firms, the greatest concern is for the maintenance and development of reputation. There has, however, been a lack of attention as to how firms may develop best practice to protect reputation in preparation for business continuity and crisis recovery. An effective reputational index would be a useful contribution to firms, analysts and observers wishing to measure how well one firm compares to another in their efforts to prepare for reputation maintenance during a crisis and in recovery from a crisis. We aim to develop a model and suggestions for how to approach reputational crisis preparation.

Measuring Reputation: Key stakeholders

How might reputation be measured in the private sector? If we take banks as an example we can suggest the following critical stakeholders:

- *Financial markets* The confidence of financial backers shown by predicted future stream of earnings (share price).
- *Customers* The willingness of clients or customers to purchase the firm's services or products.
- *Regulators* In this case the central bank (in the UK the Bank of England), international regulators (International Bank of Settlement), and government.
- *Internal* An internal measure of confidence. This can be a composite based on a number of indicators:
  a. Proportion of turnover invested in R&D (indication of management confidence in the future potential of the business).
  b. Directors' sales of shares (indicator of confidence by those with best knowledge in the strength and future potential of the firm).
  c. Staff turnover rate (indicator of staff confidence in the firm).

Many of the key interest groups develop their impression of the focal organisation through intermediaries, such as the media and the internet. The issue of how to manage communications toward the key interest groups is, therefore, an important matter for the focal organisation which will be dealt with later.

Each element may be weighted differently in developing an industry matrix depending on the degree of stability and turbulence in a sector.

In stable and non-turbulent sectors, reliability and credibility will be awarded the highest weightings; legitimacy will not be significant unless the firm attempts to move into new markets; trust will have a medium rating as the future is relatively predictable and it would be expected that there would be no need for a deal of great trust.

Table 3: A Reputational Index for the Banking Industry

	Organisational Reliability Indicator	Organisational Legitimacy Indicator	Personal Credibility Indicator	Organisational Confidence Indicator
Measures	Historical trends in commercial activity (such as price/earning ration, profitability ratios and turnover ration)	Basis of operations indicator: legal base of operation, professional capability	1. Number of questions asked in AGM's/EGM's[1] (surrogate measure of truth) 2. Chief executive predictions for performance (surrogate measure of truth) 3. Technical and professional quality of staff (measure of effectiveness) 4. Number of adverse comments about management in the press (measure of effectiveness)	1. Comparative ration of favourable /adverse stories in the relevant media 2. Share price changes over a relevant period 3. Directors share sale/ purchases 4. Ratio of R&D investment to profitability
Source	Annual reports compared with sector averages	Banking Law, central bank reports, professional banking journals		
Criteria or Standard	1. Good reliability: consistently in top 25% of firms in the sector over the last 10 years 2. Poor reliability: consistently in the bottom 25% of firms over the last 10 year period	1. Records of activity conforming to law and convention within the banking community in the country of origin (base legitimacy) 2. Historic scope of operations: degree to which bank goes beyond core functions[2]	1. An indication of the degree to which owners are willing to accept the assurance of the top management. The more questions in an AGM or EGM, the more the personal credibility of the individuals running the organisation comes into question. 2. A standard against which to measure the chief executive compared to his predictions. By combining these measures an index can be created in which all the firms in the sector can be comparatively assessed. The top 25% would gain high ratings for credibility and the lowest 25% a low rating for credibility.	1. An external assessment of the organisation. The most useful criteria is a comparative standard. This would mean assessing all stories, weighting them and then dividing the indexed numbers of adverse stories with the favourable stories to give a ratio for each firm. 2 Information about whether there is investor confidence in the organisation. The share price of all firms can be indexed and then compared in terms of performance over the relevant period. 3. An index which would show the degree of confidence that directors had in the firm. The more director's share sales the less confidence.

[1] AGM – Annual General Meeting/EGM – Emergency General Meeting.
[2] This criteria can be assessed by taking all banks and indexing them according to whether they keep to one home country and core functions. Those based in countries with the weakest regulatory authorities, and which provide a wide variety of functions would gain the lowest legitimacy score.

A quite different picture emerges for firms in a turbulent dynamic environment. A record of reliability and past credibility will not be any guide (or have any relevance) to the present or the future. What customers value is the ability of the firm to reassure them (confidence and truth) about present operations. This will not necessarily lead to bestowing a high degree of trust unless some other sources of reputation can be used to reassure the customers of the ability of the firm to succeed in its aims.

The conventional way of assessing whether a firm has high, medium or low repute is to carry out a weighted survey of interest groups based on their views on each of the factors that constitute reputation. In some cases these interest groups may differ in their views, so no overall assessment may be possible. A further issue that may emerge from such a survey is that there may be a very different view of the firm in one area (geographical location, consumers of certain products, one class of shareholders) compared to another. As a result, a reputational survey will need to assess the impact of such variation on the perceived reputation of the firm in the public arena.

Preparation for Crisis: Protecting (Developing) a High Reputation

In this section we set out to answer a simple question: Can we outline a basic approach to developing a reputational audit? As reputation is an attribute based on general opinion and attribution, the key indicators are likely to be found in public communications (Argenti, 1994; 1996). Three categories of media provide the main sources of opinion and attribution relating to reputation. First, the popular media (internet, TV, radio, press). Second, the professional, technical and specialist media (these include annual reports, trade association journals, professional journals and specialist magazines). Third, official media (including government reports, statistical publications and regulatory reports). The decision about which combination of media is selected will depend on the particular type of organisation being audited.

The selection of key indicators will also be a matter of discussion depending on the organisation concerned. In the banking industry, for example, the indicators and measures depicted in Table 3 put flesh on the bones of the concepts that have been suggested. It is for specialists to develop more refined measures based on the core indicators.

Preparation for Crisis: Environmental Threats to Reputation

Different elements of the concept of reputation may be threatened by different environmental circumstances. The turbulence and dynamism in the environment lead to an emphasis on different stages of the reputation concept, and a threat to them. These are explained below and shown in Table 4.

Credibility may be at stake in attempting to deal with a crisis characterised by dynamism. External interests, including customers, may rely more on personal credibility than on anonymous statements from an organisation in dynamic circumstances where the situation changes rapidly. People want a face and a name on which they can rely. This needs to be backed up by organisational action. But the symbolic and rhetorical force of an individual is often of critical importance in situations of rapid change.

Reliability is at stake when it can be demonstrated that there have been changes which invalidate the previous record of reliability. So, for example, the UK public simply did not believe the representatives of the UK beef industry in the early 1990s when they suggested that beef was safe when it was clear that other parties were taking a different view. Contradictory interpretations of facts led to a loss of reliability.

Table 4: Preparation for Crisis: Environmental Threats to Elements of Reputation

	Degree of Turbulence	
Degree of Change	High	Low
High	Uncertain Unforecastable *Responsive approach* ***Confidence***	 Predictable *Scenario emphasis* ***Credibility***
Low	Sudden unforeseen change *Preparedness emphasis* ***Trust***	Known present and future *Planning emphasis* ***Reliability***

Trust is at stake when there is an unexpected and radical alteration which could not be foreseen. In this situation, interest groups may be most willing to trust those in whom they have put their trust in the past. This can be traded on until the situation begins to stabilise, so long as no evidence arises which questions the trust that has been bestowed on the firm.

Organisational confidence is at stake when there is both a turbulent environment and dynamic change. The reason is that no individual could deal with the complexities of such a situation. A strong organisation with a good reputation is needed in order to deal with the possibly significant and complex issues that have to be faced. The interest groups will expect a firm to take on such responsibilities where they impact on the firm, not just where they may be legally responsible. If they fail to respond in an appropriate manner then confidence in the organisation could quickly vanish and its overall reputation could be endangered.

Preparation for Reputational Crisis: Communication Management

Although reputation is conferred by external parties on organisations, there clearly are significant opportunities for organisations to influence at least some of the decision makers who contribute to the making of reputation. The key to effectively preparing for reputational crisis is, therefore, to devise a communications strategy and plan that maximise the reputation of the firm in the light of the crisis that is to be faced. We can suggest a generic communications strategy and plan which could be adapted for particular circumstances for use as part of the confidence building process.

The focal organisation will seek to maximise the effectiveness and efficiency of resources used. Organisation resources are not inexhaustible, especially in a crisis.

In terms of strategy, therefore, the key issue is to avoid a scatter gun approach to crisis communication and to identify the specific levers which will lead to the greatest influence on the intermediaries resulting in maximising the reputational index. It is suggested that this will be a four stage process:

Communications Strategy
The first stage is to develop a strategy in the light of the situation. A suggestion concerning the development of generic communications strategies for dealing with reputational crisis is outlined below.

Communications Plan
The second stage is to create a set of plans appropriate for the particular situation or threat faced in different zones or channels. These must be closely co-ordinated and derive from the overall strategy, but must also be appropriate to dealing with the concerns or issues in the different channels or zones. The two main zones are, first, the geographical areas or countries where different laws mean that different methods may need to be employed; and, second, social communities or societies differentiated by culture and customs where different approaches need to be considered.

There are normally eight main channels that may need specific communication plans that fit with the overall strategy (employees, owners, suppliers, customers (including ex-customers and potential customers), retailers, regulators, political representatives and government, and general public opinion). In developing a plan there needs to be an analysis of the nature of the concerns or questions in each channel about the reputation of the firm. In addition, the past, present and future costs of the damage that has been caused, or might be caused, through deterioration of reputation may be assessed. The nature of how to begin to restore reputation needs to be considered and what levers of influence can be used on key parties in each channel. At this stage, the planning does become a matter of careful assessment of influence, something which has been the arena of PR and marketing consultancies.

There are two basic approaches: the 'military approach' and the 'missionary approach'. In the military approach a 'forces analysis' starts the process, identifying the nature, size, disposition and morale of the forces threatening the reputation of the firm. This leads on to the identification of the weakest link in the opposition which can be most effectively used as a bridge head for attack. The whole approach is based on the ideas that attack and overcoming opposition are key to success. At the same time, the important idea is that efficiency and effectiveness demand that no aggressive actions are taken until they clearly become necessary. The key problem with this approach is that it may ignore or undervalue the weak signals undermining reputation. When it becomes clear that action is necessary, it may be too late.

The missionary approach takes an opposite view. It begins by identifying friendly forces which can be used as a home base for operations. It then aims to convert, beginning with 'favourable potentials', those who by association or disposition are inclined towards the organisation, followed by the 'neutral potential', those who can be convinced by argument and by demonstration effects. The approach is based on a social colonisation principle: attraction, envelopment and inclusion. The key problem with this approach is that it does not easily deal with the problem of reputational sabotage, where the firm is under threat from groups determined to destroy it.

Communications Operation
The third stage is the operational phase (the resourcing and implementation of the plans). This is the arena where the management of detail becomes critical for success. The co-ordination of operations between different plans and channels is important to ensure that no contradictions arise.

Communications Review
The fourth stage is the monitoring and review of the process leading to revision and replanning.

In this paper we only have space to discuss the first stage of this process. This is the most important stage in terms of overall direction. The other stages flow from this and include details that would not be appropriate in what is a paper concerned with developing a general approach to crisis preparation.

Stage 1: Communications Strategy

The first decision is concerned with whether there is a need for an offensive or defensive approach to strategy. This decision will be based on an analysis of the situation and of the degree of control the firm has over its environment and the threat. The degree of control is based on:

a. The position of the firm in its sector (leader or follower).
b. The relationship it has with the key decision makers concerning reputation.
c. The degree to which it can gain sector-wide support for the strategy.

For example, if the firm is faced with a direct external threat to its core activities, and if it has previously been aggressive and outspoken in maintaining its reputation, then it has no other option but to develop an offensive communications strategy. In contrast, if it is faced by a what we have called above an 'associational impact' crisis which the firm has no legal or other responsibility for and which is tangential to the core image of the firm, and if the firm has in the past taken a low key approach to reputation maintenance, then the firm could take a defensive communications strategy. If, on the other hand, an 'associational impact' crisis threatens the core reputation of the firm, it might be necessary to take 'ownership' of the crisis in order to ensure that the firm had some levers with which to control the situation. Table 5 below, as an example, provides the basic options open to firms in terms of generic communications strategies in a situation that threatens the survival of a firm. These generic strategies can be likened to classic strategies used in warfare. In a sense there are similarities as for the focal firm generic communications strategies reflect a struggle for survival.

MD *Mobile defence* 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. One way of maximising resources is to use a credible person willing to defend/advance the firm (e.g. Richard Branson's responses to British Airways' attempt to attack his weak position and reputation in the Atlantic air wars).

In a situation where the firm clearly has been at fault and is legally liable, it may be required to make significant compensation through the courts. In this case the defence may be a holding operation to protect the legal position. The result may, however, be a significant loss of reputation and trust. The loss of this value may well outweigh the subsequent court costs. Firms may be advised to consider making an immediate settlement in order to attempt to retain some of their reputation.

SD *Situational defence* Although the firm has low control there is time to work out a defensive position and to identify and maintain its reputational strengths. This

Table 5: Generic Crisis Communications Strategies (In Case of Major Threat)

		Situation (Nature of Threat)			
		Direct		Indirect	
		Sudden	Slow	Sudden	Slow
Control	Low	MD	SD/CA	SD	SD/CA
	Medium	DG	SD/CA	MA	MA/CA
	High	PR	FA	FA	FA

time needs to be spent in attempting to gain further support from outside to increase its control of the situation. The danger of this position is that, as time goes by, the threat to the reputation of the firm does not diminish and the loss of value of reputation continues.

DG *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 of guerrilla tactics), or to admit that there may have been mistakes in non-key areas which can be corrected. In the worst case, parts of the firm may have to be sacrificed in order to retain reputation and public trust in the core.

CA *Co-ordinated alliance* 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 co-ordinated alliance with other stronger, more reputable firms in order to defend its position.

MA *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.

FA *Frontal attack* The firm has sufficient control, and the threat is important enough to merit a direct reposte and refutation to the threat. The firm's reputation would be questioned and put in danger if an immediate refutation was not forthcoming. The firm must be prepared for an investment at least equal to the value of the firm's reputation, which may be required in order to successfully overcome the threat.

PR *Positive response* 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. In making a response it must trade on the reputation and trust that it has developed over the years, as this is what is at stake if it fails to succeed in responding to the threat.

Conclusion

The customer's right to choose which products or services to buy can mean sudden death to enterprises. Many firms find it hard to remember that this truth holds whether the firm is small and young or large and old. It is very easy for managers to overlook the reality that the customer has an interest in the firm. This interest does not end with a decision to purchase. In a way the customer, through the inter-mediation of governments and the media, has an interest in how a firm operates as well as in its output. In this way the public, through the government, has a role in monitoring and maintaining standards of activity and behaviour acceptable to society and its citizens. In order to maintain its reputation, the firm, therefore, has to respond to the legitimate inquiries from the four main interest groups: its shareholders, customers, government (on behalf of the public and citizens), and employees. A good reputation is a key asset for a firm (Fombrun, 1996). If this is the case, it is important for firms to prepare for reputational crisis. In the past, firms that have had to deal with reputational crisis have often turned to public relations consultancies for help. The general approach of these companies has been to use a marketing communications focus in dealing with reputational problems.

This paper, in contrast, has taken a step back from a marketing and PR approach and discussed the fundamental building blocks which make up the concept of reputation. With this new starting point we have suggested how firms can begin to prepare for a reputational crisis, and the ways in which they can deal with reputational threats. The framework developed for reputational crisis preparation provides a contribution to what will be an increasingly significant area of crisis research and practice.

Note

1. In the past this has been valued in monetary terms as 'goodwill'. There is no reason why the more general loyalty premium could not equally be valued by insurance companies in order to both reduce premiums for those firms that have high reputation, and to increase premiums for those that have low reputation.

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