Chapter 6

Image Restoration and the Management of Reputation

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ABSTRACT

In September 2007, the directors of United Kingdom-based Northern Rock bank had to engage in crisis management following a run on the bank. The rhetoric of the bank’s pre- and post-crisis press releases is analysed in the chapter, and the findings confirm that the DICTION certainty variable increases post-crisis, and the optimism variable decreases post-crisis. According to the date of departure of the incumbent chief executive, the separation of the post-crisis period reveals additional significant changes in rhetoric. Notably, in the post-crisis period, but prior to the departure of the serving chief executive, the analysis reveals a propensity to: (1) intellectualise problems rather than act upon them, (2) seek to reassure but with an inability to speak ex-cathedra, and (3) make greater use of denial-related language whilst avoiding discussion of hardship matters resulting from the crisis.

INTRODUCTION

Companies now commonly cite reputational risk as the most significant threat to their operations and, consequently, there is an increasing focus upon the importance of reputation risk management (Bayer & Hexter, 2009). Contemporary examples of events that have had a detrimental impact upon corporate reputations include Toyota’s recall of cars with defective accelerator and brake pedals (see for example, Wearden, 2010) and the BP oil spillage in the Gulf of Mexico (see for example, Pidd, 2010). The importance of reputation has been highlighted by Argenti (1997) who asserted that an organisation’s ability to manage reputation was central to its long term existence, and the focus upon reputation in organisational practice has resulted in the creation of more than 700 corporate reputation rankings (Gaines-Ross, 2009).
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The source of this attention to reputation is the recognition that there is a connection between reputation and firm value (Coombs & Holladay, 2006). The nature of this connection is complex, as reputation may influence (and be influenced by), *inter alia*, financial performance and the ability of the firm to attract and retain talented employees, gain customers, negotiate with suppliers and access capital (Deephouse, 1997; Srivastava, McIn- ish, Wood & Caprarro, 1997; Cravens, Oliver, & Ramamoorti, 2003; Coombs & Holladay, 2002; Roberts & Dowling, 2002; Mazzola, Ravasi & Gabbionetta, 2006; Armitage & Marston, 2008). This reputation-value relationship is a source of risk as any damage to reputation caused by crises has an adverse effect upon value. Consequently, when a crisis occurs that affects an organisation’s reputation it is important that there is effective crisis management and, centrally, there is a need for effective crisis communication to limit (and subsequently repair) the damage to organisational reputation (King, 2002; Roberts and Dowling, 2002).

In this chapter, the authors build on the existing literature on reputational risk management by analysing the case of the UK bank, Northern Rock. In September 2007, the directors of Northern Rock had to engage in reputational risk management following the revelation that they had been seeking financial support from the Bank of England. This revelation led to a crisis, with a run on the bank occurring. The theoretical framework the authors draw upon to perform this analysis is image restoration theory, as developed by Benoit (1995, 1997). Image restoration theory has become a dominant theory in crisis communication (see for example, Hearit, 1995; Burns & Bruner, 2000) and Benoit’s basic premise is that “communication is goal directed activity and … one of the goals during a period of crisis is to protect or restore one’s image or reputation” (Rogers, Dillard & Yuthas, 2005, p. 162).

Northern Rock’s press releases are analysed as the bank endeavoured to manage its reputa-

tion during the crisis. Given the time delay in the publication of annual reports, press releases may better capture the corporate messages being communicated over the course of a particular timeframe. Press releases are prepared in real time and, therefore, may be more candid compared to the (perhaps) more reflective and more managed messages disseminated via annual report disclosures. To examine the rhetoric of the press releases, this chapter utilises DICTION as an analysis tool.

The chapter is structured as follows. In the next section, a review of reputation and image restoration literature is provided. This is followed by the method section that initially provides a short overview of the Northern Rock case and explains how the financial crisis influenced upon its reputation. The research method is then discussed and hypotheses developed to test image restoration theory. Subsequently, the findings and a full discussion of the results are presented. Finally, the implications of the research are discussed within the conclusion.

REPUTATIONAL RISK AND IMAGE RESTORATION STRATEGIES

Reputational risk is now judged as important as other risks such as strategic risk, financial risk and operational risk. This awareness has been influenced by the growth in reputation indices (such as Fortune, Reputation Quotient, and Management Today), and managers are greatly concerned about how their reputation is perceived (Power, 2007). Fombrun and Van Riel (1997) formally define corporate reputation as:

… a collective representation of a firm’s past actions and results that describes the firm’s ability to deliver valued outcomes to multiple stakeholders. It gauges a firm’s relative standing … in both its competitive and institutional environments. (Fombrun, and Van Riel, 1997, p. 10)