

# News



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## Editorial

**Dear Readers,**

Several weeks after the collapse of American investment bank Lehman Brothers, the financial crisis has reached the real economy. Almost every day, the media carries reports of companies forced to announce billions in losses. And to this series of financial losses, no end appears to be in sight. Such a situation makes clear how important intangible values such as reputation in fact are for companies – especially in periods of crisis. A general loss of confidence is enough to deny liquidity to once-strong banking institutions and to bring them to the brink of ruin. With this in mind, this Christmas edition of ECRS News also focuses on the financial crisis, which increasingly is becoming a crisis of confidence for the economy as a whole.

Dr. Mark Eisenegger

Ralf Langen

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## Reputation Agenda: Trends & Topics

**Analysis of the top communications events and topics in October 2008.**

Position	Communication event	Article Number	Increase / Decrease	Rank				Average
				FAZ	GU	NYT	NZZ	
1	Financial crisis	931	↗	1	1	2	1	1,3
2	US Presidential elections	534	↗	2	2	1	2	1,8
3	Development stock markets	89	↗	3	10	6	2	5,3
4	Reconstruction in Afghanistan	79	↗	7	4	4	14	7,3
5	Middle-East Conflict	56	↘	6	7	9	8	7,5
6	Caucasus conflict	53	↘	4	11	9	8	8,0
7	Economic Cycle USA	57	↗	14	13	5	5	9,3
8	Economic Cycle World	40	↗	8	8	19	8	10,8
9	Civil war Iraq	51	↘	14	13	3	16	11,5
10	Price development Oil	31	↘	19	13	13	7	13,0
11	Real Estate Market USA	31	↗	12	21	7	13	13,3
12	Take-over struggle Wachovia	25	↗	14	13	14	14	13,8
13	Business development Volkswagen	38	↗	5	11	28	16	15,0
14	Worldwide financial regulation	34	↗	10	21	28	5	16,0
15	Civil war Kongo	21	↗	14	13	19	19	16,3
16	National crisis Thailand	18	↘	19	18	19	20	19,0
17a	Economic cycle EU	28	↘	9	39	19	12	19,8
17b	Identity crisis Turkey	24	↗	11	26	34	8	19,8
19	Business development UBS	27	↗	19	26	38	4	21,8
20	Regime Mugabe in Zimbabwe	20	↘	35	18	11	24	22,0

The topics for the month of October show a clustering of communications on the **US Presidential elections (2nd place)** and more particularly the **global credit crisis (1st place)**. The dramatic escalation of the credit-market crisis in recent months has led to a massive increase in public attention. Reportage has risen exponentially: while article numbers were already very high in September (446 articles), the monthly figure doubled for October (for the response chart, see Figure 1 below). Reportage in October on the credit-market crisis focused on the various state rescue packages for shoring up the banking sector. A series of other communications events related to the credit market crisis garnered high levels of interest: the “black week” on share markets at the start of October, or rather the enormous volatility of stock markets throughout the month drew attention to **developments on the global stock markets (3rd place)**. Reportage on the economy centres on what impact the financial crisis will have on the real economy, with an increasing expectation emerging of a **worldwide recession (places 7, 8, 17a)**. Ahead of the G-20 Summit in November, a debate about a **new “world economic order”** is gathering pace (14th place).



\*The media sample includes: Frankfurter Allgemeine Zeitung (FAZ), The Guardian (GU), New York Times (NYT), Neue Zürcher Zeitung (NZZ).

## **From a financial crisis to a crisis of confidence. On the importance of reputation in crises**

**Most managers in recent years have preached the importance of intangible corporate values – at least in glossy brochures and newspaper interviews. How important reputation actually is for economic stability, is illustrated by the current shift from a financial crisis to a general crisis of confidence.**

The collapse of American investment bank Lehman Brothers triggered an unparalleled wave of panic on international finance markets in recent months. Since that time, the financial crisis seems to be self-perpetuating: a domino effect has taken hold, with the crisis claiming one company after another. And yet, non-performing loans are not always the cause of the plight. Even a rumour or public speculation can suffice for a bank to lose liquidity. The reason: fear induces other banks to withhold credit, and already the company is in serious trouble. "The reputation of a healthy bank can quickly be lost, thus threatening its survival," said Frank Romeike, Chairman of the Risk Management Association, speaking to the *Süddeutsche Zeitung*. Confidence, and with it reputation, becomes a decisive asset for weathering a crisis.

In fact, broad sections of society are increasingly questioning the entire economic system. The credibility of companies and managers is dwindling from day to day. And those affected are asking themselves how confidence, once lost, can be regained. The winners in all this are numerous *Bausparkassen* (building societies), *Sparkassen* (savings banks), *Volksbanken* (credit unions) and *Raiffeisenbanken* (co-operative banks): while major banks suffer a massive loss of confidence among their customers, brought on by risky deals, these financial institutions profit. In recent years, the *Bausparkassen* (building societies) especially have faced stagnation and flagging annual figures because of their solid business policies. But while the global financial crisis rocks markets around the world, it has proved something of a blessing for such building societies. Playing it safe with their assets, and reducing their risk as much as possible, scores of investors now prefer to entrust their money to conservative institutions.

Recent surveys by market researcher Forsa confirm the positive effect of a solid reputation on corporate success: despite, or precisely because of, the financial crisis, family-owned businesses are respected as rarely before, while many managers at major corporations have squandered confidence among customers and investors with their risky approach to business. As employers, too, family businesses are gaining in stature among the highly qualified: many are coming to appreciate the benefits of the dependable, trustworthy structures found in the once-sneered-at Old Economy. This moral bonus is a boon for SMEs – at least for now.

Against this background, regaining lost consumer confidence will be crucial in the coming months. 74 percent of managers surveyed in November for the *Handelsblatt Business Monitor* say that restraint and good management are the correct strategy for conquering the crisis. It will be interesting to see whether, as with so many crises, this turns out to be no

more than lip service, or whether the sector in fact walks the talk. As ECRS Advisor Joachim Klewes emphasises, “how a company behaves is much more important to its reputation than how it communicates.”

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**Voices from business and politics – How the collective loss of confidence is changing our economy.**

How do experts in business and politics gauge the financial crisis? The following statements of opinion leaders from various areas and sectors yield a fairly clear picture: responsible behaviour should once more take a more prominent role – even more so in the banking sector.

“Car-manufacturer summits, deals with boards, red-wine evenings with managers – the way Gerhard Schröder responded to crises would no longer be a political option today even if business leaders showed more restraint. Too much proximity to managers would be more likely to harm politicians today – after all, the caste has fallen into disrepute.” (DIE ZEIT, 27.11.)

**Volker Kauder, Head of the Parliamentary CDU:** “The guarantees provided for in the federal budget aim to re-establish trust and so ease the flow of credit to healthy companies. The state cannot and must not assume responsibility for bad decisions made by individual companies.” (Die Welt, 25.11.)

**Federal President Horst Köhler:** Banks must refocus themselves on being first and foremost the guardians of the savings entrusted to them. “Re-engage with the virtues of the respectable *Bankier*,” said Köhler – adding, with a barb directed at the increasingly Anglo-American-influenced world of finance: “And I purposely say *Bankier* [i.e. the German term] and not *banker*.” (Die Welt, 22.11.)

The financial crisis may also complicate another Obama desire: to improve America's reputation abroad.

**(Peter Beinart, Senior Fellow for U.S. Foreign Policy, Council on foreign relations, 13.11.)**

It seems no one has yet underscored the risk to the reputation of financial institutes. Damage of this kind is not factored in to loss calculations. Yet it is clear that the debasement of this asset will be the most important consequence of this crisis, manifesting itself primarily in a loss of confidence among customers and stakeholders.

**(Jean-Aymon Massie, President of the Association française de gouvernement d'entreprise, easybourse)**

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**From the bookshelf: Reputation management publications 2008**

Publications on reputation management in 2008 are also marked by the financial crisis. In

the following, we introduce a selection of books focusing on the opportunities reputation management presents for SMEs as well as the aspects of trust and ethics.

**Robert Burkhardt: Reputation Management in Small and Medium-sized Enterprises. Analysis and Evaluation of the use of Reputation Management: A Survey of Small and Medium-sized Enterprises in Germany.**

Published by Diplomica Verlag, 2008

**Short description:** The book explores how reputation management through systematic analysis can positively and sustainably affect a company's reputation. Especially in the age of the internet and mobile communications, reputation is becoming more important, not only for major corporations, but for enterprises of all sizes. The author points to the opportunities in this field, from which SMEs in particular can benefit.

**Stephanie Rauscher: Reputation: Kompensation von Kommunikations- und Informationsasymmetrien durch Vertrauen**

Published by VDM Verlag Dr. Müller, 2008 (in German)

**Short description:** Increasing competitiveness and globalisation have made reputation a key factor for success. Reputation has an especially strong impact where information or communication asymmetries exist, where it is necessary to generate trust in advance. This interdependency (trust and reputation) points to the relevance of reputation for PR. The book gives a nuanced account of the concept of reputation and critically evaluates its makeup. In addition, the functions of reputation are analysed with respect to their relevance for PR.

**Regina Schwegler: Moralisches Handeln von Unternehmen: Eine Weiterentwicklung des Modells und des Ansatzes der Ökonomischen Ethik auf Basis der neuen Systemtheorie und Institutionenökonomik**

Published by Gabler Verlag, 2008 (in German)

**Short description:** Business and ethics are often regarded as opposites, and debates on the subject are often polarised. They suggest that companies face a decision between maximising profits and being responsible – possibly at the cost of being economical. Regina Schwegler explores the possibilities and boundaries for companies acting ethically in competitive market conditions. The author systematically sets out how ethical standards can, for the most part, be reconciled with competitive conditions.

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## ECRS Events

### **ECRS Symposium 2008: Successful Reputation Management needs stakeholder engagement**



**Against the backdrop of the current financial crisis, which can be seen as a major reputation crisis of the of the free market economy as we know it, the question about how global markets influence corporate reputation and how**

companies can deal with reputation crises is becoming ever more acute. The 3rd ECRS Symposium focussed on the building processes of corporate reputation as well as measurement tools and reputation management strategies in a globalised world. With about 70 participants from over 20 countries this years' conference was the best attended and most international conference in the history of the ECRS.



Whilst ECRS board member **Dr. Mark Eisenegger** highlighted the consequences of the financial crisis on the global economy and proposed seven theses of reputation management in the age of globalisation, Prof. **Dr. Manfred Schwaiger** presented his latest results of his pilot study on the correlation between the reputation of a company and the willingness of students to apply for a job at this company. With striking results: While reputation leaders have to pay around 5% more to hire top talents, reputation laggards must disburse 20% for the same result.

Other highlights of the conference included:

- **Gianni Catalfamo**, CEO of Pleon Italy, pleading for the importance of listening to people instead of only measuring reputation. According to him, social media are a promising tool to spread reputation and to get to know the expectations of the public.
- **Abbot Primate Dr. Notker Wolf** talking about the reputation of the Catholic Church in the 21st century and insisting particularly on the need to listen to the needs and thoughts of Christians all over the world in order to manage the balancing act between the diversity of the worldwide community of Christians and the unity of the Church.
- **Jeremy Cohen**, former head of external affairs of Shell renewable energy showing with some concise case studies such as BP, Exxon Mobile and Shell, that companies can no longer build their reputation on uni-directional advertising campaigns, but must enter into a dialogue with their stakeholders.

At the bottom line, almost all speakers agreed on the growing importance of going beyond one-way-communications through advertising campaigns towards a more direct and interactive engagement with stakeholders and the general public. Or, as Tony Baynes put it, since reputation is tied to actions rather than communications, successful reputation management should focus on powerful and strategic actions based on stakeholder's expectations.

To download all presentations, pictures and videos of the conference, please visit:

<http://www.reputation-symposium.com/>.

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## Impressum

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