

Fear

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Financial service firms on Wall Street are reeling from panic that savaged their stocks, froze their credit and drove prominent names out of business. History will show some firms were zombies – walking dead with balance sheets of bad debt and unmarketable derivatives. On the other hand, it will also show some companies were victims of fear beyond the reach of communications.

There is no PR solution for this kind of crowd-action and panic. Bold words cannot calm a raging storm. The market panic of 1929 ignited the Great Depression that nearly broke the country. The tech mania of the late 1990s and early 2000s resulted in a collapse. The housing bubble of the 2000s with the consequent meltdown of 2008 is serious and its effects are only just being felt as this essay is written. There are months more of bankruptcies, tight credit, lost jobs, low consumer spending, foreclosures and fear.

Undoubtedly, Barack Obama in his inaugural address will tackle these issues and like Franklin Delano Roosevelt before him attempt to change the perception of citizens. But, while he might spark better feeling, like FDR it is unlikely his ascension to the presidency will end the recession.

Given fear that consumes markets and societies, what can a PR practitioner do or advise?

Crowd action

The fear hurting financial markets is the result of tens of thousands of investors, a global crowd, concluding that the market was overvalued, and they no longer trust financial services firms, as well as manufacturers and almost any other business.

What is crowd action? There are varying views and apparently no consensus. Some say individuals get lost in larger identification and emotion of a crowd. There is a group mind above individuals that overrides their independent psychology. Upon losing their normal psychological capacities, the crowd reveals lack of civility beneath.

Others say individuals preserve their independence but identify with similar individuals and rise to collective and reason-based action. There is an identification by individuals with the group and agreement on norms and principles. In other words, there is no unreasoning mob hell bent on destruction.

What is known is that individuals to remain part of the group will go to great lengths, even self-destruction, and crowd action comes with established social networks rather than anonymous participants. Further, crowd action is precipitated by leaders whom the crowd identifies as expressing their norms and identities. Leaders may resort to demagoguery, and it increases the propensity for group action. A demagogue usually proposes simplistic solutions based on group norms.

As a colleague pointed out, there are a number of ways to define crowd action arising from fear – local versus societal, internal versus external, rational versus seeming irrational. A strong and persuasive CEO can calm localized and internal crowd behavior and may have the ability to curb seemingly irrational action such as destructive behavior and violence. (Sometimes disturbances are the result of deliberate efforts to disrupt a company or society.) Crowd action in a society may require external intervention. It is beyond what any one company or industry can handle. In market panics, crowd action is general. A majority of investors turned negative. Fear causes more fear and a heightened perception of danger.

Fear is an essential emotion and means of self-preservation, but it can go too far. FDR recognized this, “So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance.” FDR’s words in his first inaugural address were bold, but the Depression did not lift until the beginning of World War II, nine years later.

To overcome fear driving a crowd, what is needed is a balance between long-term self-interest and short-term self-preservation. The crowd has to recognize that individual self-interest is being met and further group action is not necessary. Depending on the strength of the crowd, this may be impossible to achieve right away. In the end, crowd action is difficult to understand, and PR practitioners are not in the business of knowing why such panics occur but what to do about them. The answer, sadly, is not much. Societal fear and crowd action are usually well beyond the reach of PR.

Prevention

The best recourse to handling fear and crowd action is prevention. Don’t act in a way that could invoke fear in the first place. Of course, this is facile, but well-managed companies tend to keep themselves from being swept up in marketplace dynamics, e.g. investment bubbles. It is notable in the 2008 financial panic that at least one major financial services firm managed its affairs well – Goldman Sachs. However, even Goldman in self-defense turned itself into a bank holding company, but still, it successfully sidestepped initial market panic.

Prevention requires strategic foresight. It is not a PR problem but a business problem. A PR practitioner can counsel a CEO but carefully. Most importantly,

the PR practitioner can keep a CEO apprised of the environment and trends that might lead to disaster scenarios. This calls for issues management , environmental scanning and consideration of disaster scenarios that executives tend to ignore. PR rarely has the credibility to introduce ideas of total market dislocation as happened in the 2008 panic. It is in the position of the mythical Cassandra, the prophetess who told the truth but was never believed. To overcome this frustration, a PR practitioner has to work constantly to be considered part of a company's senior leadership team. It is difficult for practitioners to be taken seriously when they report through another department, such as marketing, HR or general counsel. In companies where this is the case, PR has little or no opportunity to warn senior management of pending environmental dislocations that can lead to crowd panic, even if it sees them coming.

A second difficulty with achieving prevention is that it is not always possible. Even the best informed and most strategic of leaders cannot reliably predict the course of an economy or crowd of investors, even when their PR counselors are assiduously watching and reporting trends. Wars, weather and wanton destruction can all flare suddenly, set fear and crowds in motion and put companies at risk.

The key to successful executives and counselors is to absorb ambiguity and to determine directions without the benefit of complete insight. That and a degree of luck. Some companies are caught in the center of a maelstrom and others are on the periphery. Those in the center perish and those on the edge can save themselves. An example of this was the collapse of the investment bank, Lehman Brothers, and the survival of the insurance firm, AIG. One was considered expendable, and the other wasn't. The notion of luck is not accepted by those who believe in management control, but randomness is a fact. Business reduces randomness as much as possible but it cannot extinguish it. The fate of the Big Three auto companies was difficult before the credit crisis that stopped all auto sales for the months of October and November, 2008. With plummeting sales, there was little the companies could do. Their cash reserves were gushing away and none was coming in. Even their competitors among foreign car companies were strapped by the sudden contraction. While one could blame American auto companies for years of mismanagement, the sudden turn of events wasn't their doing. However, that didn't keep US Senators from railing at the CEOs of the Big Three in nationwide televised hearings. Only two PR tactics might have saved the executives some public humiliation – driving rather than flying to Washington DC in private jets and cutting their salaries. However, even this is doubtful because Congressional hearings are often affected by and expressions of crowd fears.

Response

Response to fear that precipitates crowd dynamics must to be appropriate, forceful and consistent. That is easily stated but difficult to do. In a fluid environment with a crowd in panic, there is little time to think, no time to plan and a nearly equal probability that any action taken may be wrongly perceived and result in more harm than good. The large-scale funding programs provided by the Treasury and Federal Reserve to financial service institutions are examples of forceful responses, but there is criticism that they were inconsistently applied. The inconsistency derived from the lack of a clear path forward. The Secretary of the Treasury and the Chairman of the Federal Reserve were suddenly thrust into an economic environment that had not been seen since the 1930s. While they knew many of the solutions of the 1930s did not work, they did not know whether in this crisis if flooding the system with money would ease the fears and rebuild confidence.

Another element further hampered their efforts. The President was largely absent during the surge of fear and flight to quality – i.e. US Treasury bills. The President's popularity was so wounded by time the crisis occurred that he could not have lent credibility to the effort to assuage fears and stop the panic. It fell to the President-elect to sound themes of hope and action. Had the panic occurred at the beginning of George Bush's second term rather than the end of it, the outcome might have been different. In that regard, Bush and his administration were victims of ill luck. On the other hand, Bush's lack of popularity was largely his own doing and the result of a mismanaged war.

Response is more action than verbal persuasion. Once crowd dynamics ignite they reinforce themselves until such a time that fear subsides. There is no precise prediction when fear lessens and confidence rises. It can be weeks, months or years. In the case of the Japanese recession that started in 1992, it was more than 10 years before the economy began to turn around, and it fell back in the global meltdown of 2008.

It requires strong action to break through a consensus among individuals forming a crowd to get them to reflect and perhaps, change course. In a Frank Capra movie from the 1930s, (**American Madness**) about a bank panic, the sight of armored cars pulling up to the bank and loads of cash being hauled into the vaults was enough to get depositors to stop demanding their money. In the same way, the Trouble Assets Relief Program in 2008 was armored cars pulling up to financial service institutions that were suddenly illiquid. Words were not enough. Lehman Brothers thought it had dampened rumors about its health with relentless communications to traders and institutional investors but it was futile. Merrill Lynch and Citigroup both suffered because they couldn't demonstrate to panicked traders that their capital was sound. PR was a bystander in these actions. Its role was delegated to advising the CEOs how to present their cases to the investment community and the public. However, the crowd was not listening, so words would not have worked in any event.

Spokespersons

When a crowd is infected with fear, it is hard to coordinate any action to stop it. A leader has to recruit those whom the crowd recognizes and trusts and have them help direct action. In the case of the current panic, the Secretary of the Treasury and Chairman of the Federal Reserve were two individuals that the investment crowd recognized although the crowd was not willing at first to accept solutions the two men offered. Companies themselves did not have enough credibility to stop a global market panic. The solution to crowd fear and panic was exogenous to the financial services industry. It could not help itself: It had to be helped. So too, the auto industry. Therefore, spokespersons with the greatest credibility are likely to be outside the industry as well. In that respect, the role of government can be the spokesperson of last resort. However, appealing to the government is a sign of acquiescence by companies that matters are beyond their control. Of the Big Three auto companies, two actively sought government loans – GM and Chrysler. Ford elected to go alone (at least at the time of writing.)

Using an outside spokesperson to appeal to a panicked crowd is implicit concurrence that one agrees with what the spokesperson has to say at least until such time as the panic subsides. Because the spokesperson may be beyond control of the company, the company may have to accept conditions it otherwise might reject. For example, several Senators have called for the resignation of GM's CEO as a condition of providing government loans to the company. GM's board at the time of writing was opposed to this action, but it might become necessary. Once an outside spokesperson(s) is engaged, the PR practitioner plays a supporting role, which still might be important in terms of communicating to crowds.

The nightmare for industries and citizens occurs when actions and spokespersons are not enough to allay fears and sway the crowd. We might be experiencing such a panic at the present time. It is too early to tell, but panic-driven perception may rule outcomes for some time to come.

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