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Scapegoating as an Organizational Escape from Crisis: A Case Study of Merrill Lynch

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SCAPEGOATING AS AN ORGANIZATIONAL ESCAPE FROM CRISIS: A CASE STUDY OF MERRILL LYNCH

by

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This thesis examines the use of scapegoating as a communication strategy by Merrill Lynch during the 2000's. Using a rhetorical method, it explores the nature of crises and the image restoration attempt by corporations. Finally, it draws a number of conclusions about how organizations should respond to crises communicatively and ethically.

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CHAPTER I

INTRODUCTION

> I am so tired of getting these things. Can we please reset this stupid price target and rip this piece of junk off whatever list it's on. If you have to downgrade it, downgrade it. So embarrassing.
>
> Henry Blodget (Cohen, 2002, p.4-7)

In 2002, regulators accused the Wall Street brokerage house, Merrill Lynch, of wrongdoing because it provided inflated stock ratings in order to maintain its important investment banking clients. The above comment was addressed to a colleague by Henry Blodget, Merrill Lynch's head internet and technology analyst, in regard to the stock purchase ratings at Merrill Lynch.

Such a statement is an example of how normal remarks by an employee can precipitate an organization's downfall. This remark was used against Merrill Lynch by Eliot Spitzer, New York State Attorney General, in a 10-month investigation of the corporation. Merrill Lynch then placed the blame upon a series of individual employees within the organization after the wrongdoing became public. In this case, one of the people Merrill Lynch targeted was Henry Blodget.

Overall, the organization dealt with the problem of its guilt by shifting the blame or "scapegoating" to an easily attainable target (Brinson & Benoit, 1999). Scapegoating is a response strategy used by organizations to transfer an organization's guilt or fault to another target, preferably an individual (Coombs, 1995). Consequently, a corporation may then profit from the removal of the fault and focus the negative allegations directly on the guilty employees. In this case, Blodget became an example of an employee portrayed by Merrill Lynch to have possessed a demeanor that violated the corporation's mission and values. The organization, therefore, could respond with regret and reprimand the troublesome employee for his unethical behavior.

When a company's future is at stake, stakeholders begin to scrutinize every step a corporation makes; this creates an atmosphere in which the need to repair a corporate image is great. In these instances, corporations participate in organizational face-saving techniques (Heath, 1997). The face-saving techniques are present through an organization's crisis response strategies. These strategies often are classified as excuses made by corporations that provide organizations with the ability to deal with the problem. Scapegoating is one of the strategies used by an organization to displace the problem so that it may deal with repairing its image.

This thesis examines the process of scapegoating as it is used as a response strategy in a contemporary organization. In turn, it explores the nature of a crisis and the communication strategies that such a corporation applies. Finally, it will conclude with a discussion of a number of interpretations and assessments about how organizations should participate in response to crises and employees who display irresponsible behaviors.

Many organizations take the strategy of scapegoating as the primary path to communicate throughout a crisis; subsequently, this chapter will begin with a brief description of a crisis, the path of communication used to restore an organization's image, and then identify the primary characteristics involved in scapegoating. Next, it will develop a case history on Merrill Lynch, which this thesis will show displays the process of scapegoating. Specifically, it will identify relevant information that was unveiled by the Eliot Spitzer's 10-month investigation of one of the nation's most prominent Wall Street firms that was then used to scapegoat a few critical employees.

Crisis

A crisis is an event that unexpectedly strikes an organization (Coombs, 1999; Seeger, Sellnow, & Ulmer, 1998). The catastrophe may completely ruin a business or just damage a corporate image. The crisis may range from a very minor incident to a major catastrophe. Since crises strike unexpectedly, a crisis requires an immediate response, a response that needs to encompass a corporation's values and moral standards (Coombs).

Crisis Communication

When an organization is hit with an unexpected event, the response is often seen to grow from the corporation's crisis communication plan. Scholars such as Brinson & Benoit (1999) and Coombs (1995) state that organizations can react in a number of ways to repair their corporate image; the most common repair techniques are to deny, admit, or to shift the blame (Hearit, 1995). The first tactic of response may be to use denial. Denial is a process of recovery for an organization and allows its executives to state that they had no idea and no fault in the crises. Second, an organization may select to admit guilt, indicating that it is at fault. Finally, an organization may also participate in shifting the blame.

This is when the blame is removed from a corporation to a single or few individuals, a process which is otherwise known as scapegoating.

Scapegoating

Scapegoating is the process that relieves the organization of the damage and guilt through the displacement of blame (Brinson & Benoit, 1999; Coombs, 1995; Hearit, 1994, 1995; Schultz, 1996). The history of scapegoating dates back to Biblical times when congregations would take a goat and shift the sin or guilt of their community upon the animal. Then the community would banish the goat from the town, therefore, removing the guilt. Organizations do the same thing with their employees. They often will state that an employee reacted in a manner that does not align with corporate values and morals. The scapegoating allows for an organization to restate its adherence to ethical standards through an articulation of its values and morals, and the scapegoating of its employees provides proof that it adheres to those standards. Since the blame has been shifted, organizations, therefore, can take the time to repair the damage of corporate image. Such was the case of Merrill Lynch, which utilized similar patterns of communication throughout its 2000 crisis.

Case History

Merrill Lynch is one of the nation's largest financial conglomerates; it employs nearly 58,000 people a year, with 43,500 being United States citizens (Selected Financial Data, Merrill Lynch Annual Report, 2001). In 2001, the company reported net earnings of $573 million, which came from both its investment banking clients and investors (Consolidated Statement of Earning, Merrill Lynch Annual Report, 2001). In the midst of this success in 2001, Merrill Lynch was faced with allegations of wrongdoing due to the claims that analysts provided unethical stock purchasing advice. The following section will describe Merrill Lynch's history, discourse, and the events of its crisis.

Merrill Lynch

Corporate fraud, inflated stock purchasing recommendations and intentionally misleading investors have added to the ongoing corruption of Wall Street (McGeehan, 2002). Brokerage firms have participated in borderline illegal actions to improve their financial outlook, as well as the financial outlook of their investment banking clientele. Merrill Lynch, one of the nation's largest and most prominent Wall Street firms, was accused of providing information which misled its clients (those who look to the company for good advice on particular stock purchases) (McGeehan, 2002b). On April 8th, 2002, Eliot Spitzer, New York State Attorney General, charged the firm with inflated stock rating recommendations, which intentionally misled investors (McGeehan, 2002b). Spitzer understood these deceptive recommendations as fraudulent and took action.

Spitzer's 10-month investigation began in April of 2001 with a subpoena of approximately 30,000 internal e-mails (Editorial Deck, 2002). The documentation revealed details of high buy ratings given by analysts connected with failed stocks. Analysts who contributed to the fraud provided the misleading buy ratings in order to establish or maintain positive relationships with the investment banking clients. The investment banking clients are the corporations and their top executives who borrow huge sums of money through investment houses, such as Merrill Lynch, and subsequently expect analysts to recommend their stock to clients no matter how poor their prospects. The subpoenaed e-mails emphasized the problems of the buy ratings and recommendations provided by Merrill Lynch analysts to its clients. They confirmed that Merrill Lynch participated in unethical actions.

The predicament that caused the unethical involvement was that the analysts felt pressure from both Merrill Lynch as well as the investment banking clients to provide positive buy ratings to stocks that were poor investments. On October 6, 2002 in a CBS *60 Minutes* segment, Steve Kroft, a CBS reporter stated:

> Eliot Spitzer says the answer was obvious to every insider on Wall Street. Analysts were pressured to recommend a stock so Merrill Lynch could get the company's investment banking business. Merrill Lynch and the other big Wall Street investment houses aren't just stockbrokers; they're financial conglomerates offering lots of different products and services to lots of different customers. (Kroft, 2002, p. 2-3)

Therefore, in a sense, Merrill Lynch and the investment banking clients placed the analysts in a no-win situation. If the analysts wanted to stay employed they had to fulfill the requirements of their jobs, even if it meant dishonesty. In the same broadcast, Spitzer and John Olson, an energy analyst and former employee of Merrill Lynch claimed that the analysts misled clients because they had no choice. Kroft the CBS reporter stated:

> Both Olson and Spitzer believe the pressures of competition, the incentives built into the system, and a steady erosion of standards in the Wall Street culture made it inevitable that brokerage customers would end up the losers. (Oct 6, 2002, p. 4)

The conflict of interest occurred because analysts and researchers were in the same department. The brokerage analysts advised clients to use the Merrill Lynch rating system for advice on stock purchases (Cohen, 2002 May 5). The issue was that the rates reflected the stance of Merrill Lynch toward its investment banking clients. Moreover, Merrill Lynch analysts placed high recommendations on stock ratings for companies in which Merrill Lynch did lucrative investment banking business (Cohen, 2002 May 5). For example if XYZ Company sold bonds through Merrill Lynch (an investment banking client), XYZ Company also would receive a higher buy rating on its stocks, a buy rating that would be given to all the Merrill Lynch clients as professional advice. This, in turn, would encourage clients to invest. Since the high buy ratings were given to the investment banking clients, it meant better prices for their stock, and brought more money into Merrill Lynch through its investment banking clients. Much of the problem with the stock rates and recommendations occurred in reference to the product lines of Internet companies (e.g., dot.com organizations).

On June 26, 2001 in a report with CBS reporter Scott Pelley on 60 *Minutes II*, Liz Buyer, a former Internet analyst, addressed the pressures aligned with the following remark:

> You rarely see sell. It angers management, it doesn't help institu— institutional investing clients, and it makes a lot of people very hostile at you. So what you say instead is, "We're downgrading this to a hold and believe it promising for those with a three- to five-year investment horizon," which for those in the know means, "See ya." (Wall Street Prophets, 2001)

This is another example of the corruption and the pressures that struck Merrill Lynch analysts, along with the greed that faced analysts, a greed that was shown through the bonuses given for the sales of particular stocks (i.e., investment banking clients' stocks).

One particular example that emphasized the problems at Merrill Lynch referred to an e-mail conversation between Henry Blodget, former lead Internet and Technology Analyst at Merrill Lynch, and another broker. These two brokers were discussing a client's question in regard to Merrill Lynch's stock recommendations for Internet Capital Group. Blodget was addressed by Jack Watkins, Jr. in regard to an angry client. Henry Blodget remarked,

> No hopeful news to relate, I'm afraid. This has been a disaster, and I'm sorry we all have been in front of it. There are no "operations" here to fall back on, so there really is no "floor" to the stock. Lots of investors are just saying the heck with what they've got left, so there is enormous sell

> pressure and no buying. We see nothing that will turn this around near-term. The company needs to restructure its operations and raise additional cash, and until it does that, there is nothing positive to say.
>
> Hope this helps. (Cohen, 2002, p. 4-7)

Blodget's response ambiguously stated that there was nothing that Merrill Lynch could do; the corporation was about to fold (Cohen, 2002, p. 4-7). Blodget never indicated that clients should sell the stock; rather the deception was hidden within the analyst's advice of what the company, Internet Capital Group, needed to do.

Blodget also was noted to say, along with other employees/analysts, that certain stocks that obtained a high buy rating were actually a piece of "junk," "crap" or a "dog." He also admitted that the stocks were a "disaster" (White, 2002, p. 5A). Furthermore, Blodget was known for his references to some specific stocks as a "piece of trash" (McGeehan, 2002, p. 2).

These simple comments in a quick response to a co-worker later became charges and evidence of wrongdoing against Merrill Lynch. Blodget, as well as a few other analysts, were blamed for the charges against Merrill Lynch. The corporation's accusations stated that Blodget and colleagues did not emulate the values and morals of Merrill Lynch. Merrill Lynch expressed shame for the employees' actions and assured stakeholders that appropriate measures would be taken.

In November of 2002, Blodget resigned voluntarily and accepted one of the buyouts from Merrill Lynch that was extended to approximately 50,000 other employees. "It just seemed like a good time to pursue the next thing," Mr.

Blodget said (McGeehan, 2001). Merrill Lynch publicly took the stance that the loss of Blodgett was a great loss for the organization (Knox, 2001; McGeehan, 2001a). The buyout consisted of Blodget being given $2 million (McGeehan, 2001a). Although the comments from both Merrill Lynch and Blodget remained positive and supportive, it is important to note that his resignation occurred in the midst of the Spitzer investigation of Merrill Lynch and helped to conclude the crisis.

This resignation provides evidence and an indication that Merrill Lynch used a scapegoating strategy to remove Henry Blodget (along with other employees), and used him as one of the people upon whom the corporation placed the blame for the wrongdoing; the gag order prevented him from offering a competing story. As otherwise noted, he was blamed for the untruthful information that was provided to clients when Spitzer revealed the major injustice that occurred.

Conclusion of Merrill Lynch Case History

This case study is just one example of scapegoating and image repair that occurs across the nation when corporations shift the blame or scapegoat to deflect negative attention. If organizations blame employees early in their response to negative attention, the likely focus of the stakeholders will be that the corporation is more a victim of a disgruntled employee rather than the cause of the wrongdoing.

Conclusion

This chapter has sought to introduce the concepts of scapegoating as well as detailed the particulars of the Merrill Lynch case study that will make up this thesis. Subsequently, Chapter II will provide a review of the crisis literature and examine a corporation's communication strategies during a crisis. It also will include an in-depth analysis of scapegoating used as a communication vehicle to eliminate the allegations of its wrongdoing from the corporation and on to another source.

CHAPTER II

LITERATURE REVIEW

Crisis theory often asserts that a crisis is easily recognizable due to its chaotic effects, but organizations often are unaware of a brewing crisis for an extended period of time. Other times, organizations are aware of a problem and elect to ignore the situation. This means a corporation ignores the crisis' early signs and views them as everyday problems, but the organization is actually in the beginning of a crisis spiral, a spiral that may cause great destruction to a corporation's image. Since corporations do not want to admit blame without a fight to maintain their image, they strive to develop an effective way to remove or displace the guilt onto another entity (Coombs, 1999). Ford did it with Firestone; Merrill Lynch did it with Henry Blodgett.

Crisis Management

A crisis is an event that is spontaneous in nature, spontaneous in the sense that it often blindsides an organization, which creates a state of shock and causes a disruption in the normal behavior of an organization (Williams & Treadway, 1992). A crisis may occur at any moment and throw its target into immediate chaos.

A crisis is chaotic and often is observed as unfixable; consequently, participants may feel that there is no hope (Williams & Treadway, 1992). The spontaneous aspects of a crisis occur when no external causes are present or the organization does not receive any warning signs. This spontaneous nature is known to create a sense of urgency that often temporarily suspends the normal business routine of the organization (Williams & Treadway). This definition reinforces how shocking the presence of a crisis in an organization may be and that some crises occur with little or no reaction time.

Crises have been researched in a variety of contexts. Some researchers indicate that no two crises are identical in nature and that crises occur in many different shapes and sizes (Egelhoff & Sen, 1992). Indication of the sizes and shapes of the crises are key elements in the process of response. The size of a crisis has an enormous range; it could be a simple malfunction of one component or an entire operation (Egelhoff & Sen).

While the literature has emphasized that no two crises occur in the exact same manner, it is important to realize that there are still two categorizations of crises: planned and random acts. The crises that develop out of planned actions consist of events like the release by protestors of animals used to test drugs, or the embezzlement of money from an organization. Other crises are random acts that blind-side an organization, such as the sudden death of a CEO, a natural disaster such as fire or hurricane, or an explosion. These random acts may be observed as planned events, especially when the event is a fire started by arson, but the crisis still remains an unplanned event that strikes an organization because it cannot predict occurrence.

Definitions of a Crisis

A crisis can be defined in a variety of ways with numerous distinguishing factors. These factors have been identified by a number of researchers, each describing a different aspect of a crisis. The following section will identify some of these definitions and demonstrate the importance that each has brought to the communication literature on crisis management.

In an in-depth analysis on the nature of crises, Seeger, Sellnow, and Ulmer (1998) define a crisis as: “a specific, unexpected and non-routine event or series of events that create high levels of uncertainty and threaten or are perceived to threaten an organization’s high priority goals” (p. 233). This definition shows how threatening a crisis can be to the existence of the organization. A single crisis incident has the capability to demean and destroy an image that a corporation has dedicated much time and money to construct. Therefore, an organization needs to maintain a high level of communication and strength throughout a crisis to sustain its image. The definition also indicates that crises may completely destroy the life of an organization due to their level of uncertainty.

Fink (1986) offers a competing definition and develops it through a focus on the desirability of a crisis. He writes:

> A crisis is an unstable time or state of affairs in which a decisive change is impending – either one with the distinct possibility of a highly undesirable outcome or one with the distinct possibility of a highly desirable and extremely positive outcome. (p. 15)

Fink says when a crisis strikes an organization, executives are charged with the task of dealing with a spontaneous event with no specific knowledge of what could occur at the next stage. This definition also clarifies that crises have two polar outcomes; either an organization benefits or the crisis hinders it. This is important to note because most definitions concentrate on the threat of the crisis with ensuing negative outcomes, but there also is potential for positive outcomes. Although a crisis may at first damage an organization and portend a negative outcome, in the end it may surprise a company and create a much-needed transformation. Fink's mention of this positive outcome is important because it demonstrates the good effect a crisis can have on an organization.

A third definition that seeks to get at the distinguishing elements a crisis was developed by Weick (1988). He defines crisis as a: "low probability/high consequence event that threatens the most fundamental goals of the organization. Because crises have low probability, these events defy interpretations and impose severe demands on sensemaking" (p. 305). This means that crises are devastating events, even if they are planned for, though they have a low likelihood of occurring (Weick). If organizations were to sit around and speculate or wait for a crisis, they could wait forever. Weick indicated that although the probability is low, an organization needs a management plan for crises. The reality of this research is that even though the probability is low, the consequences remain at high levels. The consequences of crises could be the loss of employees, the failure of particular divisions or the mechanism that malfunctions, or even the survival of an organization.

The fourth definition by Pauchant and Mitroff (1992) brings in what I observe as the final and very important element of a crisis, human beings. Pauchant and Mitroff identified an organizational crisis as a disruption between human and machines. They indicated that the disruptions occur because of miscommunication and wrong decisions. Since crises are unpredictable, uncontrollable, and may be unpreventable events, corporations need to identify strategies of response on how to address the situations (Coombs, 1999). This simply explains that crises, although shocking, are erroneous systems that need to be fixed through human response and that the reactions of humans are important to note. Pauchant and Mitroff also established that humans are not free of error, which demonstrates that organizations need to be prepared for these unexpected events, as well as unexpected responses from employees.

Management of a Crisis

Preparing for unexpected events and responses are important and necessary in the communication that occurs during a crisis. Organizations can prepare for these events by developing a management plan, which indicates the steps need both internally and externally. Orr (2002) remarked:

> Organizations in crisis are becoming more common because of growing public expectations for ethical leadership and widespread cynicism about the credibility of senior management organizations. Increasingly, staff, customers and public spokespersons are publicly questioning the motives and competency of executives when organizations face adverse or controversial situations. (p. 5)

This comment states that the stakeholders question the judgments and action of the executives in organizations when a crisis strikes. The motives of an organization maybe influenced by what an organization wants rather then its needs; management needs to be aware of this and focus on the greater picture that includes every part of the organization from its employees to its machines and products to its stakeholders.

The management element of an organizational crisis often can be observed as both internal and external. Internally, a concern is present in regards to employees, the development or enactment of a plan, and presenting a unified front. This unified front is needed to maintain the image of the organization.

Externally, media reporters investigate to uncover an edge for their story and to answer the questions: Who? What? Why? Where? When? and How? Responding to these questions is a difficult task for any organization because the first statement to the press will be scrutinized by an organization's stakeholders. However, during this time frame executives face a constant state of chaos with their goal being to relieve the immediate pressures and answer these grueling questions (Seeger, Sellnow, & Ulmer, 1998). With the investigative skills of the media at work, management's task is to develop a unified voice and defend a corporation, while news media want the inside story, the "true facts," or the "smoking gun" to make their story. Executives need to create a front and remain loyal to the corporation's message and organizational mission, while externally framing the truth in a non-harmful manner that meets the needs of its publics and the news media.

Both internal and external communication are essential in the management of a crisis; internal communication provides a unified front for the organization and the external communication helps to distribute that unified front to other stakeholders.

Costs and Benefits of a Crisis

Another important aspect of a crisis is the benefits that they may bring to an organization. Crises often are seen as spontaneous, uncontrollable and devastating; however, a crisis also may be viewed as beneficial even though it can be costly. A crisis is beneficial because it may give opportunities for organizations to reframe or change their image (Meyers & Holshua, 1986). For instance, Meyers and Holshua investigated crises and determined seven positive characteristics, of which three relate to this thesis. Oftentimes organizations will automatically avoid a crisis and assume that it is the best maneuver to protect the organization, but if an organization would face the crisis as a whole it could be given the opportunity to correct problems completely and reorganize its values and image.

One of the most prevalent positive characteristics found is that crises force companies to address their latent problems, problems that are rooted deeply in an organization and are constantly pushed aside. Meyers and Holshua (1986) derive that when crises occur an organization has no other choice but to address these issues, therefore, creating an overarching positive outcome.

Another two positive qualities are that crises may accelerate change as well as create new strategies, both factors that give organizations much-needed facelifts (Meyers & Holshua, 1986). These organizational facelifts allow for corporations to acknowledge their wrongdoing but come back with a new and improved image. In this way, corporations essentially can start over from the ground up after a crisis with the ability to maintain stakeholders and corporate relationships.

Johnson & Johnson illustrates these three positive outcomes of crises. The corporation was faced with a product safety incident involving bottles of Tylenol that were laced with cyanide. Seven people died (Seitel, 1998). The crisis turned positive when Johnson & Johnson adapted the crisis into the development of new strategies to improve safety measures. The safety measures included additional material to package the Tylenol in a three-fold process: a foil seal, a plastic-sealed neck, and finally the glued box flap. Next, the company added warning messages that accompanied the packages and stated that if any of the three safety features were tampered with to not use the product. This case demonstrated that a spontaneous and chaotic event could be turned positive, in this case saving other consumer's lives and strengthening the corporation's image. No matter whether a crisis is deemed a benefit or a cost for an organization, both result in similar phases or stages of repair.

Stages of a Crisis

A corporate image is repaired through response strategies. The response strategies allow for an organization to try to select the most appropriate response to maintain or to embrace an opportunity to reframe its corporate image; this is known as a corporation's communication processes. Two researchers, Coombs and Fink, have developed stages that explain the communication process throughout a crisis. Coombs (1999) identifies corporate communication through three stages: pre-crisis, crisis, and post-crisis. Fink's (1986) stages of crisis, conversely are: prodromal, acute, chronic, and crisis resolution.

Coombs (1999) pre-crisis stage is the preparation stage, a stage in which a corporation plans for the prevention as well as the detection of a crisis situation. Oftentimes a crisis management plan, which speculates potential crises that are relevant to a corporation, is planned for and simulated. This helps a company to become prepared and to obtain the knowledge to be ready for a potential chaotic event. This, then, will help an organization if the second stage, crisis, occurs. The crisis stage is when the unpredictable event is actually recognized and contained. This stage allows for an organization to put its plan into action, to deal with the unexpected problems, and to respond to its publics; in doing so, it is communicating an image, the organizational mission and the corporation's values. It is here that the communication strategies are applied, like scapegoating (Brinson & Benoit, 1999; Coombs, 1995; 1999). Once an organization has communicated, it moves into the final stage, post-crisis. The post-crisis stage is when a crisis is complete and the organization usually has recovered from the chaotic event (Coombs). The achievement of the post-crisis stage usually means that an organization is returning to its normal business routine. The organization has repaired its image and has hopefully learned how the problem has occurred, as well as how to prevent the problem in the future. This allows it to move back to the pre-crisis stage where it may update the procedures of its crisis prevention plan.

Fink argues that there are four stages of response to a crisis (Fink, 1986). The prodromal phase identifies the problems before a crisis begins (Fink). The acute stage is when the crisis erupts and problems begin to spiral. The chronic stage is when an organization is in the clean-up phase; here Fink discusses how an organization focuses on a "period of recovery, self analysis, and self doubt and healing" (p. 24). Then the last stage of crisis resolution emerges. The problem has been addressed and a corporation has a new focal point of prevention to stop the cyclical process from occurring again.

Fink's and Coomb's stages of crisis communication have defined the nature of a crisis. The next section will detail how corporations communicate during a crisis.

Crisis Communication Management

The life of an organization requires executives to respond to and communicate about the most current crisis at hand. Executives need to be concerned with the level of communication, which message strategies will be selected, and the message that is sent to stakeholders. The stakeholders play an important role in the image of an organization because they are the people that promote and support the company through buying or selling the product. The image is what originally grabs consumers and keeps them interested. Consumer support during a time of a crisis is essential in maintaining and repairing a corporation's image. The following sections will develop what is encompassed in a corporate image and how to maintain and repair a damaged image.

Corporate Image

Image is of great concern in most organizations because it determines the support and future of an organization and its communication process. Williams and Moffitt (1997) state that, “An image is a product, a reality, a cognitive structure, a process, or an illusion that defies definition” (p. 238). This definition establishes that the image is more of subconscious reality rather than a concrete entity. Williams and Moffitt (1997) attest that an image encompasses perceptions and opinions of the audience, as well as their experiences.

Grunig (1992), on the other hand, refers to an image as an umbrella term. His definition views image in relation to the selection of symbols to provide an impression of the organization. Here, an image is a complex portrayal of an organization that encompasses its values, morals, and character. It is constructed to encapsulate a corporation’s mission.

Coombs (1999) added to Grunig’s definition through his emphasis on the construction of an image. He indicates that corporations need to ensure that their publics stand behind them, and that their stakeholders endorse their current image.

According to Grunig and Coombs, the three essential characteristics in an image consist of the values, beliefs, and corporate mission. These characteristics, in turn, become the primary concern of an organization when it faces a crisis and must repair its damaged image.

Corporate Image Repair

In attempting to restore a previously created image, organizations try to repair their image by implementing crisis response strategies. But a tarnished image is difficult to repair and efforts may not persuade all stakeholders. Furthermore, corporations are not honest and straightforward with information, the image of a company could be permanently damaged (Burke, 1966; Coombs, 1995).

Oftentimes, an image is repaired through the development of new values and message points (Murphy, 1996). These message points and values need to assure publics that an organization cares about its publics and seeks to create a sense of trust. This is known as the process of image restoration (Williams & Moffitt, 1997). Image restoration requires the use strategies of response that allow for an organization to present its message in a clear and concise manner and also allows it to address the crisis and deal with the problems.

Communication Strategies

Brinson and Benoit (1999) categorize the crisis communication of organizations into five categories of communication strategies: denial, evasion of responsibility, reduction of the offensiveness, corrective action, and mortification. Often organizations will first respond through the denial of the existence of the problem. Brinson and Benoit classify denial in three ways: “simple denial,” “shifting the blame” onto another individual (otherwise referred to as scapegoating), and “deny the act was harmful” (p. 486). In simple denial an organization denies that the problem even occurred, while in the shifting the blame the corporation essentially states that it is not at fault for the crisis at hand; it may be one of its employees but it is not the organization.

Another strategy of response studied by Brinson and Benoit (1999) is the process of evasion of responsibility. The evasion of responsibility is when an organization acts “in an attempt to dodge or reduce responsibility of the wrongdoing (e.g., excuses)” (p. 486).

Reducing the offensiveness of the situation is another category of image repair (Brinson & Benoit, 1999). This occurs as organizations downplay a problem and respond communicatively because they wish the public to view a crisis as minimal and not worthy of media coverage or investigation; an organization also may take the time to emphasize its particularly strong points, otherwise known as bolstering.

Brinson and Benoit’s (1999) fourth strategy is to take corrective action, imposing a plan that is created to fix a crisis. Here, an organization does not admit fault; rather it just tells what it is doing to fix the problem in order to repair its image.

Finally, the last strategy is mortification; this is when an organization takes a stand and apologizes for its actions. This process of mortification is not a simplistic “I’m sorry;” rather it is an all encompassing apology that admits wrongdoing and asks for forgiveness.

These strategies may be either used singularly or in combination, based on the reaction the communities give to the corporation’s initial response and the crisis at hand. For example, an organization might select a strategy like denial and then get caught lying about its knowledge of the wrongdoing. In turn, this creates a need to use another strategy, such as mortification, where a corporation then has to admit the guilt, and then attempt to repair its image through an apology.

Another scholar who took a slightly different approach in identifying response strategies is Coombs. Coombs (1995) classified the responses to crisis through a different perspective; his classifications include: non-existence, distance, ingratiation, mortification, and suffering. The non-existent response strategy is a form of communication in which an organization takes a stance of denial. Coombs states that the goal of an organization using this strategy is to seek elimination of the problem which could be accomplished through denial, clarification, attack or even intimidation.

A primary difference between Brinson and Benoit's and Coomb's strategy is that Coombs incorporates a distance strategy (Coombs, 1995). The goal of this strategy is to place distance between a corporation and the chaotic unplanned problem, which in turn creates less of a negative effect on an organization. This often is completed through providing either an excuse or through justification of an organization's actions. Often, an excuse is created by stating that a third party is responsible for the event through the act of scapegoating. Another characteristic that is encompassed in the distance strategy is justification. Justification provides an organization with the ability to remove a problem by downplaying its severity and who was at fault.

The third strategy, ingratiation, is the process of approval. The goal with this strategy is to gain the public's support (Coombs, 1995). This task is often completed through a discussion of the positive aspects of a company, like its community involvement or its success.

Coombs (1995) identifies another common strategy adapted by organizations as mortification, which is the process of apology and seeking forgiveness. Although Brinson and Benoit (1999) also indicate mortification as a communication strategy, Coombs' research takes the concept a step further. Mortification is identified through three approaches: remediation, repentance, and rectification (Coombs). Remediation is when an organization "willingly offers some form of compensation or help to victims" (p. 452). The next approach repentance, asks for key publics to give an organization a second chance. The final approach is that of rectification. This is a corrective action step that provides an organization with a chance to repair the problem and to develop a plan of protection against future threats. These three approaches in the strategy of mortification enable for an organization to repair its image in a truthful manner by repairing damage to a corporation's image.

The final strategy, suffering, follows the research of Meyers and Holshua (1986). Coombs identifies suffering as seeking to "win sympathy from the public" (p. 453). The goal here is to enhance the positives that came from the crisis, and whenever possible, appear as the victim of the unforeseen events.

This thesis has reviewed the common strategies used to communicate throughout a crisis, with the primary goal of repair of a damaged corporate image. The one communication strategy that it has not covered in great detail is that of scapegoating as a process of organization repair. The rest of this chapter will follow with an in-depth explanation of scapegoating beginning with the identification of its meaning and origin, and then, identify currently established scapegoating strategies by Burke (1966), Coombs (1995), Schultz and Seeger (1991), and Hearit (1994;1995).

Scapegoating

Words, phrases, and simple actions often are used against employees by organizations. These statements are sometimes taken out of context and other times in context, in order to shift the blame onto a few employees. Hence, the act of scapegoating is the displacement of guilt from one person to another. To better understand the act of scapegoating it is best to first define a scapegoat. The *Oxford English Dictionary* (1989) defined a scapegoat as: "one who is blamed or punished for the sins of others" (n. p.). This states that it is the shift of a problem or crisis unto an individual, therefore removing the guilt away from individuals or groups of people at fault.

Scapegoating is closely tied to the problem of guilt. Guilt is defined in numerous ways, but this study will focus on two definitions. The *OED* (1989) indicates the first as: "a failure of duty, delinquency; offence, crime, sin" (n. p.). Another definition provided by the *OED* (1989) defines it as: "the state meriting condemnation and reproach of conscience) of having willfully committed crime or heinous moral offence; criminality, great culpability" (n. p.). For the purpose of this thesis, I identify guilt as a sense of fault for a committed offense, a committed offense that has three repercussions: culpability, legal criminality, and ethically offensiveness, which are all present in the process of scapegoating.

Scapegoating acts much like an excuse to rid the people or, in this case, an organization of a problematic situation. In the Biblical book of Leviticus, chapter 16, a story is told of how Aaron described to the people of Israel how to have their guilt removed through the sacrifice of a goat. The sacrifice would involve a ceremony that allowed the Israelites to rid themselves of their sins and have them placed on to a goat. Then the congregation would sacrifice the goat by banishing it out of the congregation for life; therefore by the removal of the goat that held the guilt and evil, the Israelites removed the guilt and evil from their assembly. The *Oxford English Dictionary* speaks to this ritual in its definition of scapegoat: "In the Mosaic ritual of the Day of Atonement (Lev. XVI), that one of two goats that was chosen by lot to be sent alive into the wilderness, the sins of the people having been symbolically laid upon it, while the other was appointed to be sacrificed" (n. p.).

The removal of guilt happens regularly even in today's world, but instead of an animal sacrifice, organizations sacrifice employees by removing them from a company. Corporations focus their outlook on the restoration of their image through this drastic move to remove the guilt and excuse its behaviors (Coombs, 1995). Coombs, for instance, argues that, "Scapegoating is a form of denial of volition. An organization cannot control an event if some third party is responsible for the crisis" (p. 451). Brinson and Benoit (1999) also describe scapegoating in a similar manner as Coombs; they state that it is a process of shifting the blame from the organization to a single individual or a small group of people. The concept of scapegoating is distressing, because society accepts these actions of displacement and shifting the blame as an acceptable way to deal with a problem or crisis in an organization.

Scapegoating has become an avenue for organizations in the midst of a crisis to deal with their guilt. If there are problems, organizations often find a few individuals and place the blame onto them. This allows organizations to skip directly to restoration and resume daily business with a brief statement of regret and shame for what the former employee had committed. The following section will review Burke, Schultz and Seeger, and Hearit's strategies of scapegoating and the process taken by organizations.

Scapegoating, as identified by Burke (1945) in his book *A Grammar of Motives*, is a three-part process. Burke, writes:

> All told, note what we have here: (1) an original state of merger, in that the iniquities are shared by both the iniquitous and their chosen vessel; (2) a principle of division, in that the elements shared in common are being ritualistically alienated; (3) a new principle of merger, this time in the unification of those whose purified identity is defined in the dialectical opposition to the sacrificial offering. (p. 406)

In other words, Burke clarifies that a person full of guilt and wrongdoing selects a particular individual or object, and then creates a division through the removal of the guilt from themselves and places it on the new person or object. Finally, a purification process occurs for the original guilty party and the scapegoat becomes the sacrifice or offering.

Part of the reason that scapegoating is so attractive to organizations is that responsibility can be diffused or denied due to the hierarchical nature organizations (Shultz & Seeger, 1991). This diffusion of responsibility is completed in two ways. The first is that the organization could prevent a particular individual from taking the blame and create an image that states the corporation as a whole is responsible for the problem (Shultz, 1996). Although rare, it may be done to save the career of a particular executive.

The second form of distancing, which is more commonly found, is to remove the fault of wrongdoing from an organization and to shift the blame on to an individual. The hierarchical nature provides an organization with the ability to present a strong case against one person or a small group of individuals; therefore, a sacrifice can be made for the greater good of a corporation. Then the problematic crisis can disappear with minimal attention because an organization's executives have removed the problematic person(s) and the negative reputation the individual(s) brought upon the organization.

Hearit's (1994; 1995) dissociation strategies are another avenue in which scapegoating is seen as a communication strategy. The dissociation strategies explain how organizations distance themselves from their guilt and involve three categorizations: opinion/knowledge dissociation, act/essence dissociation, and individual/group dissociation. Both Hearit's opinion/knowledge dissociation and act/essence strategies work to remove the guilt from the organization through either denial or isolation, but his individual/group dissociation deals more directly with scapegoating.

Hearits' individual/group dissociation is a distance strategy for the problem of removing guilt, rooted in the concept of the prototypical appearance/reality dissociation. Hearit (1994; 1995) indicates that in this strategy, organizations place the group against single individuals to save the image of an organization, while these individuals become the scapegoats and are driven from the organization.

Although Burke (1945), Shultz & Seeger (1991), and Hearit (1994; 1995) have created a foundation for scapegoating as an organizational crisis response strategy, the research needs to go one step further. Scapegoating is not only an excuse and removal of guilt; it is a strategy rooted in organizational power and an act of accusation toward a single individual or a group of individuals.

Oftentimes these individuals have the blame shifted upon them and personal lives are destroyed. The scapegoating literature focuses on the deceptively difficult question: *Who is guilty*? and currently responds with a straightforwardly simplistic answer. In addition, the scapegoating response strategy needs to be investigated to show how guilt is part of the culture of the organization, or diffused through multiple decision-making levels.

Research Questions

Scapegoating, although effective on the surface, should not be seen as a satisfactory response to repair a damaged image of the corporation. This raises the research question that follows, which will guide this thesis through an application of generic criticism:

RQ: How is scapegoating used as an organizational crisis response strategy?

This question suggests two corollary research questions that will aid in answering the primary research question:

RQ_1: What communication strategies were used by Merrill Lynch?

RQ_2: Were the outcomes of the communication strategies used by Merrill Lynch ethical?

Thesis Overview

Accordingly, this thesis will examine the Merrill Lynch crisis through the process of rhetorical analysis. It will apply the method of generic criticism to the analysis of public statements of crisis from articles in the *New York Times* and the *Wall Street Journal* from April 2001 until June 2002.

Conclusion and Organization

As a means of establishing the need for this study, Chapter II has identified the nature of a crisis and the necessary communication strategies that are applied in the response to a crisis. Next, Chapter III will address and evaluate the method of rhetorical analysis and criticism, especially the rhetorical method of generic analysis. Chapter IV will then apply the generic criticism to the Merrill Lynch case study. Finally, Chapter V will provide an interpretation of analysis and draw conclusions in regards to how the response strategies were applied during the crisis.

CHAPTER III

RHETORICAL METHODOLOGY

Overview of Rhetorical Analysis

Speeches, messages, and voices imprint the views and beliefs of audiences each day. Audiences often listen to messages and react accordingly (Osborn & Osborn, 2000). Sometimes they have a positive view toward a message, while others are opposed to a message. The speaker often is challenged with the job of persuading his or her audience. This persuasion, which is rooted within communication, is a foundation for rhetoric.

Foss (1989) states that, "rhetoric means the use of symbols to influence thought and action" (p. 4). While Cathcart's (1981), opinion on rhetoric:

> Is used here and in most treatises on critics, of public address to refer to a communicator's *intentional* use of language and other symbols to *influence* or persuade selected receivers to act, believe, or feel the way the communicator desires in problematic situations. (p. 2)

Cathcart also highlights Burke's definition of rhetoric "as the human effort to induce cooperation through the use of symbols" (Cathcart, 1981, p. 3). Burke also has implied that persuasion and rhetoric are one in the same, with the addition of inducement (Cathcart, 1981; Hart, 1990). He indicates that these two forms of communication rely on one another to be successful, which provides the researcher with much to interpret.

Researchers often describe rhetoric differently; some still believe that rhetoric is flowery language used to hide the true message and deceive others, while others define rhetoric as an art much like Aristotle did (Cathcart, 1981). The significance of rhetoric is that it can be recognized for both positive and negative acts; the study of rhetoric mainly is used to help people understand the world and introduce them to social criticism. To dissect any argument, debate, or even a conversation, a person would find that all communication has some influential aspects of persuasion.

Often people assume that rhetorical thinking only is involved with the ability to verbally deliver a speech, but in actuality it is a system that incorporates both verbal and nonverbal messages, as well as written responses. Rhetoric is a thought process, and when it is articulated properly it can become very powerful.

For the purpose of this thesis, rhetoric will be defined as the discourse that activates the opinions of others to partake in a similar viewpoint; one that induces action in an audience, action that achieves the rhetorical standards that provide a positive outlook in favor of the speaker. The sections that follow will examine the process of rhetorical thinking. In doing so, they demonstrate the act of criticism and explain the rhetorical process of generic criticism. Finally, they will introduce how the analysis of communication within the case studies of Merrill Lynch will be conducted.

Rhetorical Characteristics

Since rhetoric has been defined, it is important to identify the foundation of this tool and to lend a focus to all its aspects (Cathcart, 1981; Foss, 1989; Hart, 1990). The following sections will focus on research that demonstrates the origins and development of rhetoric.

The study of the process of rhetorical thinking dates back to the time of the Greeks and the Romans. The Greeks and the Romans developed this concept to teach how to influence others. They used the process to create speeches that encouraged an audience to follow their leadership and views (Larson, 2001; Osborn & Osborn, 2000). Oftentimes, the speakers would create public speeches with the attempt to tell people how to think, vote, and behave. Many of the contemporary tools of persuasion have their roots in the work of Aristotle.

Aristotle is one of the most influential contributors to the study of rhetorical development. Aristotle created the concept of the three tools of persuasion: ethos, pathos, and logos (Cathcart, 1981; Foss, 1989; Larson, 2001, Osborn & Osborn, 2000). Ethos deals with the ethical standards linked to the process of speaking. It addresses the concepts of personal character and credibility (Larson). Ethos guides the audience to realize the ability and beliefs of the speakers. The second tool, pathos, is focused on the emotional side of an argument. Often speakers were guided to find stories that provoke the emotional side of the audience (Larson). In society today, this practice is referred to as the art of “pulling on the heartstrings.” The final tool identified was logos, which is the idea of logic. The challenge here was to create a method that influenced individuals through the process of presenting factual information (Larson). The factual information was provided through data or cause and effect relationships that presented linkages. These linkages would then convince an audience of the position or stance that it should defend.

Cicero added to the understanding of the rhetorical process, through a system that was provided for speaking persuasively. The system created by Cicero encompassed five canons: invention, organization, style, memorization, and delivery (Cathcart, 1981; Foss, 1989; Larson, 2001).

Invention (i.e., brainstorming), the first characteristic, was when the rhetor discovered evidence and arguments. Another of the canons used is the process of organization; here the rhetor would be focused on the placement of ideas (Foss, 1989). Rhetors also would be concerned with the development of the concept with the goal being to create the most compelling presentation. The third element to persuasively speaking, style, was influential because it referred to the language choice and audience analysis (Larson, 2001). The language choice was important throughout the act of persuasion, particularly in the time period of Cicero, because in the development of a persuasive speech a rhetor needed to assure that the audience could comprehend the message. Then comes memorization; Cicero placed this in the canons of rhetoric because the better a rhetor knows the speech, the more influential the speech can be. Finally, Cicero concluded the five canons with delivery. Delivery was important because the rhetor focused on the voice, gestures, and body position (Larson). This was done to present a strong, important image to the audience. Cicero's contributions to the concept of rhetorical thinking aided researchers by building a template for the creation of rhetorical messages, messages that could influence or persuade.

In earlier times, the goal of the rhetorical process was mainly to influence public debate. Oftentimes, the messages would be formed over a fight for land or an animal. But over the years, rhetoric has been built into a more complex method of analysis with a foundation of persuasion and the addition of interpretation.

Another, more recent, designer of the concepts of rhetoric is Burke. Burke (1945; 1955) has aided the development of rhetoric by moving the attention away from the need to persuade and instead incorporating the concept of identification (Burke, 1945 & 1955; Cathcart, 1981; Foss, 1989; Hart, 1990; Larson, 2001). Identification is the process of providing reasons for self-persuasion on the part of listeners.

Burke also can be compared closely with Aristotle, but their viewpoints differ along the concepts of humans as rational beings. Burke seems to identify with the ability of humans to create a message to benefit their future, meaning an organization could compose a message to say one thing and mean another. He realized the potential for humans to abuse the power (Cathcart, 1981; Foss, 1989). In other words, he states that people can identify with a particular situation and create an atmosphere that would benefit them. He saw the process as one of inducement (Fisher & O'Leary, 1996). Aristotle seemed to focus primarily on the persuasive grounds, while Burke focused his attention beyond the message and saw the power for creation and inducement to achieve a particular response.

The developments into rhetorical thinking processes have been defined and redefined in ways to demonstrate the need for understanding society and its trends. After reviewing Aristotle, Cicero and Burke, a person can see how the study of rhetoric has developed. This next section will examine the critical process of rhetorical analysis.

Rhetorical Criticism

Rhetorical Criticism involves the identification of both implicit and explicit acts while administering constructive comments on both positive and negative accounts. Among other things, critics engage in investigating the works of people and organizations and their messages to achieve a better understanding of the world (Cathcart, 1981).

Research often will engage in examinations of speeches by political officials, as well as companies that have recalled product lines and have also lied to the public. Some of the first messages criticized were given by successful political leaders, such as the presidents of the United States. Critics do not only try to indicate errors in their messages, although they may find errors; rather they investigate messages for recurring themes and categorize thoughts for the publics to create a better understanding (Cathcart, 1981; Foss, 1989; Hart, 1990).

Rhetorical criticism is not only studied to identify errors and to suggest rhetors are incorrect, but it is also a communication system in action that focuses on messages, categorizes information, and evaluates. Sometimes the critiques find and indicate errors, while other times they show commonalties among choices and structure in society (Cathcart, 1981). Rhetorical criticism is mainly a measurement tool of communication to aid society in understanding trends, genres, and even the business world.

Hart (1990) states that "rhetorical criticism is the business of identifying the complications of rhetoric and explaining them in a comprehensive and efficient manner" (p. 32). His research indicates that criticism has a negative focus because it looks at only the complications of rhetoric. This assumption is what formulates negative opinions about the method of rhetorical criticism. The study of rhetorical work has been classified as individuals scavenging for errors and wrongdoing. However, other researchers feel differently. One researcher who disagrees with Hart's classification is Foss.

Foss (1989) alludes to rhetorical criticism as "an investigation and evaluation of rhetorical acts and artifacts for the purpose of understanding rhetorical processes" (p. 5). Foss argues that it is a system of inquiries to promote understanding. This definition distinguishes the unique characteristics behind criticism, such as its benefits of social understanding and the processes of investigation and evaluation.

Criticism also requires individuals to engage in the *why* and *how* of the message. It is this assessment of the *why* and *how* that compiles a message and is like art, with new creations constantly being formed (Cathcart, 1981). Cathcart produces an image of artistic nature to describe the message. He states that the message is a section of a larger picture, the world. The assessment of the *why* and *how* is referred to as an investigation of influence through a system that guides the critic through a message and through society.

A critic is challenged with the remarkable task of getting the reader to realize and to focus on the elements that compose the message and the delivery. The critic needs to realize that "criticism, therefore, requires special discernment: the ability to stand simultaneously in the midst of and apart from the events experienced" (Hart, 1990, p. 33). Achievement is based on focusing attention toward the creation of a message, as well as the thought behind a message, much like Burke argues (1945). Criticism requires critics to both step into and away from the message, with concentration on all angles to comprehend the purpose of the message.

In addition to understanding the purpose of the method, critics need to know the goals of rhetorical criticism. The first goal is to understand human behavior; here, the critic is compelled to understand why a human decided to respond in a particular manner (Cathcart, 1981; Hart 1990). The critic investigates what has happened in the past and is charged to look into the future to try to discover why certain choices were made. "Everything happens for a reason," and it is the critic's job to determine that reason.

The second goal of rhetorical criticism incorporates both instruction and performance (Cathcart, 1981). The goal here is to look at what came before and followed the action. Critics are charged with revealing aspects of the communication, identifying with the system, and evaluating the audience as well as the rhetor.

Examining the social trends and value of the organization through communication is the third goal of rhetorical criticism (Cathcart, 1981; Hart 1990). Therefore, the critic needs to identify the motives behind the choices - the "*why?*" The critic tries to determine whether the choices made were in favor of society as a whole or self-serving for the rhetor.

The final goal is the realization that society only has a limited knowledge on the subject and room for continuous growth. Critics face the realization that knowledge has limitations, and oftentimes present theories that do not cover the realm of information needed. Therefore, new theories need to be developed to meet the needs of our growing society and their actions (Cathcart, 1981; Hart, 1990).

The purpose of this thesis is to address the goals of creating an understanding of human behavior and identifying social trends and the values of Merrill Lynch during its crisis. When investigating rhetorical criticism on these two levels, a system of analysis needs to be formulated and adapted. The system that has been adapted for the purpose of this thesis is from Cathcart's (1981) book, *Post communication: Rhetorical analysis and evaluation* which involves the four essential steps of criticism: description, analysis, interpretation and evaluation.

Methodological Criticism

The work completed in rhetorical criticism has charged researchers to create a variety of methods for analysis. For decades researches relied on the foundational method of Neo-Aristotelian criticism (Foss, 1989), but soon discovered that this methodology did not fit all types of rhetorical artifacts; rather research began to use this method to create new methods that allowed for better criticism.

Generic Method

One of the most useful methods is generic criticism, which is the method that will be applied in this thesis. Generic criticism is an approach that obtains a focal point on the commonalties of a particular genre. The commonalties are classified as similarities among artifacts or symbols that create reoccurring patterns (Foss, 1989; Larson, 2001). These patterns can be classified on many levels. This generic methodological approach provides the critic with the ability to compare and contrast findings and to highlight patterns that are becoming prominent in society.

The foundation of generic criticism comes from a number of tenets that were developed by the founding researcher of this methodology, Edwin Black (1965). In 1965, Black concluded that the Neo-Aristotelian form of criticism was not serving the purpose that was needed in the development of research. Cathcart (1981) highlighted the tenets of generic criticism in his book *Post communication: Rhetorical analysis and evaluation*. Cathcart proposed as an alternative to the traditional method (Neo-Aristotelian) of criticism a generic frame of reference that included these tenets:

> (1) "there is a limited number of situations in which a rhetor can find himself"; (2) "there is a limited number of ways in which a rhetor can and will respond rhetorically to any given situational type"; (3) "the recurrence

of a given situational type through history will provide the critic with information on the rhetorical responses available in that situation." (p.113)

This means that generic criticism is the method of identifying particular events that occur in particular settings. The tenets also indicate that since there are a limited number of situations and a limited number of responses rhetoricians may adapt styles of response that would work for their situation or event.

Another researcher that aided in the development of the generic criticism was Bitzer. In 1968, Bitzer supported the process of generic criticism by incorporating the concept of reoccurring situations (Foss, 1989). Along with the concept of reoccurring situations came the idea of locating common patterns. An example of a pattern would be a variety of organizations adopting the same techniques of response to similar situations (Foss) (i.e., denial, minimization, and apology). Bitzer's additions to generic criticism came from his ability to recognize the importance of observations (Fisher & O'Leary, 1996).

Also, two other researchers, Campbell and Jamieson, contributed to the development of the method in 1976; their development came from the work completed after a Speech Communication Association conference at the University of Kansas. Their contributions were investigating the idea that patterns and forms could create genres, which was the first time researchers stated the connection between genres and rhetorical criticism (Fisher & O'Leary, 1996; Foss, 1989). The element of combining genres into the method empowers researchers to examine the real world and to connect it with rhetoric. With the new developments of this theory and its original work, a new foundation was laid for rhetorical methodology.

Since critics take the time to discover patterns of common response or actions, they are able to create categories of classification (Foss, 1989). This classification allows criticism to take on an entirely different level of communication and response. As it relates to this thesis, it supports society by revealing businesses that have violated key values or morals in our world.

Applying generic criticism allows a focus on both substantive (content) and stylistic (form) characteristics (Foss, 1989; Larson, 2001). The application of both approaches permits an in-depth focus on the information and allows the critic to get to the heart of the act of criticism. With this focal process, the critic can then emphasize the influence that actions in society have on one another and establish how society forms patterns of acceptance from prior rhetoric (Foss).

In the generic method of analysis, critics may select the appropriate procedure that best fits their study. The three generic procedures for enactment include: description, participation, and application (Foss, 1989). These three categories of generic criticism are related in the sense that each helps to shape the process of analysis.

Generic Description

Generic description tends to take on the basic analysis formula (Foss, 1989). The nature of the formula begins with a critic performing observations. These observations take on the principle of identifying commonalties that are present among artifacts in society. The form may be either through speeches or articles. The next step highlights the collection of materials that emulate the purpose of the critic. The final two steps involve the analysis and the formulation or evaluation of the principle.

The interesting aspect of selecting this procedure under the generic method is that it allows for easy adaptation of other methodologies, like the Neo-Aristotelian criticism, cluster criticism, or even Toulmin criticism (Cathcart, 1991; Foss, 1989).

Generic Participation

Generic participation moves the attention from a single thought or artifact and focuses on a genre (Foss, 1989). As the critic applies this procedure, he or she is faced with a challenge of locating or developing a genre which fits the situational requirements of the artifact. Once one is located, a comparison is completed to evaluate how well the artifact belongs to a particular genre. For this thesis, the genre is that of crisis discourse from an organization.

Generic Application

Generic Application is much like the system of generic participation, but in the end a vital step is required. The critic needs to evaluate the artifact regarding its effectiveness and success in fulfilling requirements of the particular genre (Foss, 1989). This in turn provides the critic with insights to formulate opinions and findings.

Generic Analysis of the Merrill Lynch Case

In order to answer the research questions, this study applies a generic application to the case study of Merrill Lynch. The generic application will focus on the crisis genre to identify the patterns of communication that are present in organizational responses during a crisis and the systems of image recovery that organizations use.

The documents used regarding the Merrill Lynch case will include public statements and discourse, which will be collected from articles published in *The New York Times* and *The Wall Street Journal*, as well as adapting news transcripts from *CBS 60 Minutes* and *CBS 60 Minutes II*. The collected information will span from the April of 2001, when the allegations were declared, until December of 2002.

To begin the generic criticism, this thesis will adapt Fink's stages of crisis communication and identify the stages in which the response occurred. Then the response will be identified through focusing on Coombs' (1999) communication strategies as used by Merrill Lynch throughout its organizational crisis. This criticism allows for an investigation into the patterns of communication adopted by Merrill Lynch.

The final step of analysis will be to ensure interpretation of the crisis on all levels, specifically drawing attention to how Merrill Lynch communicated throughout the crisis and its communication outcomes. Finally, it will conclude with an evaluation of scapegoating as a communication technique.

Conclusion

Chapter III has examined the process of rhetorical analysis, specifically highlighting generic criticism. The thesis will continue with Chapter IV analyzing the scapegoating strategies utilized by Merrill Lynch, within the confine of the crisis genre. The analysis will incorporate an in-depth investigation into the commonalties and the patterns applied during crisis response. Consequently, this analysis of Merrill Lynch will provide a more accurate understanding of communication used in a crisis, as well as the common social trends and values that emerge.

CHAPTER IV

ANALYSIS

In April of 2001, Merrill Lynch found itself in a large amount of legal and ethical trouble. E-mail messages that were viewed as routine acts of communication between colleagues had been subpoenaed and used to investigate unethical behavior at the firm. The investigation began in April, 2001 by Eliot Spitzer, who not only initiated an investigation at Merrill Lynch for its analysts' unethical advice, but also other Wall Street firms that had committed similar fraud. Spitzer's goal was to put a stop to the fraud that was occurring against investors by Wall Street financial conglomerates.

This chapter will begin with an analysis of the genre in which the Merrill Lynch crisis occurred. It will then move to the stages of a crisis that Merrill Lynch went through, by adapting Fink's (1986) model. The chapter then will conclude with an analysis which applies Coombs communication strategies to the Merrill Lynch crisis.

Generic Criticism of Merrill Lynch

To gain a complete picture of the crisis that happened at Merrill Lynch and its response, this analysis will utilize generic criticism. As a means of conducting a generic analysis, it is necessary to identify the genre in which the incident occurred. The incident in the case of Merrill Lynch happened in the crisis genre, particularly in its subset of apologia. The following sections will analyze the Merrill Lynch crisis by identifying the allegations made against the firm as well as the response strategies established by the firm.

Apologetic Crisis Genre

Apologetic crises are those unforeseen events that erupt in an organization. In this instance the unforeseen event could have been prevented by Merrill Lynch. The prevention could have come through communicating in a truthful and non-biased manner, structuring the organization in a different manner, or establishing a more precise policy that provided investors with honest and truthful advice. The crisis at Merrill Lynch was caused by internal actions taken by employees in order to provide a financial benefit for the firm as well as for the analysts themselves.

The crisis presented itself due to the organizational structure at Merrill Lynch. Merrill Lynch had its analysts responsible for providing recommendations of stocks to investors while using an unclear recommendation system at the same time that the company sought to maintain lucrative investment banking clients that purchased bonds from the organization. This placed the analysts in a trap between being successful and being honest. The organization pressured the analysts to maintain high buy ratings for firms with whom the company did bond work; this in turn, virtually forced the analysts to communicate in an unethical manner.

An example of this unethical behavior, with the pressures present in the corporation, was given in a report by Cohen (2002). The following example is an e-mail conversation that was revealed as a result of the investigation; the conversation was between Henry Blodgett and Jeff Sexton, a financial consultant, in regard to the Infospace, a dot.com company's stock ratings.

From: Jeff Sexton

To: Blodget, Henry

Subject: Handwritten Infospace Annual Report!?!?

Would you or someone in your office please respond to the Dow Jones News Service article by Michael R. Sesit October 20 discussing a new study analyzing annual reports of new economy companies? In that article, Infospace's is held up as a "horror story" due to its "high school exam format" and "some pages that are handwritten." . . . A handwritten annual report for a company you have a buy rating on with a price target of $100 is disconcerting to me to say the least. Tell me the article is wrong . . . .

Jeffery A. Sexton

Mr. Blodget then forwarded the email to a member of his research team, with an added request.

From: Blodget, Henry

To: Syer, Virginia

FW: Handwritten Infospace Annual Space!?!?

I am so tired of getting these things. Can we please reset this

stupid price target and rip this piece of junk off whatever list it's on.

If you have to downgrade it, downgrade it.

So embarrassing.

h

But before his research team could respond, Mr. Sexton writes back with a mea culpa.

From: Sexton, Jeff

To: Blodget, Henry

Subject: Infospace Annual Report

My apologies. I have read the 1999 Annual Report for Infospace. While weird and difficult to read, it . . . seems like the study cited in the article was attempting to bash Infospace and new economy stocks. Surprise.

From: Blodget, Henry

To: Syer, Virginia

Phew. Still would love to reset the price target to $30 or something. (Cohen, 2002, p. 4-7)

This text provides a prime example of the untruthful advice being given by analysts. The problem with the e-mails is that even after the rating was questioned, the analysts let the rating remain positive and did not work to correct Mr. Sexton's conclusion on the stock. Rather, Blodget and Syer were just grateful to avoid having to admit or dodge the misleading advice.

Since these unethical actions were taking place at Merrill Lynch, with no steps being taken to stop them, Attorney General Eliot Spitzer began to question the purchasing advice being provided to investors on the failing dot.com organizations. He then decided to take action and begin his investigation, plunging the firm into an apologetic crisis by challenging its ethics. When asked about his investigation on Merrill Lynch, Spitzer charged:

> The firm's behavior jeopardizes the integrity of the marketplace. This was an outrageous betrayal of their trust and a shocking abuse of the system, perverted to produce greater revenues for the firm. (McGeehan, 2001b, C1)

As New York's Attorney General, Spitzer took the liberty to initiate action against the Wall Street firms such as Merrill Lynch that were defrauding investors. He also alleged that the actions taken by these analysts were wrong and that someone needed to put a stop them. When later asked about the goal of the charges, Spitzer indicated: "What we are seeking here is to reform the system, restore integrity, and driving Merrill Lynch out of business wouldn't have made sense" (Kroft, 2002, p.4).

Some of the analysts in the industry agreed with Spitzer and thought that the unethical behavior should be put to an end (Editorial Desk, 2002; Wall Street Prophets, 2002). These analysts also felt that the problem in the system related directly to the pressures on the analyst to perform conflicting roles. On June 26, 2001, in a report with CBS reporter Scott Pelley on 60 *Minutes II*, Liz Buyer, a former stock analyst, addressed the pressures to give favorable ratings even when they are not deserved with the following remarks:

> You rarely see sell. It angers management, it doesn't help institu— institutional investing clients, and it makes a lot of people very hostile at you. So what you say instead is, "we're downgrading this to a hold and believe it promising for those with a three- to five-year investment horizon," which for those in the know means, "See ya." (Wall Street prophets, 2001, p. 4)

This is a prime example of the kind of pressures felt by Merrill Lynch employees. If an analyst was to downgrade a stock, he or she would be out of a job.

Another example of the pressures on analysts came to light in a *CBS 60 Minutes II* segment. Kirsten Campbell, a Blodget subordinate, complained:

> We are losing people's money, and I don't like it. John and Mary Smith are losing their retirement because we don't want our clients to be mad at us.

She then added:

> The whole idea that we are independent from investment banking is a big lie. (Wall Street Prophets, 2002, p. 3)

Blodget responded to the complaint by Campbell with the statement that his department was going to start: “calling stocks ‘like we see them, no matter what the ancillary business consequences are’” (Editorial Desk, 2002, p. A1).

The distribution of the invalid advice was being given by the majority of analysts to avoid negative employment consequences. It was presented by Buyer in regard to the ratings as well as when dealing specifically with clients, like “the Smith’s.” It is evident that the analysts felt the pressures as implied by Blodget’s reference to the consequences. These analysts were in a trap of trying to be honest with the Smiths, while avoiding the consequences of displeasing the company.

Although the analysts were facing pressures and issues of honesty, Merrill Lynch as a firm seemed to avoid them successfully. Merrill Lynch, throughout the entire case, was able to successfully dodge ever having to admit fault for the misleading advice. The company participated in this action by never stating that it had committed a wrongdoing; rather, it always offered a statement of regret for the individual analysts’ actions and the negative light they shed on the organization.

Fink’s Stages of a Crisis and Merrill Lynch

With the genre of crisis and its subset of apologia established, this analysis will now look into investigating the phases of crisis which Merrill Lynch went through, by applying Fink’s (1986) model. Fink’s stages of a crisis move from the initial discovery of the crisis through the response and relief from the unexpected event. Fink describes crises through an analogy of a medical model with the following stages: prodromal, acute, chronic, and crisis resolution.

Prodromal Stage

The prodromal stage is the warning stage of a crisis (Fink, 1986). For Merrill Lynch the warning was present but ignored or unrecognized. The warning that a crisis was about to occur would only have come if senior executives questioned the advice of the analysts; since the top-level managers did not, the initial crisis warning signals were not recognized in a visible sense by the organization. This means that Merrill Lynch either avoided the signs of the crisis or did not complete the necessary oversight of analysts to prevent a crisis from occurring.

In the Merrill Lynch case, since the prodromal stage was not recognized as a problem, the warnings were ignored. Merrill Lynch was functioning in its normal business routine, until it was presented in April of 2001 with allegations of providing unethical stock purchasing advice to investors, which was brought on by Spitzer.

Acute Stage

Since the allegations were made, Merrill Lynch was thrown into the acute stage of a crisis situation (Fink, 1986). The acute stage is when the crisis has erupted and symbolic and tangible damage occurs. The damage at Merrill Lynch was in two areas: it damaged the firm's image in society, as well as resulted in real financial penalties being leveled against the organization.

The crisis and allegations were responded to by Merrill Lynch in a defensive manner through a response of denial. A denial often is one of the first actions of response in an organization when a crisis of this nature strikes. Here the Merrill Lynch firm was on the defense, a defense to protect the image that it has built. Although it continued to be defensive, Merrill Lynch's response tactics shifted as evidence of unethical discourse was revealed. Merrill Lynch's response was that of a repair tactic designed to save the face of the organization.

Chronic Stage

Since the crisis had erupted and Merrill Lynch was rightfully accused for the actions its analysts took while working there, the firm moved into Fink's (1986) third phase of a crisis, chronic. Fink states that the chronic stage is the "period of recovery, self analysis and self doubt and healing" (p. 24). He also indicates that it is a stage of communication where an organization can create a plan to prevent future crises from occurring.

In this stage Merrill Lynch shifted its defensive communication manner to more of an offensive one. Though Merrill Lynch did not specifically admit to the guilt; when it realized it could not deny its way out of the crisis, it decided to work with Spitzer to create a settlement (McGeehan, 2002h, p. A1).

Crisis Resolution Stage

Merrill Lynch then was able to move into the final stage of crisis resolution. Crisis resolution is the process of learning from the company experience and taking final steps to restructure the organization so that the problem does not happen again (Fink, 1986). The reorganization of Merrill Lynch would provide the organization with a checks and balance system needed to prevent it from facing a similar crisis and also prepare to evaluate its other organizational systems to assure that preventative steps were being made there as well.

In this phase, Merrill Lynch began by seeking to portray an honest image to its lay publics. The day after the settlement, the firm began an advertising campaign to repair its image; it even evaluated the strength of hiring a spokesperson with the stature of Rudi Giuliani (Merrill weighs Giuliani role, 2002).

In sum, evidence has shown that Merrill Lynch did experience a crisis and that the crisis was typical in the sense of the phases which the organization went through. Although an understanding of the phases of the crisis is complete, an analysis of the patterns of response used by Merrill Lynch is necessary to gain a full understanding of the steps the company went through to repair its damaged image.

Merrill Lynch's Communication Strategies

Corporations tend to evaluate a situation and immediately take a defensive strategy in order to maintain the image that it has worked to develop; this was only part of the case for Merrill Lynch. In order to view the entire scope of response given by Merrill Lynch, its strategies will be evaluated by adapting Coombs' (1995) crisis response strategies. The strategies are those of non-existence, mortification, ingratiation, and distance. The interesting aspect of these strategies is that they do not stand alone in the communication response to a crisis situation; rather they often are integrated together in an overall message strategy. Interestingly, Merrill Lynch's response to the allegations and the crisis did both; it not only adapted an immediate approach of nonexistence, but it combined a few of the strategies to form its defense.

Non-Existence Strategy

Coombs' (1995) strategy of non-existence was the response strategy adopted by Merrill Lynch when the allegations first came to light. Coombs' non-existence strategy occurs when an organization attempts to eliminate a crisis through a strategy of denial.

Merrill Lynch applied this strategy of communication by responding to the crisis through a denial of the truth. When the allegations were made in April of 2002 the firm stated:

> There is no basis for the allegations made today by the New York Attorney General. His conclusions are just plain wrong. We are outraged that we were not given the opportunity to contest these allegations in court. (McGeehan, 2002b, p. C1)

This response gave Merrill Lynch executives the advantage of portraying the organization as a victim of negative allegations. The advantage came through the statement of "not given the opportunity;" this gave the organization an image of being defenseless and would likely draw sympathy from the general public.

Along with the denial came Merrill Lynch's opportunity to create a clarification/attack as it concerned the allegation. The firm responded by attacking Spitzer's knowledge of the securities business, as well as attempting to clarify what little had been revealed. Merrill Lynch did this by stating:

> The allegations reveal a fundamental lack of understanding of how securities research works within overall capital-raising process. They cite a limited number of employee emails, taken out of context, as “proof” that investment banking had undue influence in determining research ratings. In fact, these emails prove nothing of the sort. (McGeehan, 2002b, p. C1)

This statement presents Merrill Lynch as having a greater knowledge of the securities system, and since the company is one of the largest Wall Street firms, its leadership position seeks to lessen the severity of Spitzer’s charges.

This nonexistence strategy proved to be successful in the beginning stages of the crisis, especially when it was coupled with the next strategy under review, Coombs’ ingratiation strategy. These strategies were successful because they provided the organization with the necessary defense and support needed to combat the harsh allegations made by Spitzer.

Ingratiation Strategy

As mentioned above, the ingratiation strategy developed by Coombs was applied simultaneously with the nonexistence strategy to create a strong and protective image of the organization. Ingratiation is the process of “seeking to gain public approval for the organization” (Coombs, 1995, p. 452). One common characteristic of the strategy of ingratiation is the process of bolstering. Bolstering is when an organization highlights its positive characteristics and reminds the public of the good that it accomplishes.

The top executives at Merrill Lynch implemented this strategy while they denied that they did anything wrong. The organization bolstered when it stated that Merrill Lynch was in the process of incorporating a new policy. The new policy involved the organization working to improve its research operation and revamping its rating system (McGeehan, 2002c; 2002g; 2002h). It also barred analysts from owning stocks they study and review, and implemented evaluations for senior analysts, to be completed twice a year (McGeehan, 2002g; 2002h).

These strategies of ingratiation and denial combined together to provide Merrill Lynch with the ability to deflect some of the negative allegations in the beginning of the crisis. Any initial success, however, only lasted until Spitzer came forward with evidence that the analysts' advice was misleading; this caused the organization to refocus its attention onto implementing distance and mortification strategies.

Mortification Strategy

In the Merrill Lynch case study, mortification did not occur until the statements of regret came from the organization. Mortification is the strategy where an organization asks for acceptance and forgiveness for the events that caused the crisis (Coombs, 1995). Coombs developed the strategy of mortification to be a three-step process that encompasses remediation, repentance, and rectification.

The remediation phase of mortification is the process where organizations "willingly offer some form of compensation or help to the victims" (Coombs, 1995,

p. 452). In the case of Merrill Lynch this came with a settlement of $100 million, as well as an agreement to restructure the research segment of the organization (Editorial Desk, 2002; McGeehan, 2002h).

The next phase of mortification in the Merrill Lynch case came through an attempt at repentance, which was introduced at Merrill Lynch's annual meeting on April 26th, 2002 by Chairman and Chief Executive David Komansky. He offered an apology to the company's stakeholders by stating: "The emails that have come to light are very distressing and disappointing to us. They fall far short of our professional standards and some are inconsistent with our policies" (McGeehan, 2002e, p. C1). He continued: "We regret that and we further regret that the perception of our research integrity has clearly been affected. We have failed to live up to the high standards that are our tradition" (p. C1). Do note that Komansky was regretful only that the documents "have come to light" and for the negative perception that they created. His statements also lead to the conclusion that the organization was scapegoating a few individuals through the clear separation of the employees and organizations. Komansky clearly indicated that "they" (the employees) fell short of the corporation's standards and policies, which in turn allowed for the organization to place the guilt onto them.

The settlement with Spitzer on May 21st, 2002 required the organization to issue another apology. It expressed remorse:

> For the inappropriate communications brought to light. We sincerely regret that there were instances in which certain of our Internet sector analysts expressed views that at certain points may have

> appeared inconsistent with Merrill Lynch's published recommendations. (McGeehan, 2002h, p. A1)

Again Merrill Lynch regrets the e-mails were "brought to light" and minimized the seriousness of the wrongdoing.

Merrill Lynch's rectification came coupled with its repentance when on April 26, 2002, Komansky promised that the firm would "take meaningful and significant actions to restore investor confidence" (McGeehan, 2002e, p. C1). Furthermore, Merrill Lynch's completed its repentance through its settlement on May 21st, 2002 with Spitzer. In reviewing the settlement, McGeehan wrote:

> Merrill Lynch & Company said it would pay $100 million in penalties to New York and other states and change the way it pays stock analysts to end the investigation that its chairman said had damaged the firm's reputation.

He continued:

> In the settlement Merrill Lynch executives apologized again for the behavior of their analysts but did not admit to any wrongdoing. Instead, they agreed to reorganize Merrill's research department and to stop allowing investment bankers to help determine how much analysts earn. Merrill also agreed to prohibit analysts from promising positive stock ratings to prospective clients or from lowering their ratings to punish companies for not hiring Merrill. (McGeehan, 2002h, p. A1)

The rectification meant that the settlement included not only the payment of a $100 million fine, but also led to prevention mechanisms being put into place. In this case, Merrill Lynch would incorporate change through how its analysts were compensated; it would restructure its research department, as well as offer a second attempt at an apology for its actions (Clendenning, 2002, p. A5; Editorial desk, 2002; McGeehan, 2002e; 2002g; White, 2002, p. A1).

The mortification process was part of Merrill Lynch's approach to repair its image; however, the most "effective" tack for the organization came from its use of a distance strategy.

Distance Strategy

The distance strategy was the primary form of communication utilized by Merrill Lynch. The distance strategy provided Merrill Lynch with two advantages, the process of justification and excuse. The justification of the events came when Merrill Lynch tried to minimize the damage of the crisis. This came through statements of support from employees regarding the analysts' actions after the settlement was agreed upon. An example of this is from Merrill Lynch's global head of media relations, Timothy I. Cobb; he claimed that "the e-mail messages don't make us guilty" (Seglin, 2002, p. 2). Another example of minimization came from James Wiggins, the head of corporate communications for Merrill Lynch; he claimed: "when stocks go up there's very little complaining. But when the economy goes bad, the complaining starts. It's human nature" (Seglin, 2002, p.2). Although Merrill Lynch did submit a settlement and the crisis was visible to all, company officials continued to downplay it.

Although the justification occurred throughout the communication from Merrill Lynch officials, the excuses did not. Excuse, the second distance strategy, is designed to reduce an organization's responsibility. Coombs (1995) states that a common excuse technique used by organizations is that of scapegoating; in this case it is where Merrill Lynch offered most of its communication. Scapegoating provided Merrill Lynch with a useful vehicle by which to displace the blame. Merrill Lynch would blame its employees and then it could easily state that it did not permit this type of unethical behavior and stated that appropriate actions would be taken to rectify the problems.

Scapegoating Strategy

The primary analyst scapegoated at Merrill Lynch was Henry Blodget, the lead Internet and Technology Analyst. Blodget became a prime target through the evidence provided in the e-mails, like the one that follows. This particular e-mail is in regard to 24/7, an internet marketing company:

> From: Glatt, Eve
>
> To: Blodget, Henry
>
> Subject: 24/7
>
> Don't know if you saw this, nothing revolutionary—but it probably confirms what you and Virg have talked about for some time.

Blodget responds:

> From: Blodget, Henry

To: Glatt, Eve

Subject: 24/7

That it's a pos? yes

From: Glatt, Eve

To: Blodget, Henry

Subject: 24/7

I didn't read it as a positive . . .

From: Blodget, Henry

To: Glatt, Eve

Subject: 24/7

pos=piece of [expletive]

From: Glatt, Eve

To: Blodget, Henry

Subject: 24/7

Exactly my point. do you have a cheat sheet for your abbreviations? (I think I need one.) (Cohen, 2002, p. 4-7)

This type of evidence, of ambiguous messages and codes that left analysts such as Eve Glatt having to ask questions, meant that the investors had even less of a chance to get straightforward advice. The addition of profanity made the scapegoating for Merrill Lynch easy because the company could respond with shock and statements of regret that blamed employees. The corporation could take the high ground and claim that it did not permit this type of unethical behavior.

Blodget happened to be one of the prime examples of the unethical behavior, with his numerous e-mail messages that contained information on failing stocks that received positive recommendations. He also was known for referring to stocks with high buy ratings with a salty vocabulary, using terms such as “junk”, “crap”, or a “dog” (White, 2002, p. 5A). With these types of statements, Merrill Lynch had an easy way to claim that Blodget’s behavior, as well as that of other analysts, did not align with the values and morals of the organization.

With the majority of the evidence of unethical behavior pointing in Blodget’s and the internet sector’s direction, in November of 2001 he was forced to announce his resignation. Blodget stated that: "It just seemed like a good time to pursue the next thing" (McGeehan, 2001a, p. 5A). Merrill Lynch stated that Blodget’s leaving the organization came as a great loss and that he would be missed and added that there were no pressures by the firm for him to leave (Knox, 2001; McGeehan, 2001a). The resignation of Blodget came with a $2 million buyout; he later refused to comment on his leaving (McGeehan, 2001a).

Although the comments from both Merrill Lynch and Blodget remained positive and supportive, it is important to note that his resignation occurred in the midst of the Spitzer investigation of Merrill Lynch. This resignation provides evidence and indicates that Merrill Lynch encouraged Blodget to resign as part of an overall scapegoating strategy, and used him as one of the people upon whom the firm placed the blame for the wrongdoing. As noted earlier, he was blamed by CEO Komansky for the untruthful information that was provided to clients.

Blodgett was not the only one who the company scapegoated to get over the crisis. Another example of scapegoating at Merrill Lynch happened with Mr. Thomas Davis, vice chairman of Merrill Lynch. In the midst of the crisis, he announced that he also would be leaving the company within the next six months (McGeehan, 2002f). Davis was one of the last of the management team members to leave since E. Stanley O'Neal took over as CEO on December 2, 2004 (McGeehan, 2002j). Mr. Davis stated: "My thinking has evolved over the last seven or eight months. It just feels like the right time" (McGeehan, 2002f, p. C7). Although his removal from the organization was voluntary, the downgrading of his position was not. Davis was downgraded from his position as vice chairmen of the company because of the wrongdoings that occurred and the reorganization of management at Merrill Lynch. Guy Moszkowski, analyst at Salomon Smith Barney unit of Citigroup, commented on his resignation by stating, "It can't come as too much of a surprise. He ran one of the firm's most important divisions and was taken out of that position last September" (McGeehan, 2002f, p. C7).

The final example of scapegoating occurred on July 22nd, 2002 when Merrill Lynch came forward to announce that Chief Executive Officer David Komansky would leave the company. Merrill Lynch stated that Komansky was slated to step down in two years time but felt it was necessary to leave sooner.

Komansky stepped down as chief executive officer on December 2nd with E. Stanley O'Neal replacing him and as chairman on April 28th, just as the crisis was coming to a conclusion (McGeehan, 2002j).

In an interview on CNBC, Komansky made a statement in which he took responsibility for "anything that happened on my watch" (McGeehan, 2002, p. C3). This statement, in turn, freed the organization from the fault because Komansky would be stepping down from control and he himself had taken responsibly for the actions of the analysts at Merrill Lynch. To complete the location of blame in Komansky, O'Neal shrewdly never once publicly commented on the matter of the crisis until May 2002, when the settlement was announced (McGeehan, 2002j; 2002i). This, in turn, meant that the organization and O'Neal let Komansky take the blame and the heat. Once the fault was presented, O'Neal emerged as the new, clean, guilt-free CEO to reorganize the structure of the banking business and research departments.

O'Neal's silence was a strategic move because, as stated by a former senior executive, "It's no secret that Stan wants David out" (McGeehan, 2002i, p. A1). It also was noted by Guy Moskowski, an analyst with Salomon Smith Barney of Citigroup that: "It has been incredibly helpful to O'Neal to not have to take his eye off the ball and to have someone of the stature and negotiating ability of Komansky negotiate an end to the crisis and then leave (McGeehan, 2002i, p. A1). This, in turn, reinforces that O'Neal was focusing on the internal management of the organization by developing beginning plans for reorganization, while Komansky was out in front of the crisis and taking the fault for the wrongdoings that occurred on his watch.

Blodget, Davis, and O'Neal are only a few of many individuals who felt the heat of the crisis at Merrill Lynch. Merrill Lynch, then, was able to resolve the crisis and the problem of its guilt by placing distance between the event and the actions of employees. The shift was successful and allowed Merrill Lynch to re-establish its image with its key publics by instituting a few but much needed changes. Do note that this action of scapegoating wasn't because of the e-mails which were uncovered but because of the tech bubble and the large loss of funds by thousands of individual investors, which made scapegoating a few individuals, like the above gentleman possible, and it allowed for the Merrill Lynch to highlight its new team of executives that will implement the corrective actions in order to face the future guilt-free.

Organization and Conclusion

Throughout this analysis, the crisis that occurred at Merrill Lynch was presented as well as the communication techniques analyzed through the genre of apologetic crisis management. Specifically, this analysis has revealed that Merrill Lynch featured a strategy which denied any organizational culpability and located all guilt in its scapegoated employees. Furthermore, it also utilized strategies of bolstering, justification, and excuses. This analysis has provided the foundation for the final chapter in order to assess the ethics and effectiveness of the response offered by Merrill Lynch.

CHAPTER V

CONCLUSION

A crisis is an unexpected event that strikes an organization, and causes an immediate need for a response to prevent damage to a corporation's image. This is the pattern that was revealed in the Merrill Lynch case. Merrill Lynch was engaging in routine business activity when the organization was publicly damaged by allegations of wrongdoing made by Attorney General Eliot Spitzer in April of 2001. Consequently, Merrill Lynch was forced to respond to the crisis and communicate a reassuring message to its publics.

In order to understand the communication during a crisis, this thesis has attempted to answer the following research question and its two corollary questions:

RQ: How is scapegoating used as an organizational crisis response strategy?

Corollary questions:

RQ_1: What communication strategies were used by Merrill Lynch?

RQ_2: Were the outcomes of the communication strategies used by Merrill Lynch ethical?

Overall, Merrill Lynch appeared "successful" by implementing a response strategy of scapegoating; the organization was able to remove its guilt and place it on a few employees. This approach was successful from the perspective of Merrill Lynch because its negative attention was redirected away from the company and on to the actions of the employees. Consequently, the organization came away from the crisis looking like the victim; this leads to the two corollary research questions that drive this study. The first question addresses what other communication strategies were adopted by Merrill Lynch; the second refers to whether the communication strategies used were ethical.

Merrill Lynch's Communication Strategies

Although scapegoating was Merrill Lynch's primary response strategy to the crisis, it also utilized other response strategies to communicate its message of regret to its publics. It began with a strategy of denial and ingratiation. It also used justification and excuse. Another of the strategies it utilized was that of mortification. Here, the organization was supposed to apologize for the misleading stock purchasing advice, as well as to rectify the problems and behaviors that occurred in its organization. However, Merrill Lynch only gave a weak attempt at an apology.

Merrill Lynch, in its apology, referred to the negative allegations that "came to light" as being very distressing and disappointing to the organization (McGeehan, 2002e, p. C1). It only referred to the actions of its analysts as "inappropriate;" it never once stated that the organization was at fault for the wrongdoing. Instead, it only gave two statements of regret and never took responsibility for its employees' actions.

As was in the Merrill Lynch case, an apologetic response oftentimes states that a corporation did nothing wrong, but nonetheless provides compensation to settle the crisis at hand. If a corporation is not at fault, then, the question still remains: Why is it offering to compensate its victims? Merrill Lynch utilized a strategy of compensation by paying a settlement of $100 million, issuing a statement of regret, and agreeing to restructure its research department. It is important to note that although the organization offered a strategy of corrective action to restructure its research department it was only brought to light on the day of the settlement. As for the payment it suggests that the company is being disingenuous in how it offered a statement of regret but no true apology.

Such an action raises the question that if Merrill Lynch did nothing wrong and the fallout was the fault of unethical analysts within the organization, then, why did the firm just not fire the unethical employees and agree to keep a closer watch on its analysts in the future? The reality of the case is that Merrill Lynch was at fault, even though it never admitted it; otherwise the company would have never agreed to pay $100 million in a settlement (McGeehan, 2002h, p. A1).

Scapegoating as a Response Strategy

This settlement of paying a $100 million and not ever apologizing directs this thesis to the outcomes of Merrill Lynch's crisis response strategies and the determination of whether they were ethical. The answer to this research question using Kant's "categorical imperative" is a straightforward one; the organization was not ethical in its response strategies.

Kant's "categorical imperative" is a moral and ethical test that evaluates whether a person, or in this case, an organization tells the truth and keeps its promise to the publics (Pratt, 1994; Williams, 1997). His "categorical imperative" evaluates actions by three moral criteria: universalizability, reversibility, and dignity (1994; 1997). Kant's standard of universalizability states that a person's action should be such that everyone could act in such a way. Williams (1997) highlighted the second criterion of reversibility by stating: "reversibility requires that behavior determined to be morally right be moral whether it is directed toward yourself or toward someone else" (p. 17). Kant's final criterion used to test the moral and ethical standards is dignity. Here Kant indicates that it is the responsibility of the agent to empower the public by relating to the consumers interest (Pratt, 1994).

When evaluating the ethical actions of Merrill Lynch it is evident that it violated the standards of Kant's categorical imperative. Its actions are not such that they could be held up as an ideal for all; they are wrong no matter who they would be conducted by. Finally, Merrill Lynch's actions do not preserve the dignity of the lives of those who the company's acts affect. Although, Merrill Lynch portrayed itself as the victim, it was not. The primary victims in this case study are the consumers who lost money, and to a lesser degree, and the analysts/executives who were scapegoated to repair the image of the company. Merrill Lynch created an escape from negative allegations by scapegoating and placing the wrongdoing on a few individuals. This, in turn, allowed the company to publicly react with statements of regret for the shocking actions that their analysts had committed. The question that remains is: Why did these analysts provide misleading stock purchasing advice?

The Merrill Lynch analysts misled investors because their job required them to do so by forcing them into a double bind (Herbst, 2002). Herbst refines Bateson's definition of a double bind "as a condition imposed on one of two persons by contradictory requests made by the other in a situation from which the first (called the victim) cannot withdraw" (p. 181). He also highlighted another important component of a double bind by indicating that double binds are often rooted in situations with a communication component (2002). A double bind is a position in which no matter what step an employee takes he or she is in a no-win situation. It is being stuck between the proverbial rock and a hard place.

The double bind that analysts faced at Merrill Lynch occurred because its analysts were asked to complete two competing tasks. Merrill Lynch wanted to maintain lucrative investment banking clients while it provided advice to the stockholders on what and when to purchase particular stocks. The double bind came when Merrill Lynch would get angry with analysts and fire them when they did not highly recommend a stock for purchase that the company needed in order to maintain the business of the lucrative banking clients.

Take, for example, Mr. John Olson, an energy analyst, who was dismissed from Merrill Lynch for not following these unspoken analyst guidelines. The dismissal was discussed on October 6, 2002 during a *CBS 60 Minutes* segment hosted by Steve Kroft. The conversation went as follows:

Kroft: There were some analysts who refused to put out bad advice.

One of the most famous is John Olson, an energy analyst at Merrill

Lynch who followed Enron when it was one of the hottest stocks on Wall Street.

Mr. John Olson (Energy Analyst): Enron at the time was paying out anywhere between $100 million and $200 million a year in investment banking fees, and Enron would go to your investment bankers, or to your president or whatever, and say, your analyst is a real problem. We're paying out X millions of dollars a—a year of investment banking, and you're never going to see it, because your analyst doesn't have a strong buy recommendation."

Kroft: What was your recommendation on Enron back in 1998?

Mr. Olson: I had a neutral on it.

Kroft: Was that neutral recommendation good enough for Merrill Lynch?

Mr. Olson: Not hardly.

Kroft: (Voiceover) Olson, who's been an energy analyst for 35 years, knew he was in trouble, but he couldn't quite bring himself to recommend Enron to investors.

> Mr. Olson: Why should I try and – screw these people with inflated recommendations solely to – to get an investment banking fee?
>
> Kroft: What finally happened? How did this come to a head?
>
> Mr. Olson: Well in – in 1998, I went out of Merrill Lynch the hard way. I was told in no uncertain terms that my services were no longer needed. (Kroft, 2002, p.2-3)

Mr. Olson's dismissal should never have occurred and should have been recognized as a prodrome that Merrill Lynch could face a crisis because its analysts were providing misleading advice to investors. Instead, Merrill Lynch told Olson that he was not completing his job requirements satisfactorily and fired him, ignoring the problem that existed.

This gets at the heart of the double bind. If the analysts followed the unspoken Merrill Lynch guidelines in order to maintain lucrative investment banking clients; this, in turn, meant they had to provide misleading advice to investors. On the other hand, if they advised the investors with honest advice and "called them like they saw them" (Editorial desk, 2002, p. A1), then the analysts risked being fired, like Olson, for not completing their job requirements.

This double bind not only placed the analysts in a no-win situation, but it also created a vehicle for Merrill Lynch to displace the blame on to these employees for their unethical and misleading advice, should the problem ever become public. In situations such as these, corporations can then infer that the allegations were the fault of employees, and scapegoat them, and argue the corporation holds different values than the wayward employee. Such employees, who were hired and promoted for their loyalty and dedication to the organization, are now identified as having different values and then labeled as the bad apple of the bunch.

Merrill Lynch realized that some employees may not go quietly and countered the problem with a compensation package and gag order given to employees for their cooperation and quiet exit out of the company; that is what happened in the case of Henry Blodget. Blodget was given a compensation package for “voluntarily” resigning from Merrill Lynch, and was asked not to comment on the package, which he never did (Knox, 2001). This in turn, gave Merrill Lynch the opportunity to politely refer to Blodget as a great loss to the company, though in actuality it was scapegoating him.

It is important to note that Merrill Lynch is not the only financial conglomerate that used the strategy of scapegoating to extricate itself from the crisis that it faced; a similar and unsuccessful attempt was made by Donaldson, Lufkin and Jenrette (DLJ). In a *CBS 60 Minutes II* segment on June 26, 2002, reporter Scott Pelley interviewed Tom Brown, top banking analyst at DLJ.

> Pelley: (voiceover) If there’s bad news about a stock, you’re not likely to hear it from the analyst. Are analysts free to be critical of clients of the firm?

Mr. Brown: I don't think analysts are so free since I was fired for being critical of not only clients but potential of the firm.

Pelley: How did you come to be fired?

Mr. Brown: Well, in my case I was very critical, in the 1995 to 1998 time frame, of the merger and acquisition activity that was taking place among the largest banks. I frankly, thought they were paying too much and that they were using unrealistic assumptions and that shareholders were going to be hurt.

Pelley: (Voiceover) Brown says he was fired because the banks he criticized stopped doing business with DLJ. The company told us that Brown was fired because of, quote, "His persistent inability to operate effectively within a team infrastructure" The company insisted that there is a separation between investment banking and analysts, and it says that its analysts are encouraged to be candid. (Pelley, 2001, p. 2-6)

In the end of the interview, Pelley mentioned the investment banking firm that was started by Brown.

Pelley asked: Any regrets?

Mr. Brown: No, I have no regrets, though DLJ offered me $400,000 to not say anything.

Pelley: To shut up.

Mr. Brown: To shut up.

Pelley: To not do this interview?

Mr. Brown: Yeah.

Pelley: To not tell people what you knew?

Mr. Brown: Right. And I decided in August of '98 that it was worth more for my pride to be able to – to shout it from the mountaintop that something was wrong and tell them to keep the $400,000. (Pelley, 2001, p. 2-6)

This example demonstrates how compensation and a quiet resignation of an employee is part of the scapegoating process. The problem that DLJ had is that Brown was not willing to leave quietly; he wanted to make an example of the organization, which was not the case of Blodget at Merrill Lynch. Rather, evidence points that Blodget did accept the package offered and left quietly, not ever commenting on his large buyout of $2 million (Knox, 2001).

It should be remembered, however, that while Blodget and his cohort's were the target of Merrill Lynch's scapegoating, the true victims, nonetheless, were those individual investors who lost thousands of dollars due to the bad stock advice offered by the firm.

Conclusion

Although, scapegoating for Merrill Lynch did function as an organizational escape from a crisis; the damage from the perspective of the organization's victims, its consumers, who relied on the advice of analysts for investment, leads one to suggest that it might have been more ethical for the organization to have simply apologized, paid its compensation, and moved on.

By applying generic criticism, this study has shown how organizations often communicate in a crisis situation. Future research could adopt this generic method to investigate other crisis response strategies and indicate the effectiveness of those approaches.

In the end, Merrill Lynch was successfully able to shift the blame and persuade its publics through blaming the analysts for their unethical advice. However, this case study has illustrated the value of response and the knowledge of how to respond during a crisis situation. This study also has investigated scapegoating in a new manner by examining the hidden approaches behind scapegoating, as well as viewing it as an unethical response technique, for an organizational escape.

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